

Change is on the Menu for Restaurants



The restaurants industry is evolving as fast as it ever has, with globalization, changing consumer preferences and technology increasingly impacting concepts across the dining spectrum: from QSR to fine dining. Restaurants are having to navigate one of the most challenging operating environments the industry has ever faced, with rising input costs (e.g., labor and food costs) and a growing number of alternatives for consumers.

To be successful, concepts need to be able to react and change to the latest trends, while continuing to listen to their consumer and serve consistent product at the right intersection of price, quality and convenience for that brand.

IMPORTANT INDUSTRY TRENDS

Technology. Currently, technology is more evolved in certain stages of the consumer experience than others. With rising labor costs, a key focus for every operator, technology will continue to play an ever-increasing role throughout the restaurants' ecosystem. From reserving a table to delivery to labor management to robotics, restaurants will need to continue to embrace the evolution, focus on the upside, and seek out partners with the expertise to provide the product and service that can optimize the operations and consumer experience.

Delivery, To-Go and Growth of The Virtual Kitchen. According to a report from UBS's research group the "Evidence Lab", the global food delivery market is expected to grow from a \$35 billion industry to a \$365 billion industry by 2030. Given the growth of delivery and to-go, the "virtual kitchen" sector of the market will continue to attract investment, such as GV's (fka Google Ventures) investment in foodservice start up Kitchen United, as well as Travis Kalanick's investment in Cloud Kitchens. Operators ability to drive incremental delivery and to go sales will be a large contributor to the success of concepts in the future. There will no doubt be a shakeout within the deliver sector, with operators seeking more transparency from their delivery partners.

Menu Trends. The continued growth in the free movement of people across the world is encouraging consumers to try new flavors and foods and fueling the growth of new concepts. Globalization is making it easier for restaurants to source ingredients from all over the world and consumers, especially millennials, are willing to experiment more so than ever before. Consumers are also increasingly seeking healthy options and a newfound focus on sustainability has also led to an explosion of farm-to-table cuisine. The benefits of eating healthy are more pronounced today than ever before, which will continue to fuel the heathification movement as it relates to menu options. There will always be a place for the pizza or burger, but a growing consumer demographic will continue to demand flavorful and better-for-you alternatives.

SUMMARY

Globalization, changing consumer preferences and technology are playing an increasingly important role in dining.

Several trends are driving interest from international strategic investors and an increase in cross-border M&A in the industry.

LINCOLN PERSPECTIVE

The industry will always have room for new and exciting concepts that embrace changing consumer preferences. Technology will continue to drive change and restaurants will need to prove they can successfully adopt new technology to stay ahead of the competition and drive sales and profitability. The recent challenges that some of the larger U.S. restaurant groups have faced will drive international expansion earlier in the growth cycle going forward, with regional concepts considering international growth before they have necessarily expanded across the U.S. This will also fuel interest from international strategic investors and drive an increase in cross border investment and M&A within the industry.

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