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INDUSTRY REPORT 72211A

Chain Restaurants in the US

Back for seconds: Looming inflation and younger diners searching for food experiences will continue to threaten industry profit

Terry Faber | February 2023

Contents

Recent Developments

The Federal Reserve continues to raise interest rates

On December 14, 2022, the Federal Reserve approved its seventh interest rate hike of 0.5% in 2022. By making it more expensive to borrow funds to get a mortgage, buy a car or get a business loan, the Fed expects to push prices down.

This section last updated April 17, 2023

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IBISWorld specializes in industry research with coverage on thousands of global industries. Our comprehensive data and in-depth analysis help businesses of all types gain quick and actionable insights on industries around the world. Busy professionals can spend less time researching and preparing for meetings, and more time focused on making strategic business decisions that benefit you, your company and your clients. We offer research on industries in the US, Canada, Australia, New Zealand, Germany, the UK, Ireland, China and Mexico, as well as industries that are truly global in nature.

About This Industry

Industry Definition

The industry consists of chain and franchised restaurants of five or more establishments that provide food services to patrons that order, are served while seated (i.e. wait service) and pay after eating. These establishments may provide this type of food service to patrons in combination with alcoholic and other beverages.

Major Players

Darden Restaurants

Main Activities

The primary activities of this industry are:

Full-service restaurant operation (wait service at tables)

Chain full-service restaurant operation (directly owned and operated by management)

Franchised full-service restaurant operation (under franchise agreements with franchisers)

The major products and services in this industry are:

American

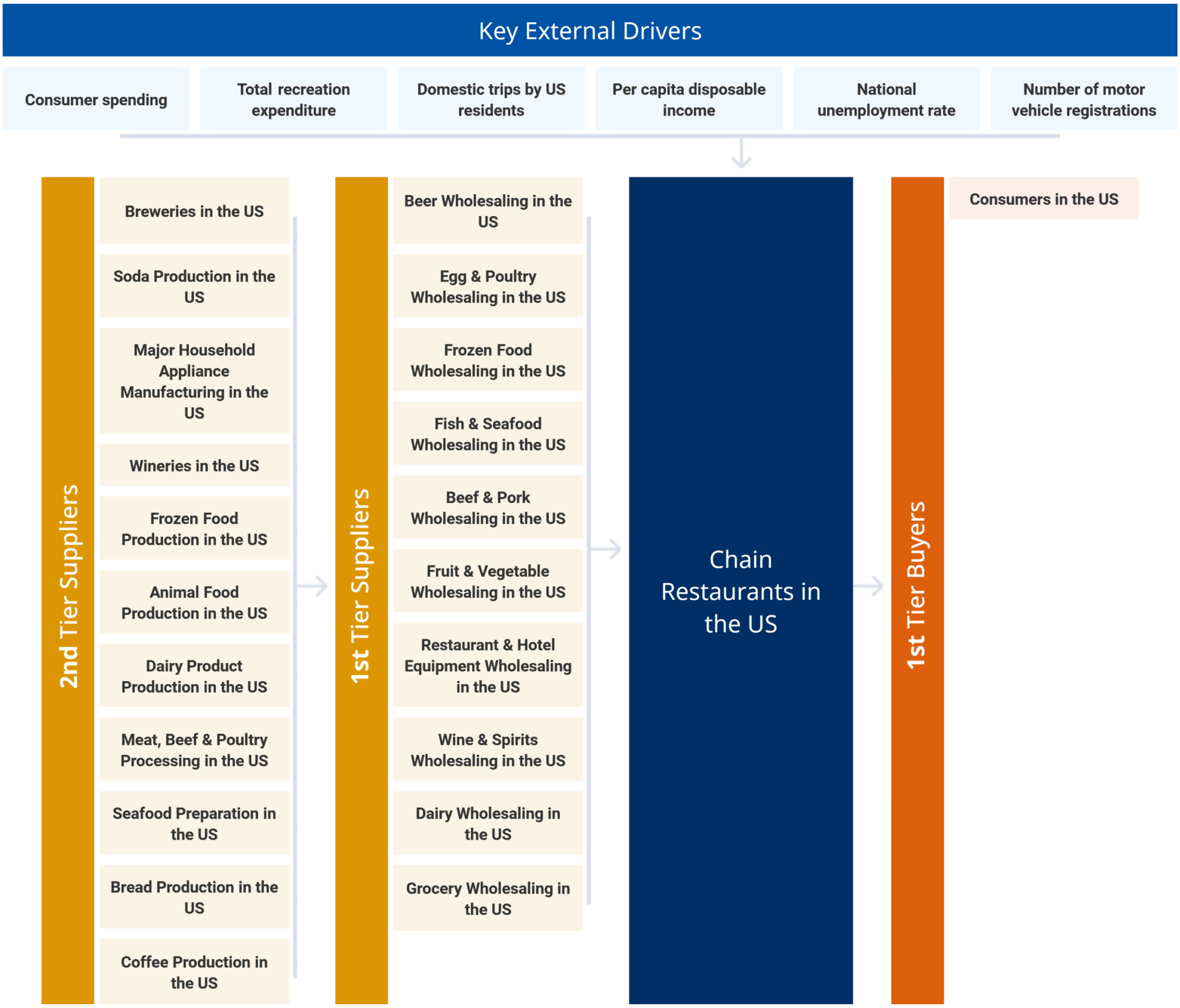
Italian/pizza

Seafood

Varied menus

Other

Supply Chain



SIMILAR INDUSTRIES

Single Location Full-Service Restaurants in the US

Competitor

Caterers in the US

Competitor

Bars & Nightclubs in the US

Competitor

Coffee & Snack Shops in the US

Competitor

Fast Food Restaurants in the US

Competitor

RELATED INTERNATIONAL INDUSTRIES

Full-Service Restaurants in the UK

Restaurants in Australia

Cafes and Restaurants in New Zealand

Full-Service Restaurants in China

Full-Service Restaurants in Canada

Restaurants and Takeaways in Ireland

Industry at a Glance

Key Statistics

$57.1bn
Revenue

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
1.6%	1.4%	

$2.7bn
Profit

Annual Growth 2018–2023	Annual Growth 2018–2023
0.3%	

4.7%
Profit Margin

Annual Growth 2018–2023	Annual Growth 2018–2023
-0.3pp	

340
Businesses

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
1.5%	1.5%	

706k
Employment

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
-1.6%	1.3%	

$20.6bn
Wages

Annual Growth 2018–2023	Annual Growth 2023–2028	Annual Growth 2018–2028
2.3%	1.3%	

Key External Drivers

% = 2018–23 Annual Growth

0.1pp
National unemployment rate

1.2%
Per capita disposable income

2.2%
Consumer spending

0.3%
Domestic trips by US residents

1.4%
Number of motor vehicle registrations

1.6%
Total recreation expenditure

Industry Structure

POSITIVE IMPACT

Capital Intensity
Low

Concentration
Low

MIXED IMPACT

Life Cycle
Mature

Industry Assistance
Medium / Decreasing

Technology Change
Medium

Barriers to Entry
Medium / Steady

Industry Globalization
Medium / Increasing

NEGATIVE IMPACT

Revenue Volatility
High

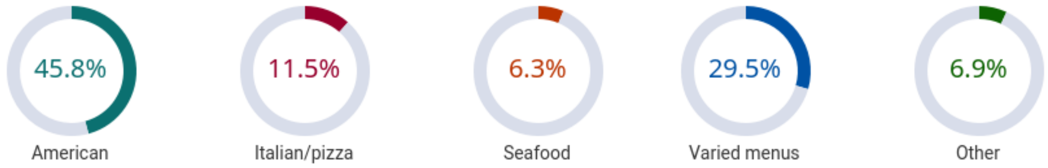
Regulation & Policy
Heavy / Increasing

Competition
High / Increasing

Key Trends

- Many consumers have remained less willing to spend on sit-down meals
- Increasing awareness of health risks has encouraged chain restaurants to update menus
- As many restaurants have furloughed employees amid the pandemic, the number of industry employees is expected to increase
- Despite the industry's projected return to growth, intense competition will likely persist
- Despite attempts to automate, the industry is expected to remain labor-intensive
- Many major restaurant chains are expected to continue their push overseas
- Cost-conscious consumers are increasingly eating from a buffet of dining alternatives

Products & Services Segmentation



Chain Restaurants
Source: IBISWorld

Major Players

Chain Restaurants
Source: IBISWorld

SWOT

S STRENGTHS

Low Imports
Low Customer Class Concentration
Low Capital Requirements

W WEAKNESSES

Medium & Decreasing Level of Assistance
High Competition
High Volatility
Low Profit vs. Sector Average
High Product/Service Concentration
Low Revenue per Employee

O OPPORTUNITIES

High Revenue Growth (2023-2028)
High Performance Drivers
Consumer spending

T THREATS

Low Revenue Growth (2005-2023)
Low Revenue Growth (2018-2023)
Low Outlier Growth
National unemployment rate

Executive Summary

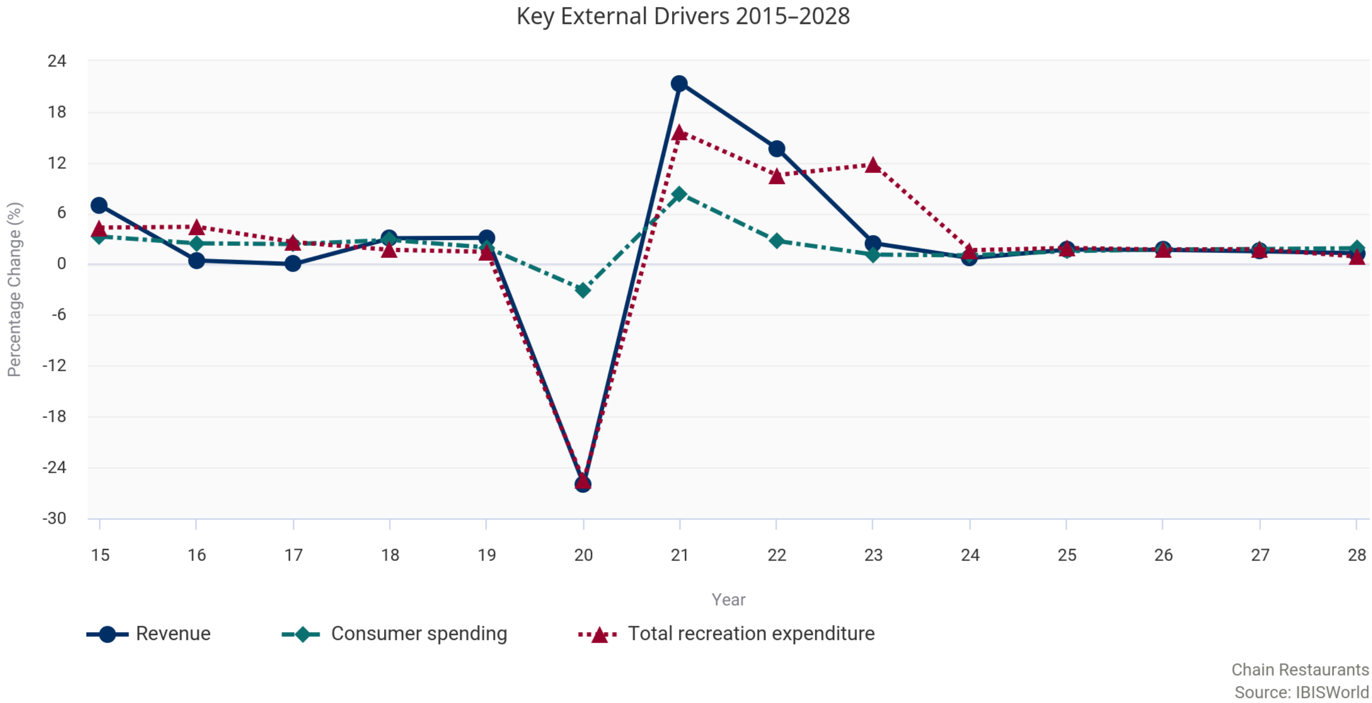
Back for seconds: Looming inflation and younger diners searching for food experiences will continue to threaten industry profit

The industry swallowed economic catastrophe, surging recovery and record inflation in the past few years. Before the pandemic, restauranteurs increasingly benefited from economies of scale. Meanwhile, as per capita disposable income increased and unemployment reached record lows, consumers spent more, giving rise to more lavish spending on food away from home, especially on more expensive sit-down meals. However, the pandemic's severe detriment to the overall food service sector, even including 2021's aggressive recovery, mitigated long-run growth. From 2018 to 2022, chain restaurant revenue expanded at a 1.5% CAGR to $57.1 billion, finishing with a 2.5% increase in 2023, where profit lowered to 4.7%.

Massive part-time employment, a high establishment-to-operator ratio and heavy external competition differentiate the chain restaurant. Sit-down restaurants distinguish themselves with table service, necessitating significant labor expenditure. Unlike in many large industries, local chains often handle labor themselves. The franchise model employed by numerous restauranteurs then gives those franchisees the ability to respond to changing markets, while back-of-house technology connects stores back to the benefits of a parent chain's digital ordering system, unified marketing and negotiation leverage. Despite improving efficiency across franchises helping to keep menu prices low, cost-conscious consumers are increasingly eating from a buffet of food alternatives: from meal kit delivery to fast-casual chains. Today's diners have many options to chew on.

Even while experiencing 2022's historic inflation and dreading the seemingly-inevitable 2023 recession, restaurants are cooking up solutions to widen a 2.5% revenue expansion. Market leaders are pursuing international growth to balance national chain saturation, while niche chains pop up to provide customized food options and excellent, personalized service. In addition, restaurant chains of all sizes are implementing technology to speed up kitchen tasks, take mobile orders and track social influence. By 2028, these efforts will fatten the industry's cash flow, rising at a CAGR of 1.4% to $61.2 billion in 2028, when profit will increase back to 4.8%.

Industry Performance



Key External Drivers

Consumer spending

Factors that influence growth in consumer spending affect the chain restaurant industry. During a recession, any spike in unemployment leads to declining consumption; conversely, when unemployment is low, consumers are more likely to spend money on dining at restaurants. Consumer spending will increase in 2022, presenting a potential opportunity for the chain restaurant industry.

Total recreation expenditure

The opportunity cost of a meal out at a chain restaurant establishment goes down significantly when consumers are away from well-equipped home kitchens and are already spending on an experience. While overnight trips are a significant source of revenue generation, even expenditure at sporting events, urban tourism in major cities and family days out are highly correlated with full-service dining. Total recreation expenditure will increase by a significant margin in 2023.

Domestic trips by US residents

Consumers on long-distance journeys tend to value the convenience of a sit-down meal relatively highly compared with those at home. Many overnight accommodations in the United States also tend to lack all but the most basic cooking equipment, pushing consumers to chains typically located conveniently nearby. Domestic trips taken by United States citizens will increase in frequency in 2023.

Per capita disposable income

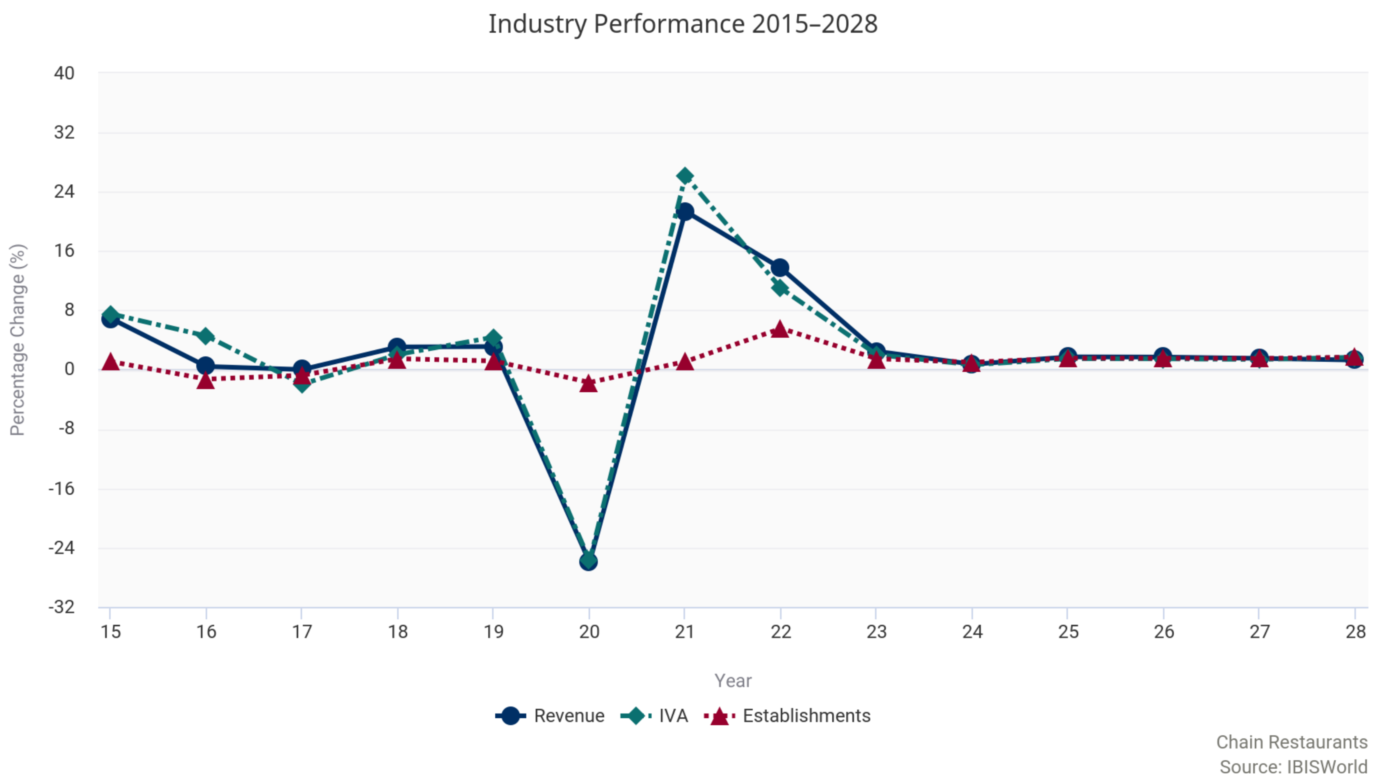
Changes in disposable income have a significant effect on household expenditure on discretionary items, including restaurant dining. As the economy improves, consumers typically have greater confidence to dine at restaurants knowing their basic needs are financially covered. As inflation slowly falls, consumer disposable income is expected to remain stable in 2023.

National unemployment rate

Food services industries represent one of the largest groups of employers in the United States. A hot job market maximizes interview traffic at locations across a chain's network and pushes otherwise uninterested individuals to enter the job market part-time at a favorite local restaurant. Simultaneously, labor markets near the natural rate of unemployment gives the average consumer both the funds and a reason to spend on eating out. Unemployment will rise in 2023 amid massive layoffs and worker disillusionment, posing a potential threat to the industry.

Number of motor vehicle registrations

Full-service restaurants typically draw their customers from higher-income households. Due to this, growth in the number of households with vehicles benefits the chain restaurant. Additionally, research published in Urban Analytics and City Science in 2022 found that "communities with car-dependency, low walkability…and nearness to highways were associated with high rates of chain restaurants." The number of vehicle registrations will increase in 2022 and beyond as wealthier consumers seek to avoid the health risks associated with transit. But the global chip shortage and high gas prices will temper this increase.



Current Performance

Chain restaurants have fluctuated wildly at a CAGR of 1.5% over the past five years to $57.1 billion in 2023, including a 2.5% bump in 2023 alone; profit, measured as earnings before interest and taxes, plummeted from 5.0% in 2018 to 4.7% in 2023.

CHAINS SURVIVE COVID-19 WITH SIGNIFICANT INJURIES BUT FEW CASUALTIES

- IN EARLY 2020, CHAIN RESTAURANT OPERATIONS SLAMMED TO A HALT NEARLY OVERNIGHT AS A RESULT OF THE PANDEMIC; IN THE INITIAL PANIC, MANY ESTIMATES CIRCULATED THAT PREDICTED 20.0% TO 50.0% OF ALL RESTAURANTS WOULD CLOSE.
- AS SUMMER 2020 APPROACHED, RESTAURANTEURS WERE OFTEN ABLE TO REOPEN AS ESSENTIAL BUSINESSES, BUT GOVERNMENTS OFTEN LIMITED OFFERINGS TO TO-GO ORDERS TO COMPLY WITH SOCIAL DISTANCING; ALTERNATELY, SOME STATE GOVERNMENTS ENFORCED CAPACITY LIMITATIONS OF 25.0%.
- CONSUMERS WITH MEANS ORDERED TAKEOUT FOOD FROM SINGLE-ESTABLISHMENT LOCAL RESTAURANTS (IBISWORLD REPORT 72211B) TO SUPPORT A SMALL BUSINESS OR FREQUENTED THE MOST MAJOR FAST FOOD CHAINS THAT WERE ABLE TO PROVIDE A FAMILIAR, INEXPENSIVE FOOD EXPERIENCE DURING THE CHAOS.
- WHILE YEARLY REVENUE FELL 25.8% IN 2020, NEARLY ALL SIGNIFICANT CHAINS AVOIDED WIDESPREAD, PERMANENT STORE CLOSURES.

Consumers increasingly prefer convenience to quality service

- **Even as consumer spending improved after the pandemic, many have remained less willing to spend on sit-down meals.**
- **Instead, a confluence of factors, led by strong fast food chain performance and supplemented by food delivery of meal kits and**

prepared foods, has satiated a cost-conscious public.
• The fast-casual concept also provides consumers with complex, healthful food choices, but in a fast and convenient manner, typically at a lower price than sit-down establishments.

DINERS MATCH FOOD WITH THEIR EXACT LIFESTYLES

• HEALTH AND ALTERNATIVE DIETS HAVE BECOME A CORE FOCUS OF MANY CHAINS' STRATEGIES, CREATING BROADER ACTION ACROSS THE CHAIN RESTAURANT ECOSYSTEM.
• INCREASING AWARENESS OF THE HEALTH RISKS ASSOCIATED WITH A DIET HIGH IN FAT, SALT AND SUGAR HAS ENCOURAGED SOME CHAIN RESTAURANTS TO UPDATE THEIR MENUS
• ADDITIONALLY, MORE CONSUMERS PRACTICE VEGANISM, KETO, PALEO, ALLERGEN-FREE AND OTHER DIETS THAT FIT THEIR LIFESTYLES AND HELP WITH VARIOUS DIGESTIVE DISORDERS.
• CHAIN RESTAURANTS HAVE ALSO BECOME MORE AWARE OF MITIGATING RISKS FOR THOSE WITH FOOD ALLERGIES BY CREATING SEPARATE PREP STATIONS, THOROUGHLY WASHING EVERYTHING AND MAKING MORE INFORMATION AVAILABLE ONLINE.
• NONETHELESS, HEALTHIER FOOD OPTIONS CAN OFTEN BE SERVED AT A PREMIUM, BENEFITING CHAIN RESTAURANT PROFIT.

Chain restaurant satiation

• Over the past few years, the chain restaurant has undergone increased merger and acquisition activity, divesting and acquiring brands to focus on a few core experiences.
• Private equity has played a more prominent role in the chain restaurant experience as investment companies snap up struggling brands and try to quickly turn them around.
• Despite pandemic pressures and acquisition activity, new restauranteurs break the five-location chain minimum to tap into niche markets, like restricted diets and plant-based food trends.

Historical Performance Data

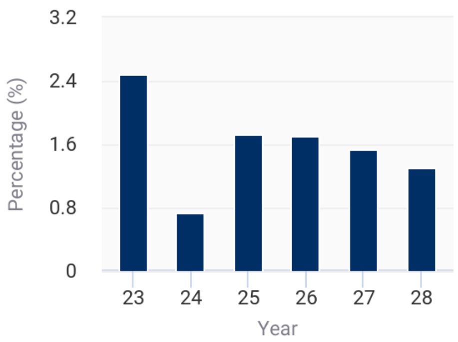
Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)	Consumer spending ($b)
2014	47,747	19,669	36,891	296	745,703	N/A	N/A	16,327	N/A	11,515
2015	51,055	21,153	37,298	301	769,995	N/A	N/A	17,579	N/A	11,893
2016	51,284	22,116	36,828	305	768,304	N/A	N/A	18,014	N/A	12,188
2017	51,297	21,687	36,555	310	757,675	N/A	N/A	17,737	N/A	12,478
2018	52,877	22,134	37,099	316	765,709	N/A	N/A	18,327	N/A	12,837
2019	54,527	23,106	37,537	319	768,487	N/A	N/A	19,294	N/A	13,092
2020	40,367	17,156	36,892	315	556,199	N/A	N/A	14,320	N/A	12,701
2021	48,997	21,642	37,298	318	637,133	N/A	N/A	18,360	N/A	13,754
2022	55,705	24,013	39,377	335	694,749	N/A	N/A	20,191	N/A	14,091
2023	57,090	24,499	39,959	340	706,333	N/A	N/A	20,561	N/A	14,139

Industry Outlook

Outlook

The industry will continue growing at a slow CAGR of 1.4% to reach $61.2 billion in 2028; profit will rise slowly to follow revenue, reaching 4.8% in 2028.

Industry Outlook
2023–2028



Chain Restaurants
Source: IBISWorld

CHAINS MOVE FROM THE COVID-19 FRYING PAN TO THE INFLATION FIRE

• WHILE THE RESTAURANT INDUSTRY HAS FULLY RECOVERED FROM THE PANDEMIC, SURPASSING 2019 REVENUE LEVELS AT THE END OF 2022, THIS HIDES THE PAIN MANY CHAIN OPERATORS ARE EXPERIENCING WITH INFLATION AND RECESSION CONCERNS FLYING.
• CONSUMER HABITS SHIFTED TO LESS EXPENSIVE AND LESS SOCIAL FOOD OPTIONS DURING THE PANDEMIC, AND THE PATTERNS FORMED DURING THIS TIME OF STRESS HAVE PULLED MANY TO ORDERING INEXPENSIVE FOOD FOR DELIVERY.
• AS RESTAURANT OWNERSHIP COSTS RISE, CHAINS WILL HAVE TO SLIM OUT YET AGAIN, BLEEDING CUSTOMERS TO THE MANY LESS EXPENSIVE DINING OPTIONS.

Digital technologies enhance restaurant employee performance and efficiency

• Most restaurants already leverage digital technology to handle repetitive consumer interaction and management tasks: handhelds help servers collect orders and accept payment, while kitchen screens direct cooks to any dish alterations and preparation time.
• Fully automatic kitchen equipment is also becoming commonplace; conveyor dishwashers blast plates clean, and automated woks stir-fry ingredients without human intervention.
• While fast food and casual restaurants are moving to primarily digital ordering systems, hiring fewer cashiers and experimenting with fully-robotic locations, full-service restaurants have continued to lean on human waitstaff to maintain the full-service experience.

RESTAURANTS WILL BATTLE IMAGE AND STAFFING ISSUES AS LABOR STRUGGLES EXPAND

• BURNOUT, LABOR RECRUITMENT, HIGH TURNOVER, LACK OF BENEFITS, LONG HOURS AND CUSTOMER BATTLES WERE ISSUES FOR RESTAURANT LABOR TEAMS EVEN BEFORE THE PANDEMIC ERASED NEARLY A MILLION SERVICE WORKERS FROM THE ECONOMY.
• MANY LOCATIONS STRUGGLING WITH HIGH LABOR COSTS HAVE ADAPTED BY INCREASING THE EXPECTED TIP FROM 15.0% TO 25.0% OR HIGHER, GUILTING THE CUSTOMER INTO DIRECTLY PAYING EVEN MORE OF THE WAITSTAFF SALARIES.
• EVEN NOW, HALF A MILLION FOOD SERVICE POSITIONS REMAIN PERMANENTLY OPEN, DESPITE NEXT-DAY PAY SCHEDULES AND IMPROVED HEALTHCARE.
• WITHOUT SIGNIFICANT CHANGES, THIS SHORTFALL WILL CONTINUE TO WORSEN, AND MAJOR CHAINS WILL EXPERIMENT WITH LESS LABOR-HEAVY FOOD CONCEPTS LIKE “GHOST KITCHENS,” WHERE NO WAITSTAFF IS NECESSARY.

Chain restaurants gobble up the remaining United States market and begin international expansions

• Consolidation among chain management will continue, especially after revenue from the post-pandemic spike is entirely consumed by inflation.
• Smaller, struggling restauranteurs will be acquired by more-powerful chains or purchased and reinvented by private equity groups seeking a quick cash flow at high risk.
• Most major full-service chains now have a significant international presence in emerging economies with tremendous growth potential and are earning a more substantial percentage of revenue through international segments each year.
• Still, chain restaurant restauranteurs must be aware of differences in tastes and cultural norms, meaning all aspects of the restaurant system, including menus, marketing, restaurant design, purchasing and training, must be tailored to local expectations.

Performance Outlook Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)	Consumer spending ($b)
2023	57,090	24,499	39,959	340	706,333	N/A	N/A	20,561	N/A	14,139
2024	57,511	24,660	40,363	343	710,414	N/A	N/A	20,687	N/A	14,345
2025	58,510	25,029	40,993	349	719,963	N/A	N/A	20,981	N/A	14,586
2026	59,509	25,397	41,631	354	729,563	N/A	N/A	21,276	N/A	14,785
2027	60,423	25,749	42,264	359	738,692	N/A	N/A	21,555	N/A	15,008
2028	61,210	26,185	42,984	366	753,266	N/A	N/A	21,951	N/A	15,109
2029	49,437	26,186	40,208	345	660,302	N/A	N/A	18,939	N/A	15,289

Industry Life Cycle

The life cycle stage of this industry is ⊖ Mature

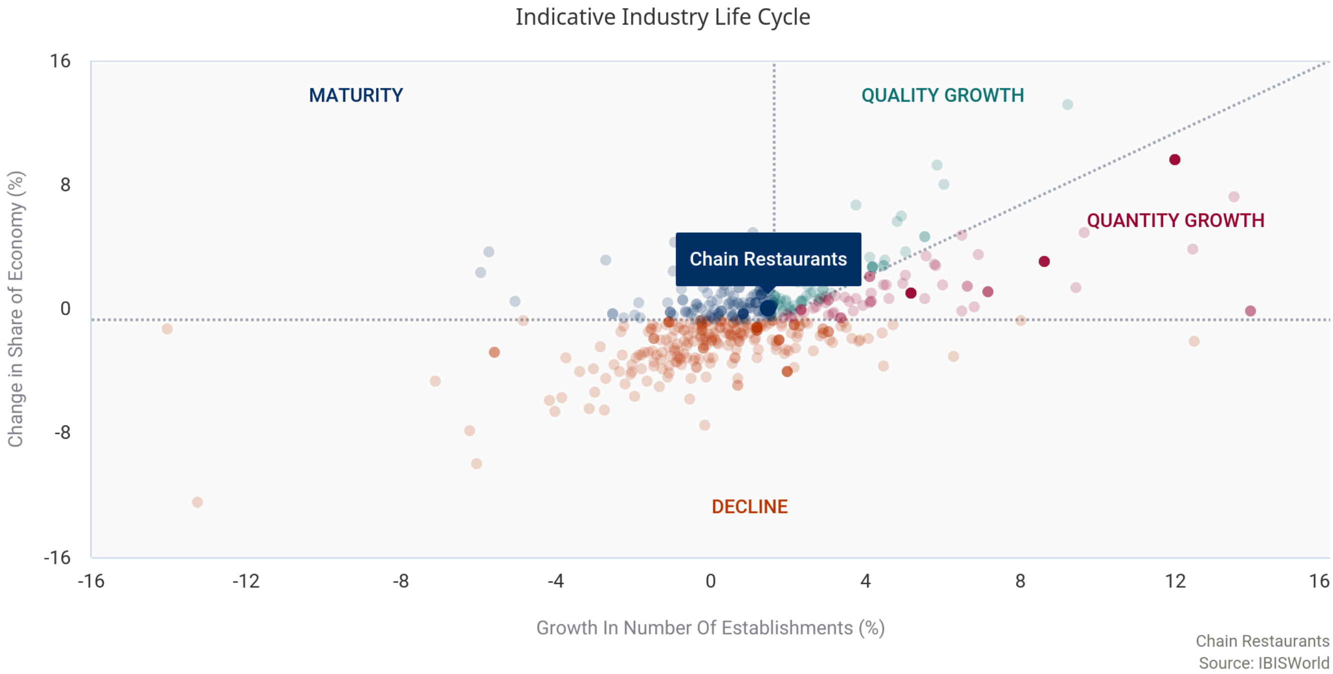
LIFE CYCLE REASONS

Industry saturation is occurring in all food service industries

The average industry profit margin is low due to significant priced-based competition on menu items

Growth will occur only from garnering market share and revenue from other food service industries

The industry is growing at the same pace as the overall economy



Contribution to GDP

Restaurateurs are adding value to the economy at a marginally higher pace than average, buoyed by falling costs for equipment, inputs and commercial rent. As entertainment rises through the ashes of the pandemic, restaurants will generate higher profit.

Market Saturation

The total food market in the United States is massive but has an equally massive number of competitors. Many chains have decided to open operations overseas in upper-class regions, as these markets are relatively untapped and often have a high opinion of US food.

Innovation

Besides innovating on the next new hot dish, restaurateurs tend to stick to proven hardware and strategies. Minor changes, including the conveyor belt dishwasher, induction cooktop and digital order management, have each made life in the kitchen more comfortable but have not changed the fundamentals of owning a chain.

Consolidation

While nonemployers with one or two members continue to dominate the counter-service food style, moderate-sized operators are being gobbled up by the name brands. During this time of financial uncertainty, famous chains continue to draw crowds while operators with fewer locations occasionally close.

Technology and Systems

Restaurant owners are turning to IT teams to drive customer interest. Progressively smaller brands are moving towards apps stuffed with loyalty programs, customer analytics tools, coupons and targeted pricing. Teams have partnered with Doordash, UberEats and Grubhub to generate delivery orders, though the fees for these services strip away much of the additional benefit from more customers.

Products & Markets

Supply Chain

Key Buying Industries

1st Tier

Consumers in the US

Key Selling Industries

1st Tier

Beer Wholesaling in the US

Egg & Poultry Wholesaling in the US

Frozen Food Wholesaling in the US

Fish & Seafood Wholesaling in the US

Beef & Pork Wholesaling in the US

Fruit & Vegetable Wholesaling in the US

Restaurant & Hotel Equipment Wholesaling in the US

Wine & Spirits Wholesaling in the US

Dairy Wholesaling in the US

Grocery Wholesaling in the US

2nd Tier

Breweries in the US

Soda Production in the US

Major Household Appliance Manufacturing in the US

Wineries in the US

Frozen Food Production in the US

Animal Food Production in the US

Dairy Product Production in the US

Meat, Beef & Poultry Processing in the US

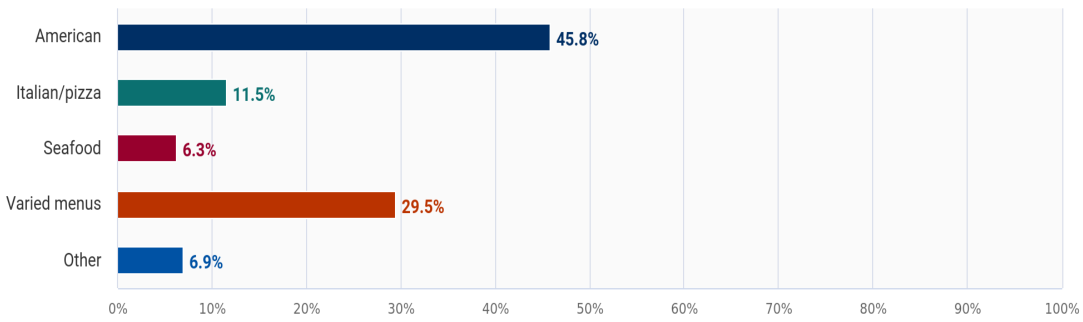
Seafood Preparation in the US

Bread Production in the US

Coffee Production in the US

Products & Services

Products and Services Segmentation



2023 INDUSTRY REVENUE

$57.1bn

Chain Restaurants
Source: IBISWorld

The industry is segmented based on the primary type of food served.

While the high-profit margin on alcoholic and non-alcoholic beverages brings in 16.6% of establishment income, this remains relatively constant across food categories. Some restaurateurs in the chain restaurant also earn revenue through nonfood items like apparel and dinner shows. The chain restaurant excludes fast food chains, where customers pay before eating and do not receive table service by a waitperson and excludes restaurants with fewer than five locations.

AMERICAN CHAINS OFFER CONSISTENT, COMFORTING FOOD WHICH APPEALS TO MOST CONSUMERS

• CHAINS THAT OFFER OPTIONS REPRESENTING TRADITIONAL AMERICAN CUISINES, INCLUDING BURGERS, STEAKS, SALADS, FRIES AND SUGAR-CENTERED DESSERTS, PERFORM EXTRAORDINARILY WELL.
• THIS TYPE OF FOOD IS HEAVILY INGRAINED IN UNITED STATES CULTURE AND HAS THEREFORE BEEN THE MAIN DRIVER OF THE CHAIN RESTAURANT'S GROWTH OVER THE PAST HALF-CENTURY.
• MAJOR CHAINS IN THIS SEGMENT INCLUDE APPLEBEE'S, DENNY'S AND TGI FRIDAY'S; RESTAURANTS WITH US-FOCUSED DISHES, INCLUDING CHILI'S AND OUTBACK STEAKHOUSE, ARE ALSO INCLUDED.
• AS CONSUMERS TURNED TO “COMFORT FOOD” TO HELP EMOTIONALLY HANDLE THE PANDEMIC, THIS SEGMENT SPIKED TO NEARLY HALF OF ALL RESTAURANT REVENUE.

Varied menus target the diverse preferences of large groups

• Varied menu establishments simultaneously offer burgers, tacos, wings, pizza, seafood and more, catering to families with a variety of tastes; examples of restaurants in this segment include the Cheesecake Factory and Yard House.
• Such a diverse menu prevents these establishments from fitting into a single food product segment and may deter consumers seeking a specific, authentic dining experience.
• The high cost of assembling and cooking so many ingredients damaged these establishments during the pandemic.

ITALIAN-AMERICAN FOOD IS INEXPENSIVE TO MAKE, UTILIZING LOTS OF LOW-COST GRAINS

• ITALIAN-AMERICAN CUISINE REPRESENTS A SPECTRUM OF VARIATIONS ON TRADITIONAL ITALIAN FOOD, WITH RECIPES MODIFIED UNDER THE INFLUENCE OF UNITED STATES CULTURE ON ITALIAN IMMIGRANTS OVER THE PAST TWO CENTURIES.
• THE MODERN ITALIAN-AMERICAN MENU FOCUSES ON PASTA-BASED DISHES IN ADDITION TO PIZZAS, FREQUENTLY SUBSTITUTING TRADITIONAL ITALIAN OLIVE OIL FOR BUTTER AND SEASONAL VEGETABLES FOR MEAT; IT ALSO TENDS TO BE CHARACTERIZED BY LARGE QUANTITIES OF TOMATO-BASED SAUCE.
• THE SECOND WORLD WAR BROUGHT ITALIAN-AMERICAN CUISINE TO PROMINENCE IN THE UNITED STATES, A POSITION THAT IT HAS HELD EVER SINCE; IN THAT TIME, CHAINS, INCLUDING OLIVE GARDEN, MASTERED THE ART OF PRODUCING THESE DISHES CHEAPLY.

Seafood caters to fewer people, but commands high check value

• A growing number of chain restaurants have successfully specialized in seafood menus, stretching from fish to lobster.
• As pescetarianism and vegetarianism become increasingly popular, restauranteurs have sought to cater to these growing preferences by offering more fish-focused menus with simple dressings.
• While these restaurants frequently offer nonseafood items, fish and other seafood items are the main focal point of the entrée menu at these establishments.

VARIOUS ETHNIC CUISINES ARE GAINING IN POPULARITY WITH CONTINUING GLOBAL AWARENESS

• ESTABLISHMENTS THAT SPECIALIZE IN CHINESE, THAI AND MEXICAN CUISINE ARE INCLUDED IN THE OTHER CATEGORY, AS ARE SPECIALTY SIT-DOWN CHAINS THAT FOCUS ON A SINGLE MENU ITEM LIKE BARBEQUE, BAKED GOODS OR ISLAND-INSPIRED FOOD.
• WHILE THESE CHAINS REMAIN POPULAR, RESTAURANTEURS HAVE HAD TO FIGHT THE GROWTH IN THE AMERICAN MARKET AS THOSE RESTAURANTS TEND TO CATER TO A BROADER CLIENTELE OF UNITED STATES CITIZENS.
• CHAINS OFFERING HEALTHIER MENU OPTIONS HAVE GROWN FASTER THAN TRADITIONAL RESTAURANTS OVER THE PAST DECADE, FOLLOWING RISING CONCERNS ABOUT HEALTHY DIETS AND A DIMINISHING CULTURAL PERCEPTION OF OVERWEIGHT INDIVIDUALS.

Demand Determinants

Demand for the industry is driven primarily by household income, consumer confidence and leisure time; secondary drivers include changing attitudes toward health and propensity to eat out rather than at

home.

Income and consumer confidence

The industry is sensitive to factors that affect the growth in household disposable income because disposable income is required to finance restaurant and dining expenditures. Household disposable income growth is affected by changes in labor market growth (i.e. employment rates), tax and interest rates, record-high gas prices and dips in consumer confidence. The decline in industry revenue during the 2008 recession illustrated the extent to which the industry's performance is reliant on positive income levels, high consumer confidence and a robust economy. For example, lower consumer confidence, weak levels of disposable income and rising unemployment tightened household budgets, encouraging people to save more and spend less by cooking at home rather than dining out. This was mirrored in 2020 as chain restaurants experienced severe declines in demand as consumer confidence plummeted and stay-at-home orders and operating restrictions were issued due to the COVID-19 pandemic. Demand has resumed in 2021 and more in 2022 as consumers resume some discretionary spending and as industry establishments have reopened.

Convenience and leisure time

Convenience and time are other important demand determinants. Social trends, such as the elevation of busy lifestyles, heavy workloads and long working hours, helped boost demand for out-of-home dining as consumers with less time seek to decrease cooking time. In 2020, the pandemic limited out-of-home leisure activities, while also initiating conversations on burnout and mental health at a national scale. In addition, the convenience benefit of a night out at an industry restaurant was partially matched by meal kit services and low-cost grocery delivery. While leisure time has mostly returned in 2023, demand for convenience of a night out is anticipated to be less of a factor for the foreseeable future.

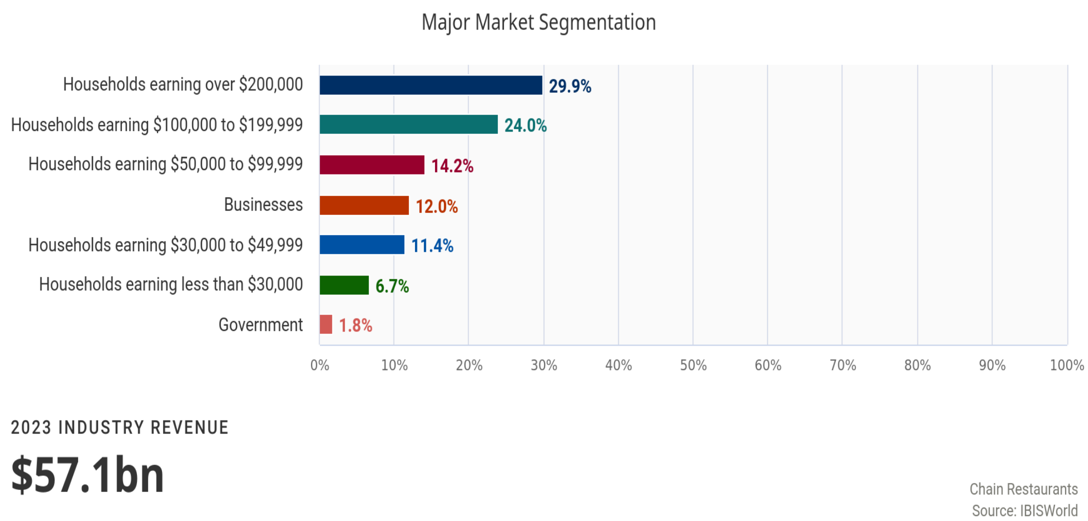
Demographics

The changing age structure of the population influences industry demand. Two broad demographic trends have encouraged industry growth in the past decade. Firstly, the baby-boomer generation has access to higher disposable incomes than previous generations, meaning they are more likely to spend on eating out. Also, young adults between 18 and 30 years old are getting married and having children later than previous generations; this enables them to spend a greater proportion of their income on leisure and subsequently eating out. Young adults in this age bracket spend more of their food budget on eating out than any other age group. Furthermore, many establishments are having to take into consideration aesthetic and unique appeal to attract consumers in generations Y and Z. These generations tend to be attracted to establishments that offer unique menu offerings and a “social media-worthy” ambiance or establishments with experiences that follow online dining trends.

Health and lifestyle

Rising health consciousness has a minor effect on dining at full-service restaurants as consumers have become increasingly concerned about fat content, fried foods and salt content, especially when dining out. Rising concerns regarding the nutritional content and value of restaurant meals are likely to influence demand for certain foods on menus, encouraging industry players to alter product mixes. These concerns are also expected to affect overall performance for industry players selling unhealthy food on menus, such as fried food or hamburgers. But overall demand for industry services is unlikely to fall much based on health worries alone, especially for operators promoting health, societal or environmental benefits attached to menu items.

Major Markets



Households earning over $100,000

• In 2023, more than half of chain restaurant income came from consumers in the nation's two highest income brackets made of households earning over $100,000 and $200,000 annually.
• The considerable jump experienced by this market from just 47.8% in 2017 was caused by the pandemic's restriction of dining opportunities; only individuals with high confidence put in the greater effort required to eat out during these challenges.
• This market's dominance also benefits from older adults with more stable finances covering the bill for a family meal or taking the kids out for a treat.
• Chains focusing on high-cost menu items, such as seafood and steak, disproportionately attract this demographic.

HOUSEHOLDS EARNING $30,000 TO $99,999

• THE TWO MIDDLE-INCOME CONSUMER CLASSES EARNING BETWEEN $30,000 AND $99,999 REPRESENT A QUARTER OF CHAIN DEMAND, SHOWING HOW VITAL THE MIDDLE-CLASS CONSUMER IS TO THE OVERALL PERFORMANCE.
• WHILE THESE CONSUMERS DO NOT TYPICALLY SPEND LARGE SUMS ON LUXURY FOOD ITEMS, THEY CONTRIBUTE TO THE STEADY DEMAND FOR MID-RANGE CHAIN RESTAURANTS ACROSS NUMEROUS FOOD CATEGORIES.
• THE RESTAURANT INDUSTRY'S SHARE OF REVENUE FROM MIDRANGE-INCOME CONSUMERS DROPPED SIGNIFICANTLY; UNEMPLOYMENT AND RISING LEISURE DURING THE EARLY MONTHS OF THE PANDEMIC CREATED A “QUARANTINE BAKING” TREND.
• WORRIES ABOUT BEING LAID OFF, HIGH INFLATION AND A POTENTIAL ECONOMIC RECESSION CONTINUE TO SUPPRESS TENDENCIES TO SPEND EXTRA ON DISCRETIONARY FOOD ITEMS.
• STILL, CONSUMERS IN THIS MARKET ARE MOST RESPONSIBLE FOR THE PROMPT RECOVERY OF THE CHAIN RESTAURANT, AS HOUSEHOLDS' PENT-UP DEMAND AND SAVINGS DUMPED INTO ESTABLISHMENTS IN 2021 AND 2022.

Households earning less than $30,000

• Those in the lowest income bracket making less than $30,000, need to make significant sacrifices to afford meals away from home, even in an improving economic climate.
• Consumers in the lowest income bracket are often better served by fast food or fast casual chains when dining away from home; these locations focus on keeping prices low and offer deals at a higher rate than sit-down chains.
• Demand from this segment declined amid the pandemic as consumers in the income segment further restricted discretionary spending.

GOVERNMENT AND BUSINESSES

• COMPANIES AND LEGALLY RECOGNIZED ENTITIES CONTRIBUTE TO CHAIN RESTAURANT REVENUE THROUGH INTERVIEWS, BUSINESS MEETINGS, BUSINESS TRIPS AND CORPORATE DINNERS. THESE MEALS ARE TYPICALLY EXPENSED TO THE COMPANY AND USUALLY BENEFIT FINE-DINING ESTABLISHMENTS MORE THAN OTHER CHAIN RESTAURANTEURS.
• GOVERNMENTAL ORGANIZATIONS ARE USUALLY THE RESULT OF MEETINGS OR TRIPS MADE ON BEHALF OF AN ORGANIZATION IN WHICH MEALS AND BOARD ARE TYPICALLY EXPENSED. SIMILARLY TO COMPANIES, THE POTENTIAL VALUE CREATED BY IMPRESSING A CLIENT AT A FINE RESTAURANT OUTWEIGHS THE CHECK SIZE.
• THE RECENT CONCLUSION OF THE 100.0% BUSINESS TAX CREDIT FOR DINING OUT AT THE END OF 2022 WILL DIMINISH BUSINESS SPENDING ON RESTAURANTS, AS NOW ENTITIES WILL ONLY BE ABLE TO WRITE OFF 50.0% OF MOST RESTAURANT EXPENDITURES.

Exports in this industry are ✓ Low and Steady

Imports in this industry are ✓ Low and Steady

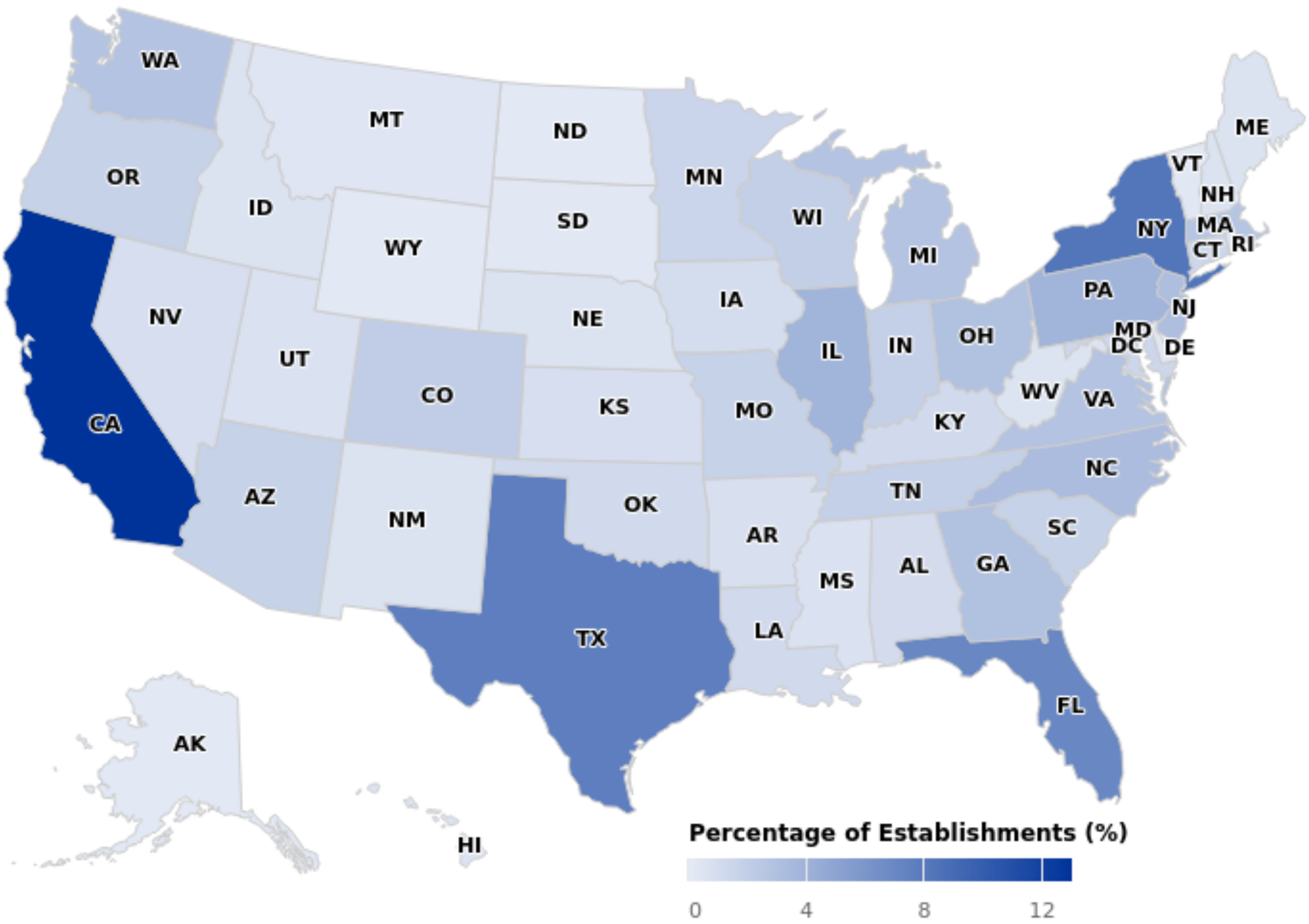
As a service industry, the Chain Restaurants industry does not import or export products; international trade is irrelevant and is accounted for at the food manufacturing level. However, several chain restaurant players have overseas operations and earn significant revenue abroad. These locations often contain variations on menu items to cater to local tastes. Given the mature stage of this chain restaurant's life cycle in the domestic market and changes in customer profiles and tastes, many major restauranteurs seek to augment growth through further global expansion or by bringing international dishes to the United States market.

Geographic Breakdown

Key Insights

California	California	Washington	North Dakota	Alaska	California
5,260 Est.	$7.9bn	5.9%	2.0%	$37,182.9	89,345
Most Establishments	Highest Revenue	Fastest Growth	Slowest Growth	Highest Average Wage	Most Employees

Establishment Concentration in the United States



Chain Restaurants in the US
Source: IBISWorld

State Data for Chain Restaurants in the US (2023)

State	Establishments	Establishments Growth Rate (2018-2023)	Revenue	Revenue Growth Rate (2018-2023)	Employment	Employment Growth Rate (2018-2023)	Wages	Wages Growth Rate (2018-2023)
Alabama	439	1.23%	$525.3m	3.92%	8,937	-0.98%	$191.3m	4.95%

State Data for Chain Restaurants in the US (2023)

State	Establishments	Establishments Growth Rate (2018-2023)	Revenue	Revenue Growth Rate (2018-2023)	Employment	Employment Growth Rate (2018-2023)	Wages	Wages Growth Rate (2018-2023)
Alaska	87	0.70%	$103.8m	2.66%	1,018	-2.96%	$37.9m	3.71%
Arizona	704	2.25%	$1.2bn	5.44%	15,443	-0.50%	$427.7m	6.48%
Arkansas	324	1.69%	$310.6m	4.27%	5,217	-0.94%	$113.2m	5.32%
California	5,260	2.53%	$7.9bn	5.16%	89,345	-0.67%	$2.9bn	6.22%
Colorado	837	2.44%	$1.4bn	5.44%	16,183	-0.55%	$501.7m	6.49%
Connecticut	553	1.79%	$626.8m	3.97%	7,543	-1.30%	$228.4m	5.02%
Delaware	134	1.89%	$218.2m	5.58%	2,749	-0.27%	$79.5m	6.65%
Florida	2,824	2.66%	$4.3bn	4.68%	58,267	-0.44%	$1.6bn	5.72%
Georgia	1,203	2.24%	$1.6bn	4.83%	23,669	-0.47%	$568.9m	5.88%
Hawaii	195	0.95%	$443.4m	3.91%	5,026	-1.23%	$161.5m	4.94%
Idaho	221	2.64%	$229.3m	5.81%	3,443	-0.04%	$83.5m	6.87%
Illinois	1,578	1.85%	$2.0bn	3.60%	27,477	-1.16%	$742.6m	4.63%
Indiana	762	2.12%	$910.1m	4.31%	14,961	-1.06%	$331.6m	5.36%
Iowa	393	1.49%	$337.7m	3.61%	5,889	-1.71%	$123.1m	4.66%
Kansas	349	1.69%	$351.7m	3.35%	5,795	-2.01%	$128.1m	4.37%
Kentucky	460	2.18%	$524.4m	3.62%	9,073	-1.11%	$191.0m	4.66%
Louisiana	484	1.88%	$600.5m	2.25%	9,039	-2.45%	$218.8m	3.28%
Maine	239	1.95%	$274.7m	5.14%	2,930	-1.26%	$100.0m	6.17%
Maryland	555	1.27%	$924.9m	3.70%	12,120	-1.43%	$337.0m	4.75%
Massachusetts	1,076	2.31%	$1.7bn	5.09%	19,429	-0.21%	$613.4m	6.15%
Michigan	1,133	1.50%	$1.4bn	4.28%	20,568	-1.30%	$501.1m	5.33%
Minnesota	623	1.79%	$900.5m	3.84%	12,374	-1.40%	$328.1m	4.89%
Mississippi	270	1.31%	$266.5m	4.01%	4,913	-0.92%	$97.1m	5.06%
Missouri	718	1.39%	$866.4m	3.71%	13,537	-1.55%	$315.7m	4.76%
Montana	172	1.46%	$172.6m	4.17%	2,542	-1.27%	$62.9m	5.22%
Nebraska	236	1.98%	$230.0m	3.77%	3,737	-1.56%	$83.8m	4.81%
Nevada	364	3.40%	$713.0m	4.93%	8,323	-0.01%	$259.7m	5.98%
New Hampshire	223	2.30%	$307.3m	5.01%	3,880	-0.29%	$111.9m	6.06%
New Jersey	1,281	2.06%	$1.3bn	4.38%	17,207	-0.53%	$480.1m	5.42%
New Mexico	225	1.98%	$282.9m	4.00%	4,147	-1.13%	$103.1m	5.06%
New York	3,312	1.88%	$4.5bn	4.48%	45,701	-1.02%	$1.6bn	5.53%

State Data for Chain Restaurants in the US (2023)

State	Establishments	Establishments Growth Rate (2018-2023)	Revenue	Revenue Growth Rate (2018-2023)	Employment	Employment Growth Rate (2018-2023)	Wages	Wages Growth Rate (2018-2023)
North Carolina	1,311	2.60%	$1.5bn	4.72%	24,656	0.11%	$544.6m	5.77%
North Dakota	91	1.37%	$100.0m	1.95%	1,593	-2.67%	$36.4m	2.95%
Ohio	1,207	1.64%	$1.5bn	3.21%	24,876	-1.70%	$557.5m	4.25%
Oklahoma	473	2.55%	$431.7m	3.08%	7,734	-1.29%	$157.4m	4.13%
Oregon	719	2.32%	$800.7m	4.95%	9,550	-0.76%	$291.6m	5.99%
Pennsylvania	1,550	1.75%	$1.7bn	3.64%	26,729	-1.19%	$601.0m	4.67%
Rhode Island	188	2.03%	$239.1m	4.79%	2,961	-0.74%	$87.1m	5.83%
South Carolina	725	2.82%	$818.7m	4.58%	13,406	0.08%	$298.3m	5.63%
South Dakota	116	2.01%	$101.9m	3.51%	1,575	-2.20%	$37.1m	4.55%
Tennessee	774	2.59%	$1.1bn	5.16%	16,889	0.20%	$412.8m	6.20%
Texas	3,066	2.55%	$4.2bn	3.96%	59,940	-1.03%	$1.5bn	5.01%
Utah	284	2.67%	$355.1m	5.23%	5,306	-0.28%	$129.3m	6.28%
Vermont	105	0.98%	$108.1m	3.89%	1,443	-1.28%	$39.4m	4.92%
Virginia	1,120	1.91%	$1.3bn	3.59%	19,550	-1.21%	$473.8m	4.63%
Washington	1,112	3.26%	$1.5bn	5.94%	15,716	-0.13%	$559.8m	6.99%
West Virginia	184	1.24%	$181.2m	3.53%	3,193	-1.47%	$66.0m	4.56%
Wisconsin	784	1.30%	$724.8m	3.83%	12,557	-1.39%	$264.0m	4.87%
Wyoming	82	0.25%	$82.0m	2.47%	1,171	-2.72%	$29.9m	3.49%

Business Locations

Southeast-centered chains broadcast regional hospitality and fried chicken across the nation

• The Southeast region of the United States has the most significant percentage of the United States population; people here are also more likely to own the vehicles necessary to drive to chain locations.
• Florida contains a disproportionate amount of the region's chain locations, as restauranteurs capitalize on the high-spending tourist and well-off retiree markets.
• Chains serving southern comfort food, such as fried chicken, biscuits and banana pudding, are popular in the Southeast region; however, home cooking culture is also entrenched as a cultural cornerstone, heightening chains' external competition.

Chains in the West experiment with authentic foods from a variety of cultures

• The West region has the second-largest concentration of chain restaurant establishments; California represents 12.8% of all chain restaurant business locations as the most populous state in the region by far.
• The region is also a popular destination for domestic and international travelers from Asia and Oceania, which drives chain restaurant demand from an additional consumer segment.
• As the United States hub for culture from Latin America and Asia, residents can jump between chains serving quesadillas and hot pot before finishing their evening with a glass of local wine.

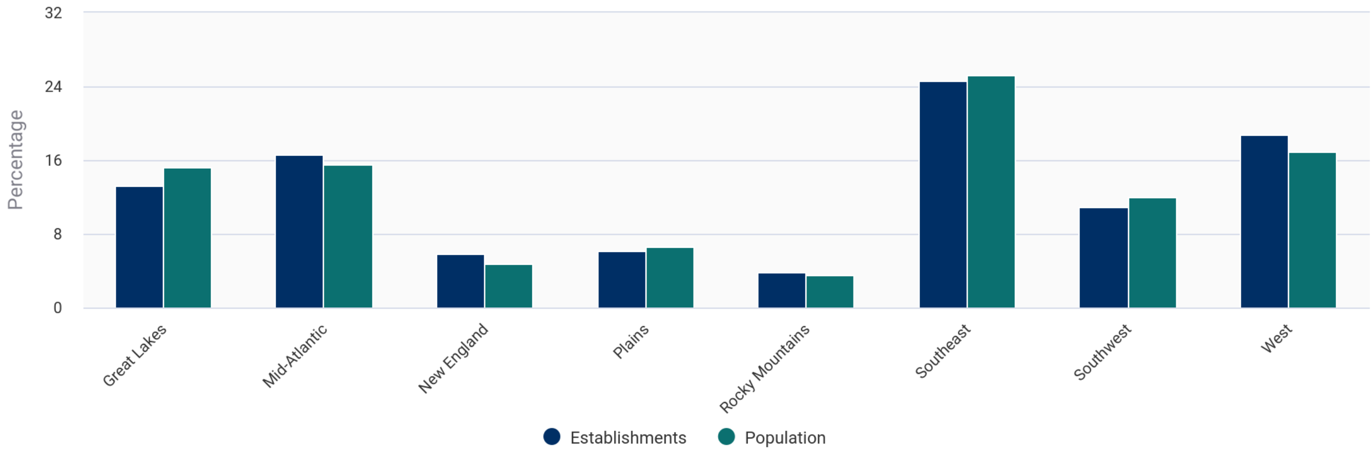
Mid-Atlantic region cities create pockets for niche and broad chains to succeed

• The Mid-Atlantic region contains many of the nation's large cities: New York City, Philadelphia and Washington, DC; each has a massive local population and draws significant tourist crowds.
• Each of these cities also has expansive public transportation systems; chains accessible by public transportation require less space for parking lots and attract a broader subset of city dwellers.
• The diversity of cultures in major cities provides a rich expanse for chain restauranteurs to establish locations, especially those that focus on more niche client groups; still, New York's pizza and Philadelphia's cheesesteak remain extraordinarily popular with almost every palate.

New England's restaurants benefit from high incomes and fresh seafood

• Despite representing only 4.6% of the United States population, New England maintains a 25.0% higher per-capita concentration of chain restaurant establishments than the nation at large.
• This density leverages the region's high average income: nearly every state has an average income higher than the national average of $65,000.
• While Boston is the region's only metropolis, people drive long distances to taste the region's seafood and slurp up clam chowder.

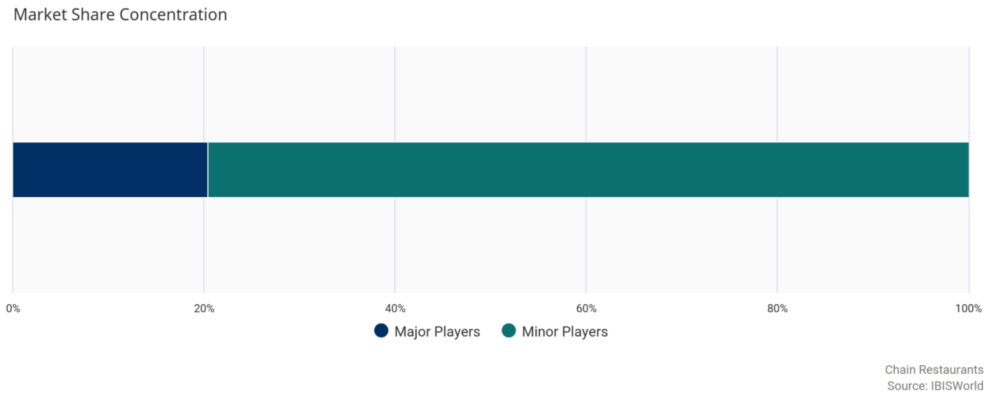
Distribution of Establishments vs Population



Chain Restaurants
Source: IBISWorld

Competitive Landscape

Market Share Concentration



Concentration in this industry is Low

Concentration remains low despite chains' large footprints

• To be considered for this report, a restaurant chain must have at least five independent locations; this requirement heavily weights the market towards larger players and higher concentration.
• While independent restaurants fight for sub-percentage shares of total income, chains' national presences enable more significant revenue potential.
• Still, even the most prominent chains capture small percentages of the market, as consumers desire an enormous variety of different restaurants to meet changing tastes.

Average company size grows with franchise interest

• Franchised businesses can expand wildly faster than their owner-operated counterparts by parallelizing new openings.
• Chain management may incentivize the creation of new locations with sub-par fundamental demand to bring in more franchise fees.

Key Success Factors

IBISWorld identifies over 200 Key Success Factors for a business. The most important for this industry are:

Access to multiskilled and flexible workforce:
Access to suitably skilled and trained staff is required to meet peak customer demand periods while providing a quality customer experience.

Ability to quickly adopt new technology:
Adopting new employee training and kitchen and customer-related technology can both diminish internal costs and modernize the customer experience.

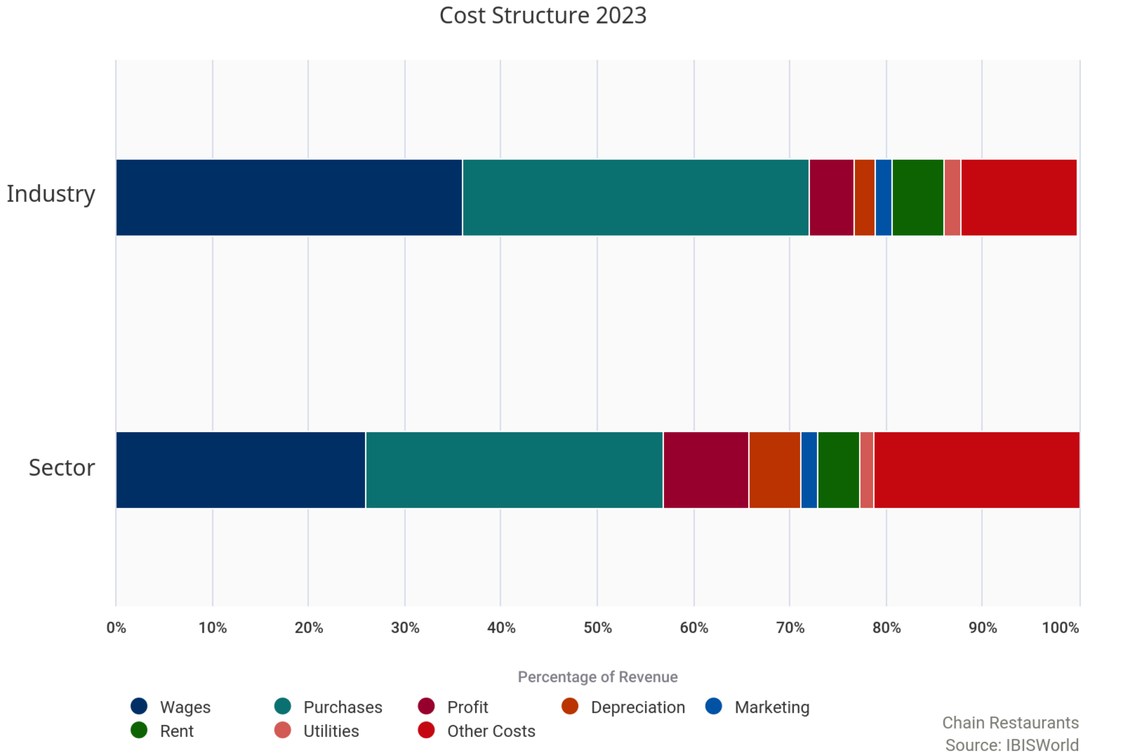
Proximity to key markets:
Finding a quality location and understanding local food preferences are important to driving customers to purchase.

Ability to control stock on hand:
Controlling orders, stock and food waste, which take up more than 33.0% of all revenue, can improve profit significantly.

Fast adjustments made to changing regulations:
Industry players must monitor changes to government regulations in areas such as food safety and handling; otherwise, they may incur fines or risk losing their operating license.

Ability to franchise operations:
Franchising in both the United States and overseas is now a significant component of this industry and can provide necessary support to owners. Maintaining a quality franchisee/franchise relationship is crucial for the success of these operations.

Cost Structure Benchmarks



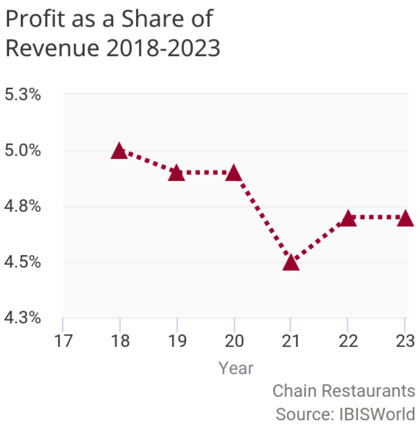
Profit

Chain restaurants remain as margin businesses with minimal profit

• Chain restaurant profit is measured as earnings before interest and taxes; larger restauranteurs benefit significantly from economies of scale, while smaller chains frequently struggle.

• Restaurants are low-profit businesses, selling menu items for only moderately more than the cost to manufacture them; this strategy works well during high-demand periods but struggles during downturns.

• COVID-19 hit many restaurants hard enough to create negative profit, though the following demand spike in 2021 brought significant income back to chains.



Wages

Table-service restaurants rely on labor supply more than any other food provider

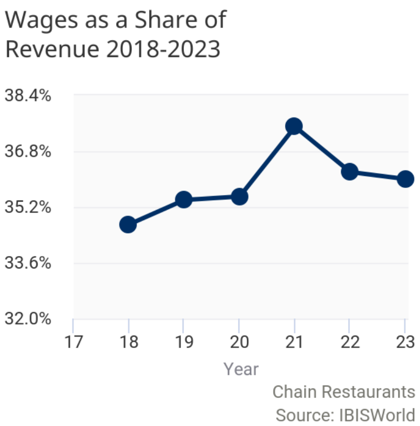
• Wages and associated labor costs represent the chain restaurant's second-biggest cost; the labor-intensive nature of food preparation, cooking, serving and busing tables cannot easily be automated.

• These costs include wages and benefits, such as health insurance, workers' compensation and unemployment insurance.

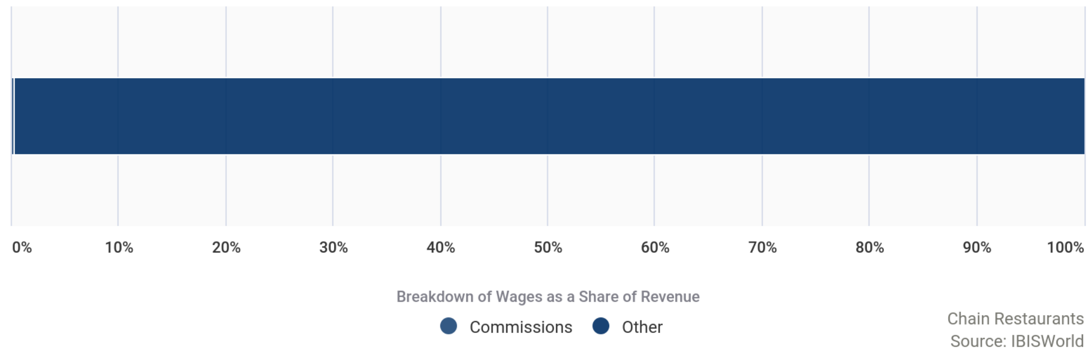
• Menu prices and chain restaurant profitability for each establishment are affected by labor intensity, as increased labor costs cannot simply be passed directly onto consumers in the form of higher prices: the high elasticity of demand will drive consumers to substitute eateries.

• During the pandemic, many establishments reduced labor by way of furloughs as a result of diminished demand and operating limitations; some government assistance, including the Coronavirus Aid, Relief and Economic Security (CARES) Act, kept some crews on payrolls.

• A rising expectation of significant, frequent tips has alleviated wage spending marginally, but the negative sentiment surrounding tips may encourage the elimination of tipping altogether.



Wages Breakdown (% of Total Wages in 2023)

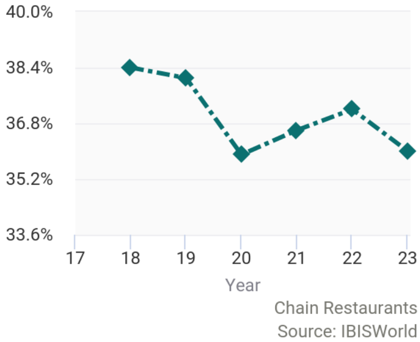


Purchases

Food purchase costs have risen with inflation, forcing price increases

• Food and beverages are usually purchased from wholesalers or local producers, particularly those that can guarantee prompt delivery and quality food products; these purchases are the highest cost for some chain restaurant establishments.
• In the short-term, food cost spikes cannot be passed onto the consumer or client; even a necessary price increase in the long-term may be met by balking and unhappy customers.
• In contrast, restaurants can more easily adjust the cost of inputs by canceling expensive dishes or secretly reducing the number of ingredients in a process known as “shrinkflation.”
• The other primary source of inefficiency is waste follows fluctuations in restaurant traffic, as any excess ingredients that restauranteurs cannot use will typically spoil or diminish in quality.
• The pandemic has damaged efficiencies in food production: the prices of many inputs, especially fresh meat, have increased, spiking purchase expenses.

Purchases as a Share of Revenue 2018-2023

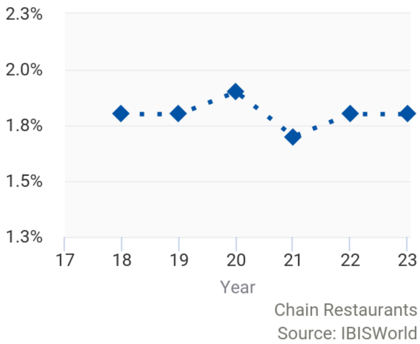


Marketing

Marketing costs drive consumers into chains and away from alternatives

• Marketing expenses vary significantly among chain restaurant restauranteurs.
• Some larger national chains spend lavishly on TV and internet advertising, while others rely on their food and service quality to generate mindshare.
• Overall marketing budgets will remain low as the popularity of hyper-targeted, lower-cost internet advertisements rises.

Marketing as a Share of Revenue 2018-2023

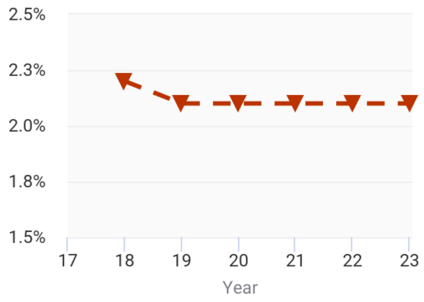


Depreciation

Kitchen equipment and buildings drive depreciation spending

• Restaurant chain owners in the chain restaurant are subject to capital expenditure, including commercial kitchen equipment, store fixtures and fittings, furniture, crockery and cutlery.
• Depreciation is much higher for restaurateurs that own the building they operate; in contrast, some larger chains have realized that holding a portfolio of prime commercial land can generate an alternative solid income and offset the higher cost.
• For this reason, depreciation has remained relatively stagnant as a share of chain restaurant revenue.

Depreciation as a Share of Revenue 2018-2023



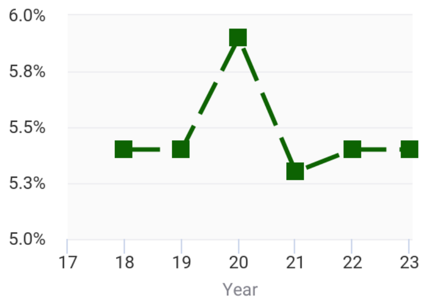
Chain Restaurants
Source: IBISWorld

Rent

High-traffic locations command significant rent premiums

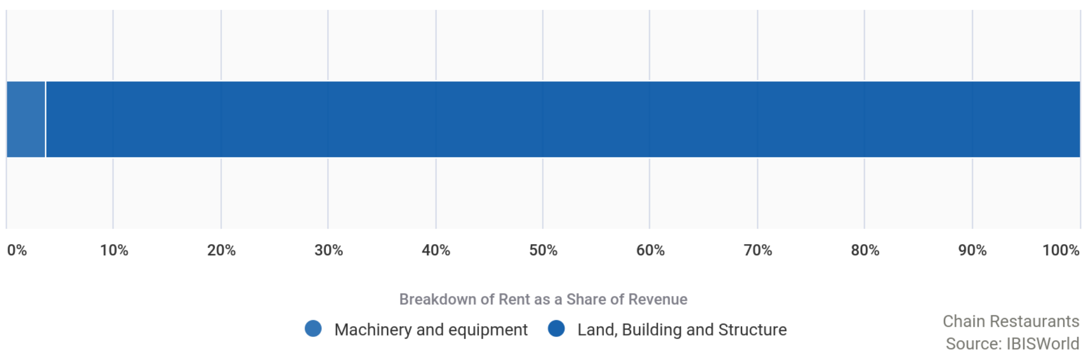
• Rent expenses are high for the industry because of the need for locations in high-traffic areas with high visibility.
• Some chains derive a significant fraction of total revenue from real estate investing and pay no rent costs.
• The average price for commercial real estate has risen, increasing this cost as a fraction of total spending.

Rent as a Share of Revenue 2018-2023



Chain Restaurants
Source: IBISWorld

Rent Breakdown (% of Total Rent in 2023)



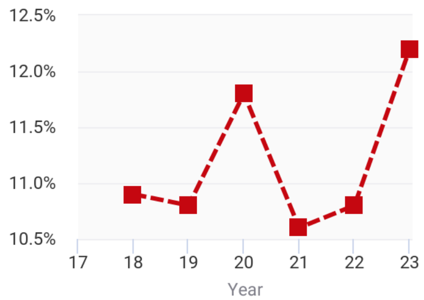
Chain Restaurants
Source: IBISWorld

Other Costs

Franchise fees dominate other costs

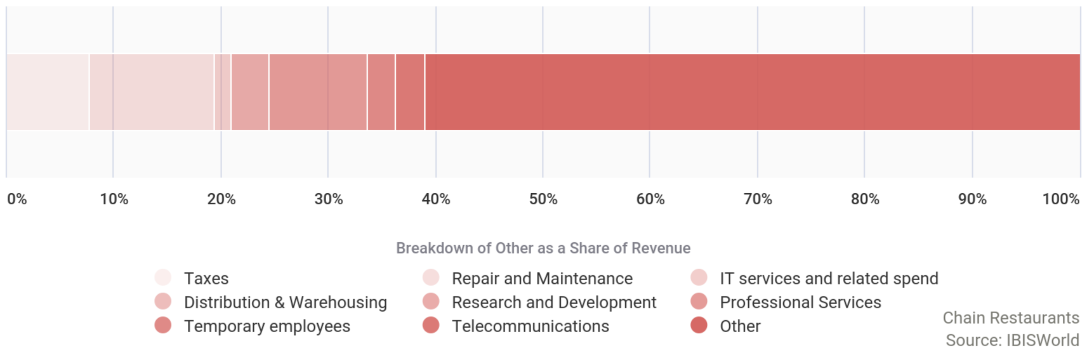
• Restauranteurs in this chain restaurant are subject to various other costs, including franchise fees, administrative costs and kitchen cleaning services.
• Due to the high number of franchised businesses operating in the chain restaurant, franchise royalties and other fees are a significant proportion of chain restaurant revenue.
• Chains with different operators have franchise fees as a fixed cost of between $20,000 and $50,000 annually, or the fees are four to nine percent of gross revenue.

Other Costs as a Share of Revenue 2018-2023



Chain Restaurants
Source: IBISWorld

Other Breakdown (% of Total Other in 2023)



Basis of Competition

Competition in this industry is ⚠ High and the trend is Increasing

The industry exhibits a high level of overall competition.

Restaurateurs are required to compete with other brands within the chain restaurant and against restauranteurs in other sectors within the broader food service subsector, such as single-location full-service restaurants, coffee shops, bars and hotel restaurants. Throughout the pandemic, both internal and external competition intensified as dining out became highly difficult and risky. In particular, competitive pressures from home cooking and meal kit services intensified as consumers avoided dining out and as restaurants were forced to limit capacity. Meanwhile, restauranteurs who quickly adapted to limited dine-in service by focusing on convenience, quality and safety were able to compete far more effectively.

INTERNAL COMPETITION

Chain restaurants compete mildly with each other based on price, food quality, convenience and service quality.

Eating at chain restaurant establishments is highly discretionary, making consumers inherently price sensitive regarding the products and services provided by the chain restaurant. Restauranteurs must offer competitive menu pricing while maintaining quality food products and customer service. As a result of the high level of competition within the chain restaurant, profit is low for most restauranteurs, necessitating stringent cost and quality controls to maintain efficiency and minimize waste. Restauranteurs also contend with solid competition based on quality. Premium ingredients and well-presented meals are both highly regarded and can make a difference to consumers, who often judge a restaurant by how it compares with others. Restauranteurs that offer products and service levels of higher quality can charge slight premiums on their products as consumers are typically willing to pay more for the enhanced dining experience.

Restaurants compete based on location, style, ambiance, hospitality and service. More than ever, restaurants are selling and marketing the experience of a meal to potential customers. As social media has entered the food and beverage segment, plating dishes, following online food trends and offering a photo-friendly space, have become critical. As a result, the operator must understand their position in the marketplace and the clientele they are attracting or want to attract. Most of all, the restaurant must consistently deliver on customers' product expectations and effectively respond to any complaints.

EXTERNAL COMPETITION

Heavy external competition arises from the broader food service sector.

This includes independent single-establishment restaurants that offer dining and takeout services (IBISWorld report 72211b), fast food restaurants (report 72221a) and a variety of counter-service food establishments (reports 72221b to 72241). In addition, other retailers that serve food, such as convenience stores, supermarkets and meal kit services (reports 44511 to 44531 & OD6152) also compete with restaurant chains indirectly. While food demand as a whole is highly inelastic, demand for chain restaurants remains relatively elastic. When economic conditions are gloomy, consumers are more likely to trade down to lower-cost food options instead of frequenting chain restaurant operations, putting pressure on chain restaurants to lower prices. The variety of dining options outside this chain restaurant provide consumers with many choices when seeking a meal. As the food services sector grows, the level of external competition will also increase significantly due to the rising number of external establishments, especially those that offer higher convenience and lower prices.

Independent restaurants that also service customers while seated and consumers pay after eating provide the most direct threat to chain restaurant restauranteurs. These establishments may offer the same or similar menu offerings and cater directly to local tastes in a way that chain establishments typically cannot. Independent restaurants can sometimes provide a friendlier dining experience, as guests can casually interact with the owners or the chef, which is abstracted away from franchised and chain operations. However, chain establishments benefit from surviving much harsher local economic climates than single-service operations, economies of scale and widespread brand recognition.

The most significant competition is from consumers deciding to cook more in-home meals, particularly through difficult economic times. In recent years, the competition from meals consumed at home has increased with the introduction of meal-kit delivery and grocery delivery services to the broad market. After the pandemic, most supermarkets and mega marts began to offer some form of grocery delivery subscription that minimizes the time cost of going to the store responsible for many trips to chain restaurants. Companies such as Blue Apron and HelloFresh take this convenience further and deliver meal kits directly to consumer homes, providing the fresh ingredients needed to cook a specific meal in perfectly proportioned containers and easy-to-follow instructions. Both of these alternatives, bolstered by the pandemic and healthy eating trends, are anticipated to create challenges for chain restauranteurs by decreasing consumer interest in eating out.

Barriers to Entry

Barriers to Entry in this industry are ⊖ Medium and the trend is Steady

Legal

New restauranteurs must research and apply for a food handling permit distributed by the applicable local or state agency; for establishments serving alcohol, a liquor license is also required. New applicants must also carefully review OSHA regulations and submit to inspections by the local health authority.

Start-Up Costs

While start-up costs vary wildly, most food service locations will need to purchase/rent food preparation equipment, pay a lease, establish relationships with suppliers, get approved for insurance and train employees. If connected to a franchise, the franchisee may handle these costs. Either way, start-up costs for a single location often exceed $25,000.

Differentiation

Restaurants differentiate themselves from other dining options by providing table service and complex food offerings. Within the realm of sit-down restaurants, differentiation can be achieved with higher quality food, more pleasant service or a unique cuisine offering.

Labor Intensity

Finding enough labor to prepare and serve food safely is a significant hurdle. Safe food preparation is not extensive or expensive, but bringing many new staff members up to speed can take resources a new business is unlikely to have extra of. Franchises skirt this problem by integrating themselves with national hiring initiatives.

Barriers to Entry Checklist

Competition	High ⚠
Concentration	Low ✓
Life Cycle Stage	Mature ⊖
Technology Change	Medium ⊖
Regulation & Policy	Heavy ⚠
Industry Assistance	Medium ⊖

Industry Globalization

Globalization in this industry is ⊝ Medium and the trend is Increasing

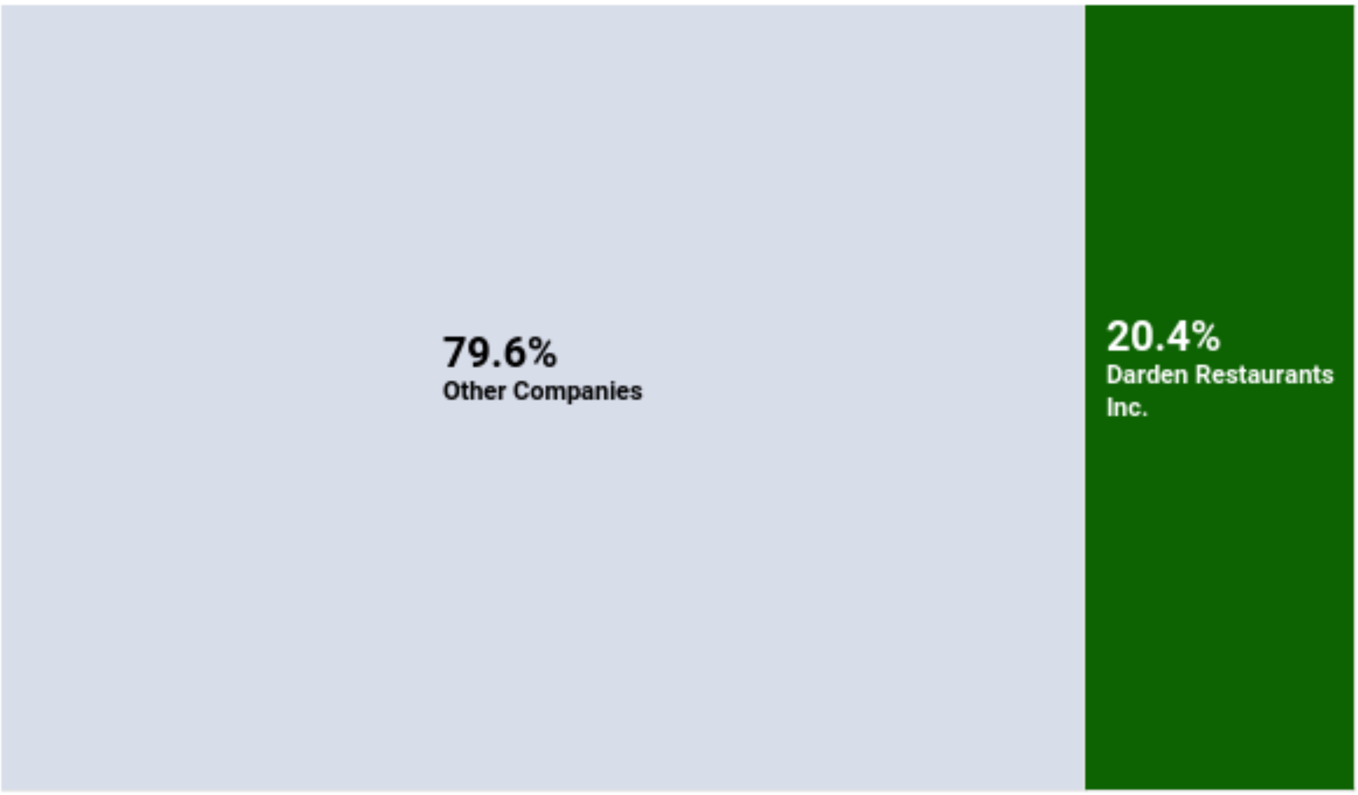
Most operators in the industry exhibit a low level of globalization because they are US-owned and earn the majority of sales from domestic activity. Consumer preferences vary significantly enough across international borders that many brands struggle to expand without substantially changing menu options, opening a new international subsidiary or purchasing an existing local player. There are, however, some large chain and franchised restaurant restauranteurs, including Brinker International and Dine Brands Global (formerly DineEquity), that have international establishments.

Due to significant competition and the expected subdued domestic growth opportunities, a shift toward international operations will likely continue. There are currently no major foreign restauranteurs in this chain restaurant. Global expansion is anticipated to continue as restaurants focus on specific areas of expertise and food concepts and styles held by each major operator. This move offers them the opportunity to raise the pace of revenue growth, employment and earnings since direct competition is lower in many emerging and high-growth countries. In addition, some of these countries, including China, attract a significantly expanding population of middle-income households.

Major Companies

Market Share Overview

Breakdown of Industry Market Share (2021)



Source: IBISWorld, Chain Restaurants

Related Companies

Competitors	Company Type	Employee Segment	Revenue ($m)	Market Share (%)	Profit ($m)
Darden Restaurants	Rising Star	500+ Employees	8,968.1 ▲	20.44 ▲	889.9 ▲

Companies with 5.0% industry market share are displayed in the PDF version of this report. You can view insights for all companies associated with this industry on my.ibisworld.com

Darden Restaurants Inc.

Company Overview

Brands & Trading Names

Cheddar's Scratch Kitchen Smokey Bones BBQ Seasons 52 Yard House The Capital Grille Bahama Breeze Olive Garden LongHorn Steakhouse Red Lobster

Description

Darden Restaurants is a public company headquartered in Florida with an estimated 178,956 employees. In the US, the company has a notable market share in at least three industries: Accommodation and Food Services, Chain Restaurants, Premium Steak Restaurants and Accommodation and Food Services. Their largest market share is in the Chain Restaurants industry, where they account for an estimated 20.4% of total industry revenue and are considered a Rising Star because they display lower market share, but displaying stronger profit and revenue growth than some of their peers.

COMPANY TYPE	Public Company
TOTAL COMPANY REVENUE	$9.0bn
EMPLOYEES	178,956

Other Industries

Premium Steak Restaurants in the US

Analyst Insights

Darden announces business update amid COVID-19 (coronavirus)
Amid the coronavirus outbreak in March 2020, Darden’s restaurants saw a huge loss as individuals were under stay-at-home orders. As it became apparent what the situation was, Darden shut down all of their dining rooms and began to operate their restaurants in a to-go only capacity. In order to support their staff that typically worked in their dining rooms, the company rolled out a three-week emergency pay program. More than 99.0% of their restaurants remained opened and Olive Garden and LongHorn Steakhouse saw a double and triple increase, respectively, in to go sales. Stores that did close were because of operational constraints. https://investor.darden.com/news/news-details/2020/Darden-Restaurants-Provides-Business-Update-Related-to-COVID-19-And-Announces-New-Term-Loan-2020-4-7/default.aspx

COVID

Darden Restaurants Inc. completes several divestments and acquisitions
In early 2015, Darden Restaurants Inc. (Darden) agreed to sell its struggling Red Lobster brand to Golden Gate Capital for $2.1 billion; this deal was finalized in July 2015. In 2017, Darden purchased the brand Cheddar's Scratch Kitchen from a private equity firm. This acquisition adds Cheddar's to the company's portfolio of brands and has since increased Darden's total restaurant count by 165 locations. Cheddar's Scratch Kitchen prides itself on making all of its meals from scratch with quality ingredients. This strategy attracts customers by catering to a growing share of the population that has become increasingly health conscious. https://www.prnewswire.com/news-releases/darden-restaurants-completes-acquisition-of-cheddars-scratch-kitchen-300444276.html

COVID M&A

Darden Restaurants Inc.

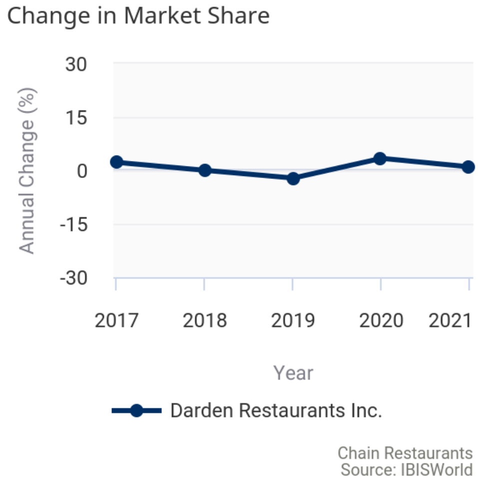
Company Overview

Industry Market Share, Revenue and Profit

Market Share

20.44%
Current Year (2021)

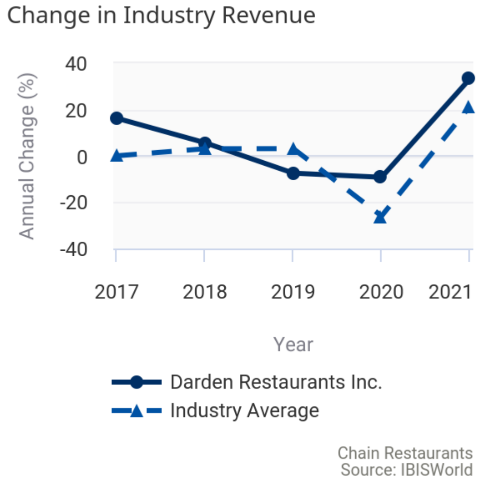
2.2%
Annual Growth (2017–21)



Industry Revenue

$9.0bn
Current Year (2021)

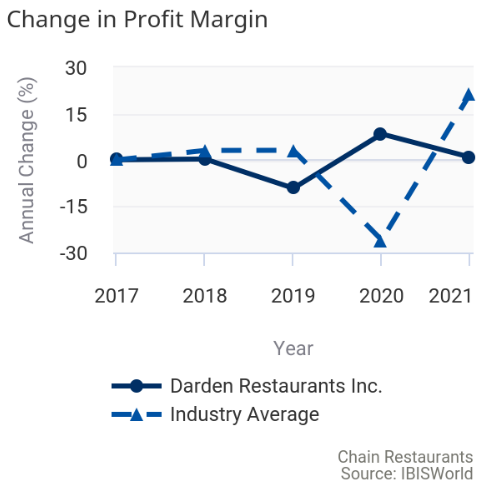
4.3%
Annual Growth (2017–21)



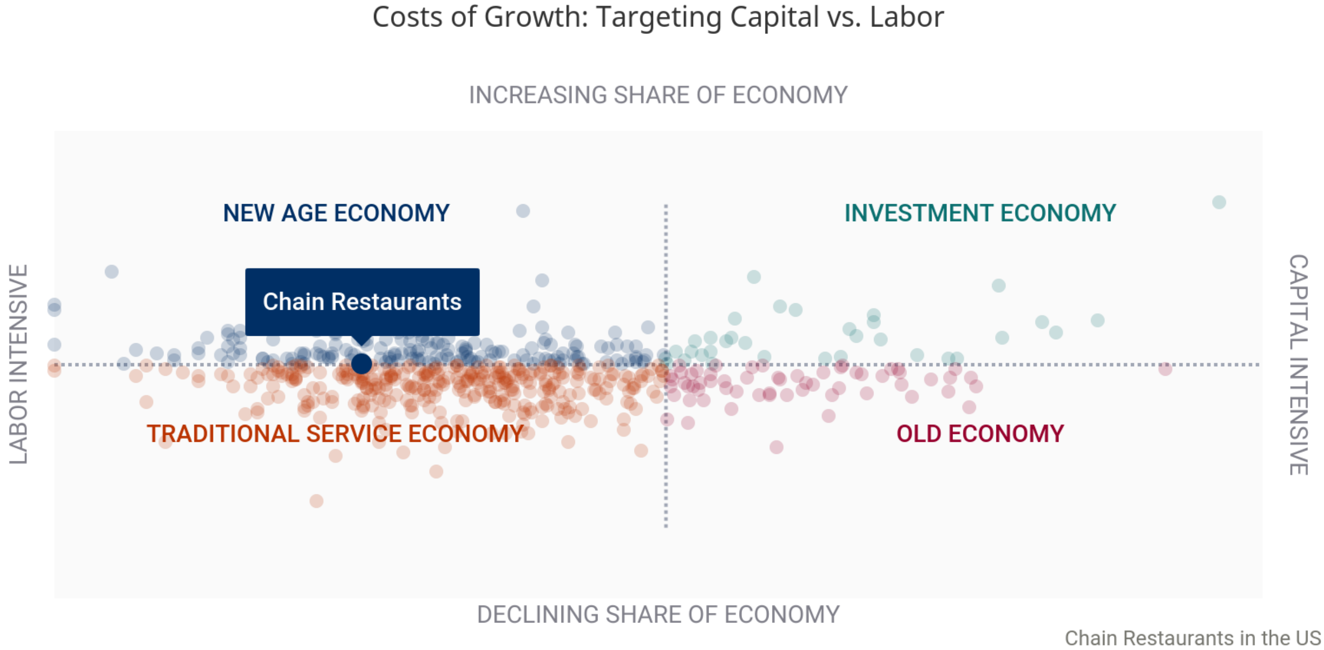
Profit Margin

9.92%
Current Year (2021)

0.4%
Annual Growth (2017–21)



Operating Conditions



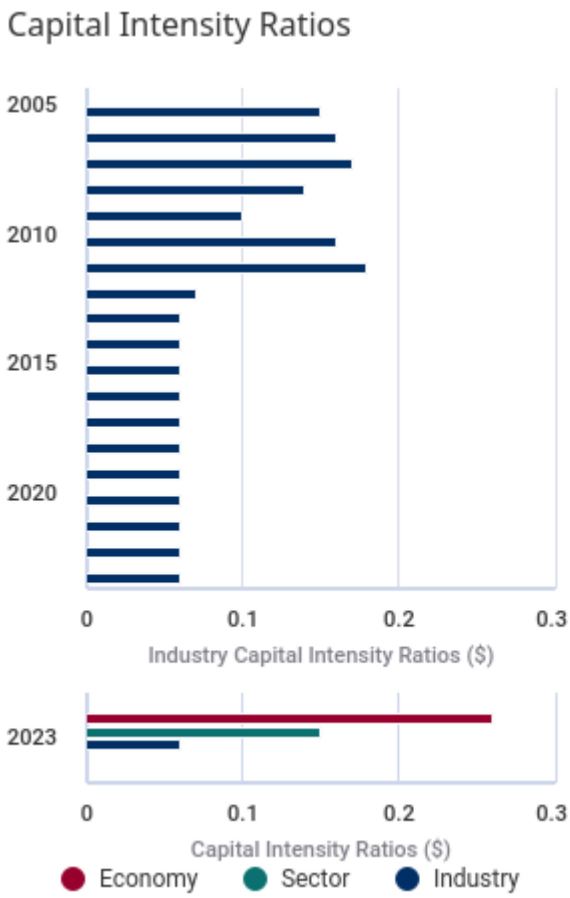
Chain Restaurants in the US
Source: IBISWorld

Capital Intensity

The level of capital intensity is ✓ **Low**

The industry has a low level of capital intensity. For every $1.00 spent on wages, restauranteurs allocate $0.06 toward replacing buildings and equipment in 2022. This represents no change from the capital intensity in 2018. Restauranteurs heavily depend on direct labor input across all operations, including ordering, delivery, food preparation, liquor and other beverage sales, cooking, serving, cleaning and management. This labor is not easily replaced by technology, as consumers dining at full-service establishments have expectations shaped by decades of dining history in terms of quality and level of service. Substituting labor for human-centered functions like serving may alter the consumer experience, erasing some of the added value that full-service restaurants provide compared to fast food franchises.

Still, labor productivity augmentation can freely benefit from investment in technology, namely electronic customer ordering systems, delivery networking apps, automatic dishwashers and online payment collection frameworks. These processes have increasingly been implemented amid the pandemic as restaurants provided online menus and ordering systems to limit staff and patron exposure to the virus.



Chain Restaurants
Source: IBISWorld

Technology & Systems

Potential Disruptive Innovation: Factors Driving Threat of Change

Level	Factor	Disruptive Effect	Description
Very Low	Rate of Innovation	Very Unlikely	A ranked measure for the number of patents assigned to an industry. A faster rate of new patent additions to the industry increases the likelihood of a disruptive innovation occurring.
Very Low	Innovation Concentration	Very Unlikely	A measure for the mix of patent classes assigned to the industry. A greater concentration of patents in one area increases the likelihood of technological disruption of incumbent operators.
Medium	Ease of Entry	Potential	A qualitative measure of barriers to entry. Fewer barriers to entry increases the likelihood that new entrants can disrupt incumbents by putting new technologies to use.
High	Rate of Entry	Likely	Annualized growth in the number of enterprises in the industry, ranked against all other industries. A greater intensity of companies entering an industry increases the pool of potential disruptors.
Very Low	Market Concentration	Very Unlikely	A ranked measure of the largest core market for the industry. Concentrated core markets present a low-end market or new market entry point for disruptive technologies to capture market share.

The industry is experiencing a low level of both the rate of new patents and the concentration of patents in the industry. This creates an environment where the threat of new technologies driving disruption is low.

The industry structure creates a moderate level of entry barriers, which is coinciding with a high rate of new competitors entering the industry. This high rate of entry creates a significant pool of potentially disruptive entities and the industry structure does not significantly affect their growth potential.

Major market segments for industry operators are relatively diversified. The spread of market segments suggests that there are limited entry points other than those already served my incumbent operators.

The industry has been mildly disrupted by technological advancements over the past five years, primarily due to the pandemic's intense pressures.

New point-of-sale systems, mobile ordering and delivery platforms, while historically limited to fast food establishments, experienced accelerated deployment as the pandemic necessitated contactless ordering and pickup. Evolving consumer preferences are also pushing chain restaurant restauranteurs to combine the lower costs of fast food, the quality of prepared-to-order food and the customization options of buffet-line food into a new category of fast casual eatery: chains such as Sweetgreen, CAVA and Blaze Pizza are all bringing in significant dollars and attention by following this model made famous by Chipotle. Multiple smaller chains have also developed mobile applications to make advanced loyalty programs more accessible to consumers and generate consumer data to sell as a secondary revenue stream.

While ghost kitchens, shared kitchens or autonomous food-making have not significantly entered the sit-down restaurant space, these technologies are anticipated to be highly disruptive. While kitchens without any attached ordering or seating area and connected to customers exclusively via delivery apps existed before the pandemic, high delivery costs typically outstripped any convenience benefit. These “ghost” kitchens have since become the backbone of many new smaller restaurant concepts and expansion by major fast food players including Wendy's. Shared kitchen technology operates similarly to ghost kitchens. Existing restaurants with excess kitchen capacity can now lease out its talent and culinary equipment to restauranteurs that will sell on delivery apps without changing the experience for seated diners. Chain restaurant restauranteurs Applebee's and Cracker Barrel both have launched the Cosmic Wings and Chicken 'N Biscuits brands respectively with this model. Finally, while current food assembly robots primarily serve as an entertainment attraction, the potential labor cost savings has initiated significant research into wider deployments. This technology is unlikely to affect operations for many years.

The level of technology change is ⊖ Medium

The industry regularly leverages technology to reduce labor and food costs to increase sales.

Operators also use technology to improve business processes, support growth, maintain current operations and improve meal experiences.

Quality of service

The majority of technological adoption by the industry includes new systems and processes that are designed to promote quality service and reduce customer wait time.

Wireless electronic ordering systems that link front-of-the house orders to kitchen meal preparation are an example of such innovation. The increasing sophistication of internet and mobile technologies have also enabled industry players to reach wholesalers and suppliers online, with supplier orders placed automatically by inventory management systems. This has enabled increased efficiencies in coordinating supplies and other prefabricated food items.

Larger chains also use data networks to send and receive business data to and from restaurants and to monitor and analyze all aspects of the business. Through data analytics, operational efficiencies can be identified and improved upon throughout a company's network of stores.

Point-of-sale systems

Most operators now have point-of-sale systems in stores to speed up service, which helps lead to larger purchases on average and cuts down on labor costs.

Retailers are increasingly accepting credit card payments through devices such as Square, which connect directly to the store's tablet device and facilitates ease of transaction. Customers can sign with their finger on a touchscreen rather than with a pen and have the receipt emailed to them. Some restaurants have adopted mobile technology, enabling the ordering of coffees and food items via mobile applications and websites. Amid the COVID-19 pandemic, this technology has become more widely adopted as restaurants seek point-of-sale systems that limit contact and exposure risk.

Social media

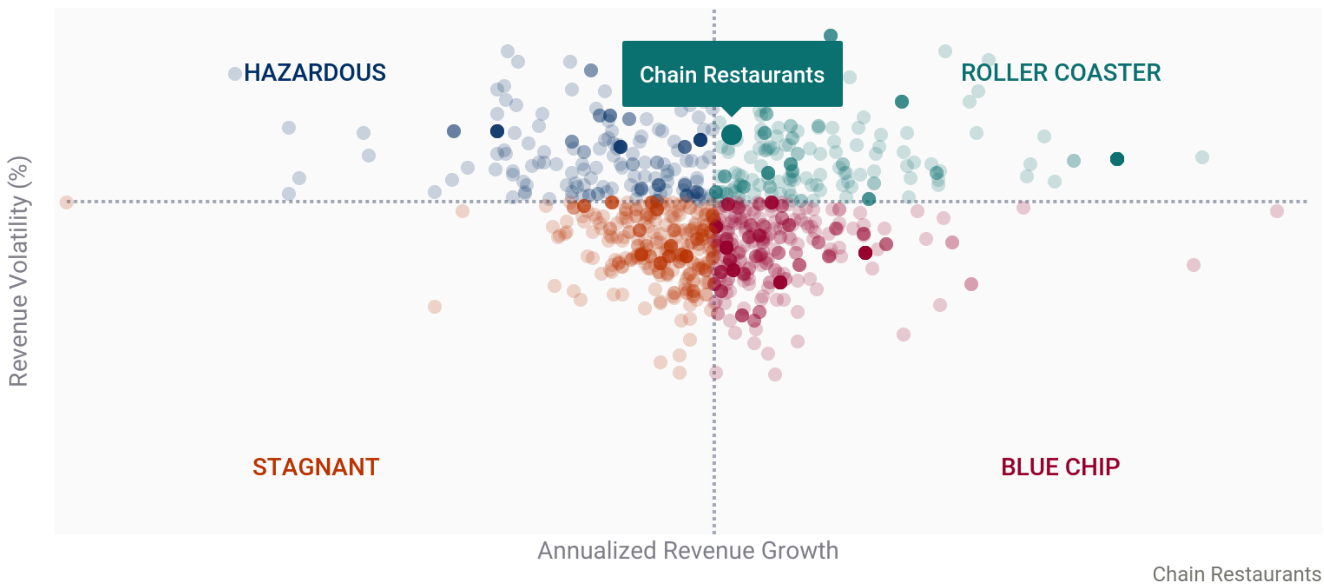
Technology has also aided chain restaurants with marketing.

Social media platforms such as Facebook, Twitter and Instagram permit savvy operators to connect directly with customers and tailor their brand's message to target fragmented consumer segments. Marketing with influencers is also taking off as a way for brands to add a human feel to marketing efforts.

Revenue Volatility

The level of volatility is ⚠ High

Volatility vs. Growth



Chain Restaurants
Source: IBISWorld

Large sizes and broad tastes stabilize a highly discretionary chain restaurant

- **The diversity of foods served by the chain restaurant helps keep volatility under control in nominal years; restauranteurs still capture the revenue if tastes defer from one type of food toward another.**
- **Overall, restaurant spending is highly discretionary and is easily substituted for lower-cost options, including home-cooked meals or fast-food alternatives (IBISWorld Report 72221a).**
- **In the long run, chains maintain the highest stability among restaurant options, as revenue has fallen for only three of the prior 20 years (all coinciding with global recessions).**

Chaos at ports spoils chain restaurant stability

- **The United States imports almost a sixth of its global food supply; when queues began forming outside ports across the United States and truck driver shortages delayed food shipping, many restaurants had to eat the cost of the delayed or spoiled food product.**
- **These costs varied dramatically from month to month across locations, making budgeting more difficult.**

Skyrocketing volatility during the pandemic adds to restauranteur stress

- **The pandemic created the single-largest drop in year-to-year revenue in the chain restaurant industry's history when stay-at-home mandates, social distancing orders and cratering consumer confidence all combined in the summer of 2020.**
- **Nearly every chain frantically cut costs and expanded delivery options to prevent establishments from closing.**
- **Meanwhile, consumers quickly grew tired of either cooking every meal at home or ordering fast food, so when vaccines were introduced in early 2021 and restrictions were loosened, customers rushed to book reservations with chain restauranteurs.**

Regulation & Policy

The level of regulation is ⚠ Heavy and the trend is Increasing

Food safety and standards grow tighter, especially for chains

The chain restaurant is subject to laws and regulations relating to the preparation and sale of food, including restrictions regarding product safety, nutritional content and menu labeling. The primary agency responsible for providing guidance and regulation is the United States Food and Drug Administration (FDA). The FDA's Model Food Code, a best-practice guide to food handling and presentation, applies to this chain restaurant and is updated annually. The FDA Nutritional Value applies as well. Since 1996, FDA regulations have set standards for the nutritional values of individual foods and meals. If claims like 'low-fat' or 'heart-healthy' are on a menu, an owner must be able to demonstrate to officials that there is a reasonable basis for the claim; for instance, the meal may be based on a recipe from a health association or a recognized dietary group. Complete nutritional information is not required to be on menus.

The Affordable Care Act (ACA) and ensuing Calorie Count laws require restaurant chains with 20 or more locations to disclose calorie information on menus as of May 2018. The Food and Drug Administration has also passed rules to implement a provision requiring restaurants to provide more detailed nutrition information upon request. Restaurants have had mixed reactions to this legal action, with some chains focusing on producing lower-calorie options and others changing little.

Tipping battle erupts during restaurant employee hiring rollercoaster

The chain restaurant employs many young and low-skilled workers at hourly rates and, therefore, is subject to minimum wage and employee benefits regulations. Workers in the United States are entitled to no less than the statutory minimum wage, which is currently $7.25 per hour. Each state also formulates and regulates its minimum wage, with some states implementing rates higher than the federal rate, especially following the pandemic.

The implementation of the ACA had a minor effect on the chain restaurant. Employers with 50 or more employees working 30 hours a week must provide healthcare coverage or pay a fine. However, only 11.7% of restauranteurs employ 50 or more staff members, and many of these locations are the most prominent chains that already provide healthcare coverage.

Tipped work is relatively common in chain restaurant establishments: employees who interact directly with customers still must earn the minimum wage, but most of these employees' paychecks now come from customers and not from the employer. Employees may be required to pool tips to be shared with all tipped employees or contribute a percentage of tips of more than $30 per month back to their employer. Rules vary significantly by state.

With inflation cutting into employee tips, many states are reinvestigating a forced elimination of the federal tip credit. Food service workers in many states are only entitled to the federal minimum wage of $7.25 after tips instead of their state's higher minimum wage. Restaurants and the public fight whether elimination would reduce incentives for quality service and revenue generation or simplifying bills by eliminating tips would increase overall compensation without cutting income.

Smoking bans clear the air inside most restaurants

Smoking laws are typically enforced at the state level, as the United States Congress has not attempted to enact any nationwide federal smoking ban. Smoking is banned in many states in restaurants, bars and nonhospitality workplaces, and some local jurisdictions prohibit smoking in outdoor areas. Each jurisdiction has developed legislation separately; however, most laws are relatively consistent. There are some differences in the circumstances in which ventilated smoking rooms are permitted and the distance to which smoking is banned outside a building. California was the first state to enact a statewide ban on smoking in public spaces, with most other states imposing a ban in the mid-to-late 2000s.

Franchising disclosure laws

A large proportion of chain restaurant establishments are operated under franchise agreements. There are both federal and state laws governing franchising that vary from state to state. Franchising is regulated at the national level by the United States Federal Trade Commission (FTC) and applied in any region within the United States. At the state level, various state agencies regulate franchises. Still, a state's franchise laws usually only apply if the sale of a franchise is made in the form and not if the franchise operates offices or an unrelated location there.

Under the FTC Franchise Rule, there are three elements of a franchise: the franchise has a trademark under which the franchisee is given the right to distribute goods and services; the franchisor has significant control of or provides significance to the franchisee's method of operation; and the franchisee is required to pay the franchisor at least $500.00 within the first six months of opening for business. Each of these elements is affected by legislation ensuring that customers can know about the franchise agreement, that assets from the franchise are licensed appropriately and that the deal is not predatory to either party.

Food safety laws

From farm to table, food preparation restrictions abound. Restauranteurs must store and prepare food at proper temperatures, sanitize surfaces, control pests, label accurately and keep logs for routine inspections. Agencies are also cracking down on untraceable foodstuffs, cutting wage theft and requiring the availability of nutrition information. While restrictions do hamper profit, they are understood to uphold consumer trust in the prepared food system.

The battle for “streeteries”

The tens of thousands of hastily built, on-street dining sheds that comply with COVID distancing requirements are conditionally permanent in many major cities, bringing additional space and revenue opportunities to restaurants and food contractors. As a trade-off, restrictions are tightening: rat-accessible tents, rotting wooden sheds and lack of permits all paint the streetery in a negative light. New York City, Portland, OR and Philadelphia, PA, lead this novel dining experiment.

Liquor licensing laws

Many food service contractors serve alcoholic beverages and must comply with applicable licensing and state and local service laws, commonly called dram shop statutes. Said statutes prohibit serving alcoholic beverages to certain persons such as an individual that is intoxicated or a minor. Nationally, a restaurant cannot legally serve alcohol to individuals under 21, but restaurants don't want to admit that methods of evading this rule are well-known in many teenage circles.

Environmental regulations and waste oil disposal guidelines
Restaurants using large quantities of oil are prohibited from draining it into public sewers or dumping it outside, where the oil would cause environmental damage. Instead, contractors must schedule waste oil pickup services. Many regions require periodic cleaning of kitchen vents, stoves, floors and other oily surfaces to comply with fire code.

Industry Assistance

The level of industry assistance is ⊖ Medium and the trend is Decreasing

COVID-19 revitalization funds
As the pandemic crushed in-person food sales, the US Small Business Association stepped in to provide $9.5 billion in relief with forgivable loans. Targeted at single-location and nonemployer food vendors, up to $5.0 million for single-location businesses and $10.0 million for chain vendors alleviated payments for payroll, leasing, utilities and supplies. States also established similar programs, though the aggregate funds were quickly exhausted, and national revitalization efforts did not pass the Senate.

The Employee Retention Tax Credit (ERTC)
Restaurants forced to close during COVID and relying on the $5,000 per-employee tax credit were horrified when the program designed to run through 2021 was terminated two months early with the passage of the Infrastructure Investment and Jobs Act. In February 2022, the Senate re-introduced a bill to fund early termination, but it remains indefinitely stalled.

The National Restaurant Association (NRA)
The industry's primary lobbying group is the National Restaurant Association (NRA). Its current projects include advocating for the Ocean Shipping Reform Act's passage, eliminating tariffs on Chinese food goods, addressing the truck driver shortage and increasing legal pathways for immigrants to help restaurant owners. The NRA also provides industry news, writes restaurant reports, and provides supplementary training for restaurant staff.

Key Statistics

Industry Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)	Consumer spending ($b)
2014	47,747	19,669	36,891	296	745,703	N/A	N/A	16,327	N/A	11,515
2015	51,055	21,153	37,298	301	769,995	N/A	N/A	17,579	N/A	11,893
2016	51,284	22,116	36,828	305	768,304	N/A	N/A	18,014	N/A	12,188
2017	51,297	21,687	36,555	310	757,675	N/A	N/A	17,737	N/A	12,478
2018	52,877	22,134	37,099	316	765,709	N/A	N/A	18,327	N/A	12,837
2019	54,527	23,106	37,537	319	768,487	N/A	N/A	19,294	N/A	13,092
2020	40,367	17,156	36,892	315	556,199	N/A	N/A	14,320	N/A	12,701
2021	48,997	21,642	37,298	318	637,133	N/A	N/A	18,360	N/A	13,754
2022	55,705	24,013	39,377	335	694,749	N/A	N/A	20,191	N/A	14,091
2023	57,090	24,499	39,959	340	706,333	N/A	N/A	20,561	N/A	14,139
2024	57,511	24,660	40,363	343	710,414	N/A	N/A	20,687	N/A	14,345
2025	58,510	25,029	40,993	349	719,963	N/A	N/A	20,981	N/A	14,586
2026	59,509	25,397	41,631	354	729,563	N/A	N/A	21,276	N/A	14,785
2027	60,423	25,749	42,264	359	738,692	N/A	N/A	21,555	N/A	15,008
2028	61,210	26,185	42,984	366	753,266	N/A	N/A	21,951	N/A	15,109

Annual Change

Year	Revenue (%)	IVA (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)	Consumer spending (%)
2014	5.66	3.73	1.06	1.71	2.83	N/A	N/A	3.05	N/A	2.70
2015	6.92	7.54	1.10	1.68	3.25	N/A	N/A	7.66	N/A	3.27
2016	0.44	4.55	-1.27	1.32	-0.22	N/A	N/A	2.47	N/A	2.47
2017	0.02	-1.95	-0.75	1.63	-1.39	N/A	N/A	-1.54	N/A	2.38
2018	3.07	2.06	1.48	1.93	1.06	N/A	N/A	3.32	N/A	2.87
2019	3.12	4.39	1.18	0.94	0.36	N/A	N/A	5.27	N/A	1.98
2020	-26.0	-25.8	-1.72	-1.26	-27.6	N/A	N/A	-25.8	N/A	-3.00
2021	21.4	26.1	1.10	0.95	14.6	N/A	N/A	28.2	N/A	8.29
2022	13.7	11.0	5.57	5.34	9.04	N/A	N/A	9.97	N/A	2.45
2023	2.48	2.02	1.47	1.49	1.66	N/A	N/A	1.83	N/A	0.33
2024	0.73	0.66	1.01	0.88	0.57	N/A	N/A	0.60	N/A	1.45
2025	1.73	1.49	1.56	1.74	1.34	N/A	N/A	1.42	N/A	1.67
2026	1.70	1.47	1.55	1.43	1.33	N/A	N/A	1.40	N/A	1.36
2027	1.53	1.38	1.52	1.41	1.25	N/A	N/A	1.30	N/A	1.50
2028	1.30	1.69	1.70	1.94	1.97	N/A	N/A	1.83	N/A	0.67

Key Ratios

Year	IVA/Revenue (%)	Imports/ Demand (%)	Exports/ Revenue (%)	Revenue per Employee ($'000)	Wages/ Revenue (%)	Employees per estab. (Units)	Average Wage ($)
2014	41.2	N/A	N/A	64.0	34.2	20.2	21,895
2015	41.4	N/A	N/A	66.3	34.4	20.6	22,829
2016	43.1	N/A	N/A	66.8	35.1	20.9	23,446
2017	42.3	N/A	N/A	67.7	34.6	20.7	23,410
2018	41.9	N/A	N/A	69.1	34.7	20.6	23,935
2019	42.4	N/A	N/A	71.0	35.4	20.5	25,106
2020	42.5	N/A	N/A	72.6	35.5	15.1	25,747
2021	44.2	N/A	N/A	76.9	37.5	17.1	28,817
2022	43.1	N/A	N/A	80.2	36.2	17.6	29,063
2023	42.9	N/A	N/A	80.8	36.0	17.7	29,110
2024	42.9	N/A	N/A	81.0	36.0	17.6	29,119
2025	42.8	N/A	N/A	81.3	35.9	17.6	29,141
2026	42.7	N/A	N/A	81.6	35.8	17.5	29,163
2027	42.6	N/A	N/A	81.8	35.7	17.5	29,179
2028	42.8	N/A	N/A	81.3	35.9	17.5	29,141

Figures are inflation adjusted to 2023

Industry Financial Statement

					Historical Average		
Industry Multiples	**2018**	**2019**	**2020**	**2021**	**3-Year**	**5-Year**	**10-Year**
EBIT/Revenue	4.0	3.1	11.9	8.0	7.7	6.0	5.3
EBITDA/Revenue	7.7	6.6	18.1	13.5	12.8	10.5	9.1
Leverage Ratio	8.0	10.2	5.5	7.4	7.7	8.1	8.2
Industry Tax Structure	**2018**	**2019**	**2020**	**2021**	**3-Year**	**5-Year**	**10-Year**
Taxes Paid/Revenue	1.0	0.9	2.4	2.3	1.9	1.6	1.5
Income Statement	**2018**	**2019**	**2020**	**2021**	**3-Year**	**5-Year**	**10-Year**
Total Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Business receipts	98.6	99.0	99.1	95.5	97.8	98.1	98.1
Cost of goods	64.5	63.7	56.9	54.9	58.5	60.3	61.2
Gross Profit	35.5	36.3	43.1	45.1	41.5	39.7	38.8
Expenses							
Salaries and wages	11.6	12.4	12.7	12.6	12.6	12.4	12.3
Advertising	1.0	1.0	1.9	1.6	1.5	1.3	1.3
Depreciation	1.1	0.9	2.2	2.4	1.9	1.6	1.5
Depletion	0.5	0.3	0.2	0.1	0.2	0.2	0.1
Amortization	2.1	2.3	3.8	3.0	3.0	2.6	2.2
Rent paid	1.5	1.8	2.8	2.9	2.5	2.3	2.4
Repairs	0.9	0.9	0.5	0.3	0.6	0.7	0.7
Bad debts	0.1	0.2	0.3	5.5	2.0	1.7	1.0
Employee benefit programs	2.1	2.1	5.2	6.3	4.5	3.6	2.8
Compensation of officers	2.5	2.8	14.5	17.5	11.6	8.1	5.5
Taxes paid	1.0	0.9	2.4	2.3	1.9	1.6	1.5
Interest Income	0.3	0.1	0.1	0.1	0.1	0.2	0.3
Other Income							
Royalties	0.9	0.9	0.9	0.5	0.7	0.7	0.7
Rent Income	2.1	2.2	0.0	0.0	0.8	1.2	1.3
Net Income	2.5	1.8	3.3	3.3	2.8	2.4	2.2
Balance Sheet	**2018**	**2019**	**2020**	**2021**	**3-Year**	**5-Year**	**10-Year**
Assets							
Cash and Equivalents	3.3	0.6	6.7	6.1	4.5	4.5	5.0
Notes and accounts receivable	8.4	5.2	11.6	14.4	10.4	9.1	7.7
Allowance for bad debts	0.1	0.1	1.1	1.0	0.7	0.6	0.5
Inventories	29.4	19.6	22.9	24.8	22.5	24.3	25.1
Other current assets	2.1	1.2	4.6	4.7	3.5	3.5	3.9
Other investments	54.3	34.6	25.4	16.6	25.5	32.4	35.1
Property, Plant and Equipment	55.1	47.8	41.7	48.0	45.8	40.2	46.6
Accumulated depreciation	32.0	27.8	27.5	32.1	29.1	25.8	17.9
Intangible assets (Amortizable)	32.7	34.6	23.2	18.2	25.3	25.4	26.4
Accumulated amortization	13.3	8.8	5.5	3.9	6.0	6.6	7.0
Other assets	9.4	1.9	8.4	7.4	5.9	7.2	6.9
Total assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Accounts payable	13.8	13.0	8.8	11.2	11.0	10.5	9.9
Liabilities and Net Worth							
Mort, notes, and bonds under 1 yr	13.2	8.5	13.3	14.2	12.0	12.0	10.2
Other current liabilities	1.1	8.1	8.4	6.8	7.8	6.6	7.0
Loans from shareholders	37.4	40.8	10.3	8.8	19.9	23.1	25.0
Mort, notes, bonds, 1 yr or more	40.1	40.0	41.2	41.7	41.0	36.0	22.3
Other liabilities	17.1	16.0	10.1	10.5	12.2	12.7	9.9
Total liabilities	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Capital stock	7.2	8.4	6.6	1.4	5.5	6.4	7.5
Additional paid-in capital	37.2	67.8	33.4	19.2	40.1	42.2	52.2
Retained earnings, appropriated	0.6	1.2	0.6	0.4	0.7	0.8	0.9
Retained earnings-unappropriated	17.1	16.0	18.7	23.3	19.3	16.9	14.2
Cost of treasury stock	30.9	25.8	14.1	13.2	17.7	17.8	14.7
Net worth	53.0	60.8	28.2	19.9	36.3	37.9	37.2

Liquidity Ratios	**2018**	**2019**	**2020**	**2021**	**3-Year**	**5-Year**	**10-Year**
Current Ratio	1.6	0.9	1.6	1.6	1.4	1.5	1.6
Quick Ratio	0.5	0.3	0.9	0.9	0.7	0.7	0.7
Sales/Receivables	19.3	28.2	8.6	6.9	14.6	18.6	27.0
Days' Receivables	18.9	12.9	42.3	52.5	35.9	27.8	21.1
Days' Inventory	102.4	76.0	147.1	165.1	129.4	115.5	105.2
Inventory Turnover	3.6	4.8	2.5	2.2	3.2	3.5	3.7
Payables Turnover	7.6	7.2	6.5	4.9	6.2	8.8	10.2
Days' Payables	47.9	50.4	56.3	74.3	60.3	49.9	41.9
Sales/Working Capital	6.6	12.3	3.7	3.3	6.4	6.5	6.6
Coverage Ratios	**2018**	**2019**	**2020**	**2021**	**3-Year**	**5-Year**	**10-Year**
Interest Coverage	380.8	303.5	264.8	219.0	262.4	256.6	335.3
Debt Service Coverage Ratio	1.5	1.7	4.9	3.8	3.5	2.8	3.3
Leverage Ratios	**2018**	**2019**	**2020**	**2021**	**3-Year**	**5-Year**	**10-Year**
Fixed Assets/Net Worth	2.6	2.0	3.8	5.5	3.8	3.1	3.0
Debt/Net Worth	1.9	1.6	3.5	5.0	3.4	3.1	3.0
Tangible Net Worth	0.5	0.6	0.3	0.2	0.4	0.4	0.4
Operating Ratios	**2018**	**2019**	**2020**	**2021**	**3-Year**	**5-Year**	**10-Year**
Return on Net Worth, %	12.4	7.4	42.4	40.2	30.0	24.3	23.2
Return on Assets, %	6.6	4.5	11.9	8.0	8.2	7.3	7.2
Sales/Total Assets	1.6	1.5	1.0	1.0	1.2	1.4	1.5
EBITDA/Revenue	7.7	6.6	18.1	13.5	12.8	10.5	9.1
EBIT/Revenue	4.0	3.1	11.9	8.0	7.7	6.0	5.3
Cash Flow & Debt Service Ratios (% of sales)	**2018**	**2019**	**2020**	**2021**	**3-Year**	**5-Year**	**10-Year**
Cash from Trading	28.6	39.0	46.5	43.6	43.0	39.5	38.8
Cash after Operations	8.4	25.3	12.0	7.2	14.8	14.5	16.6
Net Cash after Operations	12.1	19.8	14.4	8.7	14.3	14.9	16.2
Debt Service P&I Coverage	1.2	2.5	0.6	0.4	1.2	1.4	1.7
Interest Coverage (Operating Cash)	22.2	58.4	2.3	3.6	21.4	22.7	21.0

Source: IRS SOI Tax Stats; US Census Bureau; IBISWorld

Additional Resources

Additional Resources

National Restaurant Association
http://www.restaurant.org

Nation's Restaurant News
http://www.nrn.com

US Census Bureau Economic Statistics
http://www.census.gov/econ

National Retail Federation’s National Council of Chain Restaurants
http://www.nrf.com/about-us/national-council-chain-restaurants

International Franchise Association
http://www.franchise.org

Technomic Foodservice Insights
http://www.technomic.com

Industry Jargon

AVERAGE CHECK
The average amount of money spent per check at an industry establishment.

CHAIN RESTAURANTS
Restaurants owned and directly operated by a single company.

COMPARABLE STORE SALES
A retail measure used to assess the true performance of retail outlets by taking out the effect of new store openings and only examining the sales growth of existing stores.

FAST-CASUAL RESTAURANTS
Self-service restaurants offering higher quality offerings, sometimes prepared to order, at a higher price point than traditional quick-service restaurants.

FRANCHISED RESTAURANTS
Restaurants with concepts sold to the individual operator. Franchisees receive ordering, marketing, training and financial and management support from the franchiser.

Glossary

BARRIERS TO ENTRY
High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY
Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labor; medium is $0.125 to $0.333 of capital to $1 of labor; low is less than $0.125 of capital for every $1 of labor.

CONSTANT PRICES
The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the "real" growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the US Bureau of Economic Analysis’ implicit GDP price deflator.

DOMESTIC DEMAND
Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT
The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE
A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT

The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS
Total value of industry goods and services sold by US companies to customers abroad.

IMPORTS
Total value of industry goods and services brought in from foreign countries to be sold in the United States.

INDUSTRY CONCENTRATION
An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE
The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA)
The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE
The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%, medium is 5% to 20%, and high is more than 20%. Imports/domestic demand: low is less than 5%, medium is 5% to 35%, and high is more than 35%.

LIFE CYCLE
All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT
Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT
IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

REGIONS
West | CA, NV, OR, WA, HI, AK
Great Lakes | OH, IN, IL, WI, MI
Mid-Atlantic | NY, NJ, PA, DE, MD
New England | ME, NH, VT, MA, CT, RI
Plains | MN, IA, MO, KS, NE, SD, ND
Rocky Mountains | CO, UT, WY, ID, MT
Southeast | VA, WV, KY, TN, AR, LA, MS, AL, GA, FL, SC, NC
Southwest | OK, TX, NM, AZ

VOLATILITY
The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES
The gross total wages and salaries of all employees in the industry.

Call Preparation Questions

Role Specific Questions

Sales & Marketing

Restaurants are selling and marketing the experience of a meal to potential customers. How does your company market deal on e-commerce sites, such as Groupon, to generate new customers?

Promotional offerings and exposure to consumers can increase brand loyalty and frequency of patronization.

Younger diners are increasingly seeking purpose with their meals. This can range from eating sustainably to trying out the latest internet food trend for themselves. Being aware of the popular interests in your region may help draw in new customers.

How do review sites, such as Yelp and Google Reviews, impact sales? How is your team trained to find and respond to customer complaints?

Generating positive reviews through superior customer service can help increase foot traffic and pique the interest of first-time consumers.

Ensuring customer complaints are dealt with professionally and expediently is more important than ever, as several negative reviews may turn a potential customer to visit a competitor.

Strategy & Operations

Restaurants that have a large number of establishments and provide a wide range of services are able to attract and retain new customers. Have you considered acquisitions to achieve higher operating efficiencies?

Acquisitions can help increase scale and enhance segment portfolios in order to diversify revenue streams.

Ensuring all acquisitions are able to fit within your existing supply chain will minimize costs in the long run.

Rent expenses are high for restaurants in the industry due to the need for locations in high traffic areas with high visibility. This can include a location near the main thoroughfare or in a high foot traffic location. Is your company located in high-traffic areas to increase visibility?

Locating in high density areas ensures a steady stream of demand for industry operators.

In addition to vehicle traffic, operators and franchisees should consider pedestrian activity, convenience to offices, and transit proximity when selecting a location for both customers' and employees' benefit..

Technology

Multiple restaurant chains have developed their mobile applications to make loyalty programs more accessible to consumers. Does your company leverage mobile booking applications to streamline the booking process?

Developing an online ordering experience could lure a larger amount of customers and help lower overall lead times.

Creating a custom mobile application may take a higher up-front investment than partnering with a delivery app, but may give your restaurant an exclusive feel and more detailed customer insights.

Most operators now have point-of-sale systems in stores to speed up service, which helps lead to larger purchases on average and cuts down on labor costs. What point-of-sale systems (i.e. Square) does your company use to reduce labor costs?

Automating point-of-sale systems either entirely or for a fraction of transactions minimizes reliance on labor.

Customers visiting full-service restaurants are often more interested in human interaction. Make sure any labor-reducing technology does not get in the way of human connection with customers.

Compliance

The industry is subject to laws and regulations relating to the preparation and sale of food. What measures does your company take to ensure all employees are compliant with food handling and safety laws?

Regulations regarding product safety, nutritional content and menu labeling vary between municipalities.

Food safety laws have changed significantly in the past five years. Make sure to check local, state and national regulations frequently to ensure compliance, and consider anticipating future regulations with current improvements.

The industry employs a high number of young and low-skilled workers. Is your company compliant with the varying labor regulations across states?

The industry employs a high number of workers at hourly rates and, therefore, is subject to minimum wage and employee benefits regulations.

Labor laws have changed significantly in the past two years as a result of the pandemic. Make sure to check local, state and national regulations frequently to ensure compliance.

Finance

Fluctuations in the cost of food and liquor significantly affect industry revenue and profit. In the short term, many cost increases cannot be passed onto the consumer or client. Therefore, menus, portion sizes and other inputs into food services have to be continuously monitored. How does your company's inventory turnover rate compare to your major competitors?

Supply-chain efficiency is crucial to maintaining a competitive edge over others.

Changing parts of your menu seasonally to lower ingredient costs and waste has the added benefit of drawing repeat customers back in.

The highly competitive nature of the industry means most operators can only access slim profit. How do your company's profit margins compare to your main competitors'?

Achieving lower profit margins amid heightened competition suggests that inefficiencies may exist in a company's supply chain in relation to its major competitors.

Changing your restaurant to fit a market niche may induce demand and draw customers in from competing establishments.

External Impacts Questions

Impact: National unemployment rate

Following the COVID-19 pandemic, many employees were reluctant to return to work across numerous service industries. How are your establishments promoting available employee positions? Have your locations implemented any labor-saving technologies?

Minimum wages and employee benefits have slowly been increased across many service sectors to draw employees back.

Addressing employee concerns about health (both mental and physical) has also been demonstrated to attract new employees, especially younger workers.

If you have available resources, investing in labor saving technology will help insulate costs from changes in wage spending.

Impact: Per capita disposable income

Households earning more than $100,000 annually and with high per-capita disposable income are expected to increase in 2022. Do you target wealthy consumers and business clients with money to spend? If so, do you plan to pivot to target a different demographic?

Full-service restaurants typically draw their customers from higher-income households.

Changing your establishment's decor and menu to attract a clientele on the higher end of your region's income spectrum will likely bring in more revenue while lowering costs.

Impact: Number of motor vehicle registrations

With fuel and vehicle prices spiking, how have your establishments positioned themselves to maximize opportunistic dining? Are your establishments located near population centers, office parks, interstate exits or transit stops that potential diners are already visiting?

Consumers are less likely to make special trips to chain restaurants in 2022 due to the high cost of vehicle ownership and fuel prices.

As motor vehicle registration growth plateaus in the next decade and consumer sentiment favors walking, biking and public transit, are your establishments location in optimal areas to entice these consumers to enter your establishments?

Internal Issues Questions

Issue: Ability to control stock on hand

The major source of inefficiency is waste due to fluctuations in demand, an oversupply of meals or excess ingredients that cannot be used and are subsequently spoiled. How do you maintain optimum stock levels? What factors affect demand and stock levels?

Controlling orders, stock and food waste, which are major cost areas, can improve profit.

Changing menus to leverage fresher ingredient alternatives usually increases the cost of holding stock, but may also draw in a younger clientele focused on sustainability, health and nutrition in dining.

Issue: Ability to quickly adopt new technology

In general, the food service sector experiences a moderate level of technological change that varies among the different services and products provided to consumers. However, there are various low-cost options that assist store efficiency. How quickly do you adopt new technology? What are the associated costs? Does your company keep up to date with the latest technological trends in the restaurant industry?

A shift to delivery-focused eateries has allowed operators of new and existing establishments to lease out unused kitchen capacity to diversify income while not affecting dine-in customers.

Smaller chains are now building out their own mobile applications and digital payment systems to increase satisfaction, especially among younger diners.

Issue: Access to multiskilled and flexible workforce

Wages and associated labor costs represent the industry's single biggest cost. Wages are high due to the labor-intensive nature of food preparation, cooking, serving and busing tables. How do you attract and retain skilled employees? Are there channels for promotion and career development within your company?

Access to suitably skilled and trained staff is required to meet peak customer demand periods.

Since the food service industry experiences high turnover of many workers, optimizations such as efficient interviews, frequent pay schedules and expedited training are of larger importance.

Restaurants with high swings in seasonal demand may want to consider ensuring their establishments are up to date with labor trends to draw in a younger workforce.

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