

QUICK SERVICE RESTAURANTS US, MARCH 2021



MİNTEL

EXECUTIVE SUMMARY





QUICK SERVICE RESTAURANTS STOOD TO BENEFIT THE MOST FROM THE COVID-19 CRISIS THANKS TO THEIR AFFORDABILITY AND THEIR LONGSTANDING INVESTMENTS IN DRIVE-THRU, TAKEOUT AND DELIVERY. THEY'RE ALSO VIEWED AS THE SAFEST AND MOST CONVENIENT MEAL SOLUTION FOR MANY AMERICAN FAMILIES RIGHT NOW AND FOR THE FORESEEABLE FUTURE. QSRs WILL NEED TO CONTINUALLY INVEST IN THEIR OFF-PREMISE SERVICES AND THEIR EMPLOYEES IN ORDER TO PROSPER IN THE YEARS AHEAD.

Jill Failla, Senior Foodservice Analyst



Top takeaways

QSRs come out ahead during pandemic but competitors are closing in

QSRs are the quickest of any foodservice segment to recover consumer purchases overall during the pandemic. This quick recovery has helped boost the entire LSR subsegment to prepandemic sales levels in 2021, stealing notable market share from FSRs in the interim. Competitors are taking note of QSRs' winning strategies and investing in them at unprecedented speeds. Speed and safety are increasingly important convenience pillars. Fast food needs to get even faster to remain on top.

Cater to core customers with more convenient, automated off-premise options

In addition to staying ahead of competitors, QSRs also need to optimize convenience for their core customers. Gen Zs drive the need for speed and drive-thru options at QSRs, and at least half of all Millennial fast food customers prefer avoiding interaction with QSR employees and are fine with QSRs doing away with the on-premise dining room option altogether. These important cohorts demonstrate growing demand for off-premise-only locations and more automated and personalized ordering and purchasing methods.

QSRs shouldn't ignore or underestimate the power of brand ethics

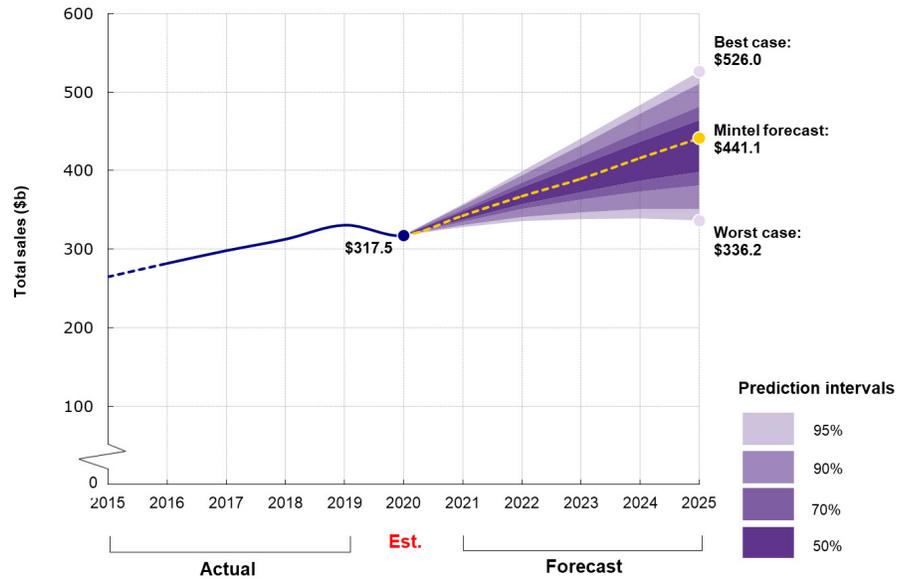
One shortcoming of QSRs in 2021 is their brand ethics perception, starting with their treatment of employees, which the majority of QSR customers say needs improvement. These needs came to further public light amid the racial unrest of 2020, and QSRs came under more scrutiny for their lack of benefits, living wages and COVID-19 protections that negatively impacted their employees of color, in particular. QSRs that invest in their employees stand to gain a more smoothly operating business overall and more loyal, long-term young customers.

Market overview

The LSR market, which includes QSRs and fast casual restaurants, experienced a notable loss of revenue in 2020 due to the pandemic. Many Americans replaced foodservice with grocery purchases, resulting in an estimated 4.0% decline to a \$317.5 billion industry. However, thanks to this segment’s prior investments in takeout and delivery as well as its lower price points and stronger value positioning, the LSR segment is well outperforming its FSR counterpart during the pandemic. For these same reasons, LSRs will also steal notable market share from FSRs over the next five years, from 51% in 2019 to 54% in 2025.

Mintel forecasts LSRs to quickly recover sales to prepandemic levels in 2021, with QSRs driving the sales rebound. QSR sales represented the vast majority of the Top 200 LSR industry at 86.9% in 2019 (see Market Breakdown), and they are currently better suited to meet consumers’ off-premise and low-price demands than their fast casual counterparts.

FIGURE 1: TOTAL US SALES AND FAN CHART FORECAST OF LIMITED-SERVICE RESTAURANTS*, AT CURRENT PRICES, 2015-25



* limited-service restaurants, cafeterias, grills/grill buffets, and snack/non-alcoholic beverage bars

Source: based on US Census Bureau, Annual Retail Trade Survey; US Bureau of Economic Analysis/Mintel

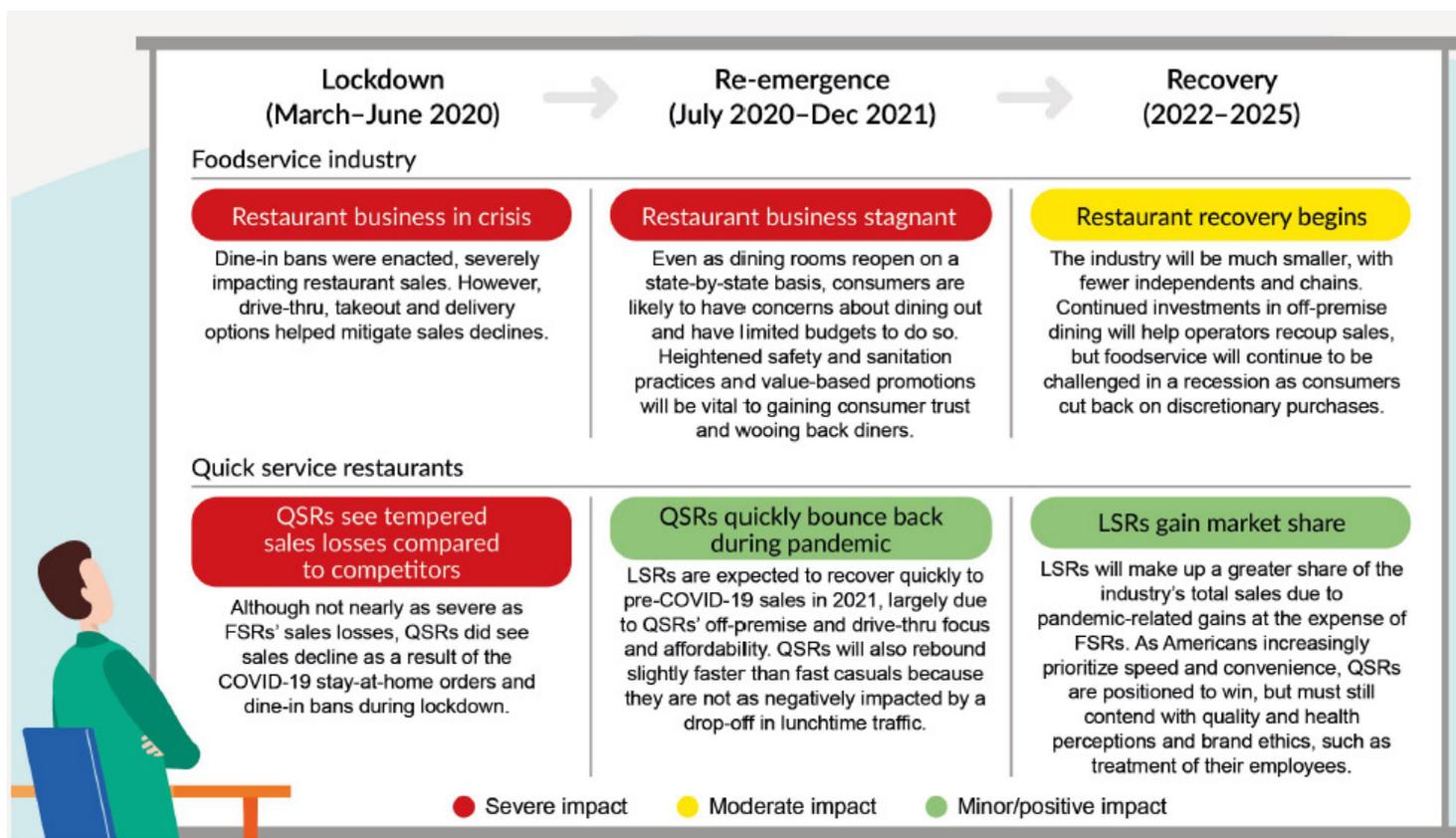
Impact of COVID-19 on quick service restaurants

Just as with all restaurants, quick service ones felt a steep drop in visitation and sales during lockdown, with so many Americans following stay-at-home orders. However, quick service restaurants began bouncing back far faster than all of their competitors

in the latter half of 2020 thanks to their safe, convenient and well-known off-premise services, such as the drive-thru, as well as their affordable price points. As leading QSRs continue to perfect and improve these strengths, they are well positioned for future growth in terms of both sales and market share in 2021 and beyond.

The following Figure provides a traditional stoplight analysis of the impact of COVID-19 on quick service restaurants, which includes Mintel’s analysis for when we anticipate consumer behavior to resume to more normal or traditional levels prior to COVID-19.

FIGURE 2: SHORT-, MEDIUM- AND LONG-TERM IMPACT OF COVID-19 ON QUICK SERVICE RESTAURANTS, MARCH 2021



Source: Mintel

Opportunities and challenges

Fast food recovers fastest from pandemic challenges thanks to safety advantages

QSRs were the quickest to recover purchases from consumers during the pandemic compared to any other foodservice segment, and they are the driving force behind LSRs' 2021 sales rebound. The reason for fast food's swift recovery after the COVID-19 outbreak and government stay-at-home orders is due primarily to their strong safety perception. This enhanced safety perception is thanks to their historic focus on lower-contact ordering and purchasing methods, from the drive-thru lane to delivery service – especially with fast food pizza chains.

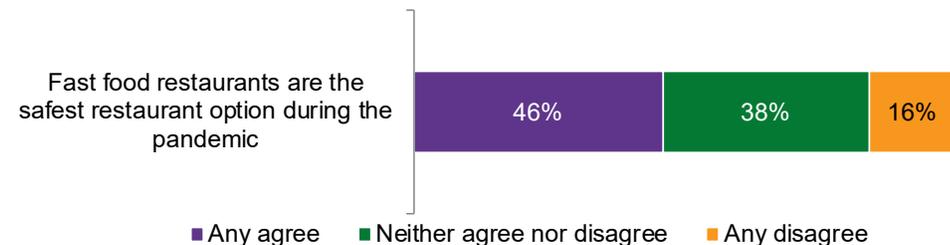
In this way, safety has become a core pillar of convenience during the pandemic, since the speedier and more convenient an ordering or purchasing method is, the less likely it is to require human contact. QSR competitors figured out this competitive advantage very early on, and they have since been making huge investments in safety and convenience amenities as well, compelling QSRs to further innovate and invest, rather than resting on their laurels.

Digital ordering usage takes off at QSRs, opening up new doors

Although comparing a more engaged QSR customer base in January 2021 (ie who visited in past three months) to a less-engaged one (ie who visited in past 12 months) before the pandemic, the striking changes in the QSR technology experience still reveal how the pandemic has permanently affected QSR technology. Fast food consumers have much greater usage and intent to reuse rates for preordering technology as a result of the pandemic, driven roughly equally by website preordering and mobile app preordering. This shift is again largely driven

FIGURE 3: QSR ATTITUDES – NET AGREEMENT, JANUARY 2021

“How much do you agree or disagree with the following statements about fast food restaurants?” – NET agreement

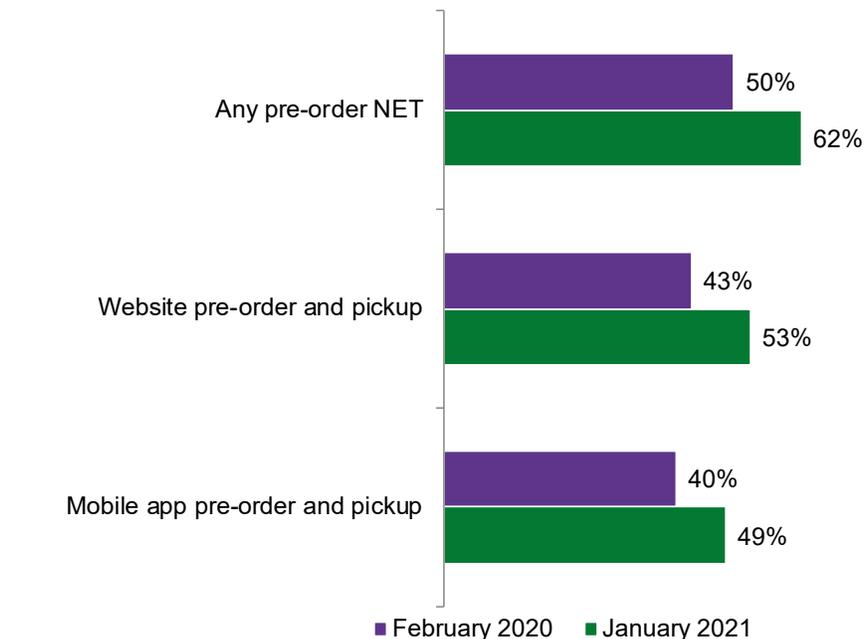


Base: 1,403 internet users aged 18+ who have visited a QSR in the last three months

Source: Lightspeed/Mintel

FIGURE 4: QSR TECHNOLOGY EXPERIENCE, FEBRUARY 2020 AND JANUARY 2021

“How would you describe your usage of, and interest in, the following technologies offered by fast food restaurants?” [Have used and would like to use again]



Base: 1,861 internet users aged 18+ who visited a fast food restaurant in past 12 months as of February 2020; 1,403 internet users aged 18+ who have visited a QSR in past three months as of January 2021

Source: Lightspeed/Mintel

by the safety and convenience benefits of preordering/digital ordering, which reduces the need for human engagement.

This tech adoption greatly benefits QSRs looking to gather more valuable consumer data to inform their business decisions and

launch more personalized marketing efforts. Increased preordering trends should also help boost general restaurant mobile app usage as well as restaurant mobile-based loyalty program usage – especially as more QSR loyalty programs become available.

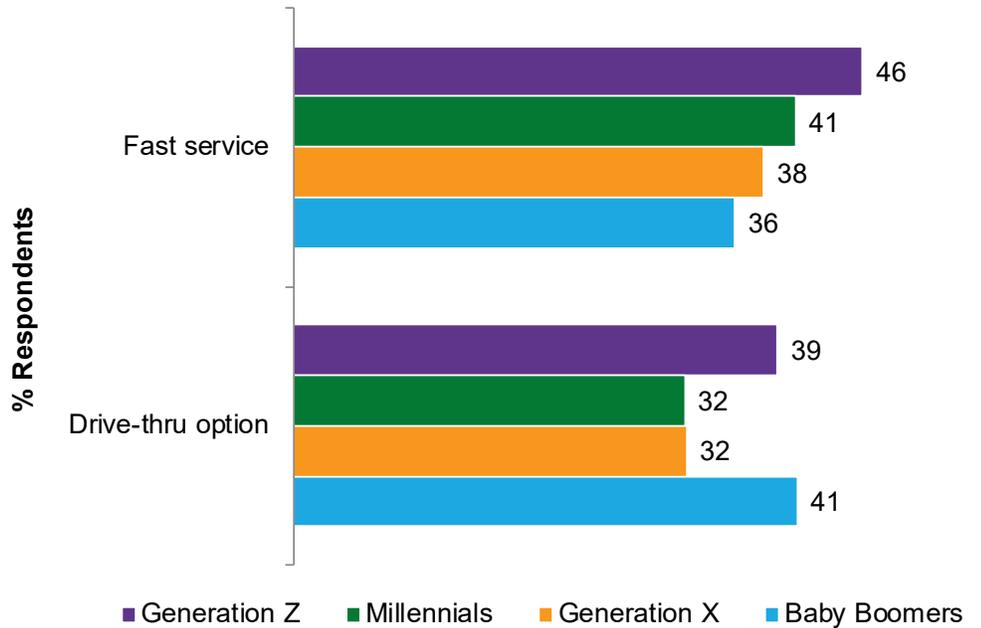
Fast food needs to get even faster to appease Gen Z

When choosing a fast food restaurant, Gen Zs tend to care more than other generations do about fast service and a drive-thru option, the latter of which is usually thought of as a fast service option or time-saver as well. Interestingly, Baby Boomers are roughly equally as likely as Gen Zs in early 2021 to say the drive-thru is important to their fast food dining decision, which is likely for safety reasons during the pandemic.

As Gen Zs age, their demand for speed will grow alongside their increased career and familial obligations and alongside their spending power, making it of increasing importance to QSRs. Moreover, Gen Zs are actually the least satisfied of any generation with their current fast food drive-thru experience (see QSR Drive-Thru Experience), indicating a huge opportunity for QSRs to immediately begin improving their drive-thru speed, accuracy and convenience. QSRs should look to automation to solve for some of these issues, including preordering options for a dedicated drive-thru lane, additional drive-thru lanes with automated food delivery (eg via a conveyer belt) and automated drive-thru menu boards with personalized suggestions.

FIGURE 5: FACTORS FOR CHOOSING A QSR – NET ANY RANK, BY GENERATION, JANUARY 2021

“Besides price, which of the following are most important to you when choosing a fast food restaurant? Please select and rank up to three in order of importance, with 1 being most important.” [NET – Any rank]



Base: 1,403 internet users aged 18+ who have visited a QSR in the last three months

Source: Lightspeed/Mintel

Many Millennials are OK with QSRs ditching the dining room

Millennials are the most frequent fast food customers (see QSR Ordering Frequency), drawn to them in part for their kid-friendly positioning, since this cohort makes up the majority of young parents in 2021. As their core customers, QSRs should note that most Millennials prefer to avoid interacting with employees when they purchase fast food, and about half also agree that QSRs don't need to provide a dining area, which is a significantly higher agreement rate than other generations.

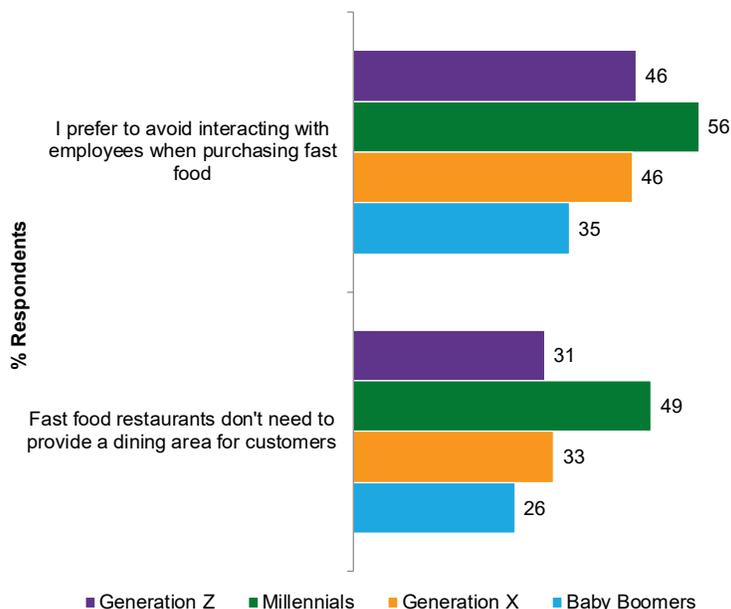
As a result, QSRs have ample opportunity to continue to test and roll out takeout- and delivery-only concepts, drive-thru-only concepts and mobile-order-only concepts, as many have just begun doing, especially in young urban areas. QSRs may also want to start testing contactless technology solutions for on-premise purchases, such as those found at retailers and c-stores like Amazon Go. In October 2020, Dunkin' became one of the first restaurant chains to do so with its completely cashierless, self-serve prototype in California using its mobile app technology.

Fast food brand ethics need improvement

The vast majority of consumers, spanning from Gen Zs to Gen Xers, agree that fast food chains need to treat their employees better, which is another racial and social justice priority that became a hot topic during the racial unrest of 2020. Top-of-mind concerns for fast food employees include a lack of COVID-19 protections, paid sick leave and living wages – especially as these issues disproportionately affect fast food employees of color. Fast food chains have an opportunity to make a positive contribution to their workforce and to society overall ahead of government mandates, such as a \$15 federal minimum wage requirement, and gain consumer trust and loyalty in response. In the long term, more automation will likely result in a need for fewer QSR employees overall, which should also allow QSRs to offer remaining QSR employees better benefits, training and growth opportunities.

FIGURE 6: QSR ATTITUDES – NET AGREEMENT, BY GENERATION, JANUARY 2021

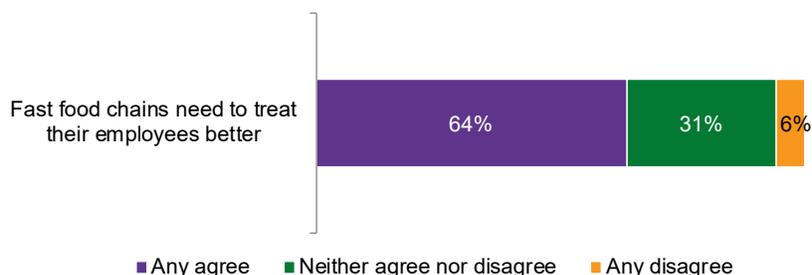
“How much do you agree or disagree with the following statements about fast food restaurants?” – NET agreement



Base: 1,403 internet users aged 18+ who have visited a QSR in the last three months
Source: Lightspeed/Mintel

FIGURE 7: QSR ATTITUDES – NET AGREEMENT, JANUARY 2021

“How much do you agree or disagree with the following statements about fast food restaurants?” – NET agreement



Base: 1,403 internet users aged 18+ who have visited a QSR in the last three months
Source: Lightspeed/Mintel