Restaurant Predictions for the Next 12 Months

OPPORTUNITIES AND TRENDS IDENTIFIED BY OUR EXPERTS

FTI Consulting

EXPERTS WITH IMPACT™

The restaurant landscape continues to transform from a traditional industry with centuries-long standards to a dynamic sector that moves with the times. Three main trends are shaping that evolution this year:

— **The restaurant market undergoes structural changes.** Post-pandemic, the market divides between casual, inexpensive grabs and premium experiences for social moments. Concepts lifecycle is experiencing a halving on the backdrop of hyper-competition.

— **Technology transforms restaurant's operations.** Delivery apps, in-store premises, loyalty programmes, kitchen operations — all dimensions are evolving fast. Application of artificial intelligence ("AI") is starting to make a difference in customer relations and restaurant operations.

— **Labour finds a new mix between humans and robots.** Restaurants are struggling to attract and retain skilled labour — even more so since the pandemic. Robots are starting to fill this gap, one innovation at a time.

This paper aims to provide restaurant business leaders and Private Equity funds active in the industry a comprehensive overview of the **key trends shaping the restaurant industry's future**. This year represents a critical juncture, offering both opportunities and challenges for market participants.
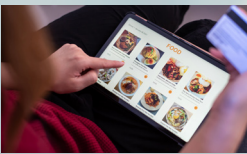
Our Predictions At A Glance

MARKET
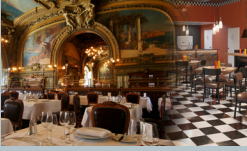
1. Polarisation of the restaurant market accelerates

2. Concept lifecycle is dramatically shortened

TECHNOLOGY

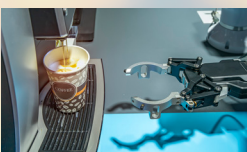**3. Digital technology** is now at the core of any restaurant model

4. AI finds ways to improve the employees and guest experience

LABOUR

5. Labour shortages remain an ongoing concern and challenge for restaurants to overcome

6. Robots slowly make their way into the labour force

1. Polarisation of the Restaurant Market Accelerates

The pandemic is now a distant memory: already more than four years have passed since the World Health Organization declared an international public health emergency in January 2020. Slowly but surely, **life around the globe went back to normal** for all communities and businesses.

Back to normal? Not quite. **Consumers' practices have deeply evolved since pre-pandemic times**, in ways that are not easy to see at first glance. People stay home more often since remote working has become a part of our lives. In certain parts of the world, restaurants that used to be busy all week-long are now deserted on Mondays and Fridays.

Alongside this behavioural shift, **inflation continues to bear on consumers' purchasing power** and their willingness to spend money on eating out. Inflation rates near or above 10% are gone for now, but U.S. and EU rates should land between 2 and 3% this year and are expected to remain above 2% in 2025.

And consumers think differently about what they expect of restaurants now. While previously they looked for a wide array of options and prices, **consumers' choices today are focused** around two extremes:

— **Casual, inexpensive visits** that focus on eating fast, be it on-premises, for take-away or via delivery. This is about catering to one's needs quickly, without the hassle of choosing from unfamiliar dishes, while staying conscious of one's budget.

— **Premium restaurants for social moments** and shareable experiences. This is the realm of high-end gastronomic experiences: tasty dishes, meticulous presentation, often Instagram-able décor and decorations.

The immediate consequence of this change is that **restaurants focusing on the middle option** — neither cheap nor expensive, neither unpretentious nor exclusive — are struggling to attract and retain customers. This is particularly true for independent restaurants, which don't have the power of a brand to help consumers quickly put them into one option or the other. As a result, mainstream casual restaurants have encountered difficulties across the UK and Europe: for instance Prezzo Italian food house in the UK, sandwiched between the likes of Pizza Hut/ Domino's on the one hand and a wave of independent, specialised Italian restaurants on the other hand.

The good news for restaurants? In 2024, **market polarisation in the restaurant market is still in its infancy**. It hasn't yet reached maturity, in the way some of other industries have – like smartphones, for instance, which are clearly polarised between high-end phones and low-cost ones. Restaurants should anticipate that their industry may follow a similar path by positioning themselves now at one or the other end of the spectrum.

2. Concept Lifecycle is Dramatically Shortened

In today's dynamic and evolving restaurant landscape, the **concept lifespan is experiencing a halving**, be it for casual dining, fast foods or higher-end restaurants.

Today's consumers are **shifting preferences at a fast pace**. Three main effects can be identified:

— Consumers are more adventurous, health-conscious (e.g. Eat Salad, Exki, itsu), ethically concerned and digitally savvy. They seek novelty and authenticity when choosing restaurants. Loyalty to historically established brands is diminishing. As a result, restaurant concepts need to be **clearly understandable** and connected with target audience values.

— With the rise of **social media** (e.g., Instagram, TikTok) and lifestyle/food content and culture **trends emerge, spread and vanish** in a matter of months (sometimes even weeks). Content going viral can generate outstanding brand awareness — think of TikTok Kitchen, delivering most popular dishes at each point in time to its U.S. customers — traffic and sales but is a double-edged sword: negative reputational issues (labour, food quality and process, ethics, etc.) can also take on a life of their own on social media. By pre-emptively engaging with social media, restaurants can mitigate negative feedback they receive and uphold their reputation.

— **Economic pressures** and **polarisation** further complicate the landscape, orienting customers to concepts at the ends of the spectrum, such as accessible and cheap food or higher-end and distinctive brands. Restaurants caught in the middle segment or brands that are not that distinctive, are experiencing downcycle and **need to reinvent themselves to survive**.

Staying "**on culture**" is essential to maintain relevance and connect with customers. By aligning with cultural trends, brands can foster deeper customer connections

and ensure long-term loyalty and success. Taco Bell, for example, achieves this through innovative marketing: it advertises on social media to millennials and Gen Z an image of "cultural rebel" by collaborating with celebrities (e.g., NFL stars) and out-of-the-box brands (e.g., Croc shoes). Even employees uniforms are designed by a trendy artist, Ricardo Gonzalez.

Consumers are not the only ones shifting preferences: **new players enter the market with bold ideas, disrupting and cannibalising established older concepts**. This intense competitive pressure and relative saturation in turns puts pressure on concepts lifespan. Consider Red Lobster, a seafood casual dining concept: a seemingly unshakeable 50 year-old concept that boomed in the 1980s and 1990s as the place for Americans to celebrate and date over lobsters, in a very traditional atmosphere. It missed the cultural shifts of newer generations, slowly losing its relevance to newer generations who favoured newer, bolder brands until it finally filed for bankruptcy in 2024. Overall, when you hear "I remember…" or "My mum/uncle loves this brand," it's a strong red flag.

In the end, it's almost a **matter of survival** for restaurant businesses. Restaurants which don't let their concept evolve fare worse than those who do, or those with newer concepts. For instance, we found a very strong correlation (0.85) between how old a concept was and the percentage of units permanently closed during Covid on a sample of 6 Italian-style restaurants opened after 1990 in the UK (Prezzo, Zizi, Ask Italian, Bella Italia, Franco Manca and Carluccio). To prevent this, some businesses go as far as to ditch the idea of a single, unifying concept altogether: this "**unchain the chain**" phenomenon is best exemplified by Big Mama, a French Italian food chain with 17 restaurants. Each restaurant has its own identity, atmosphere and even name.
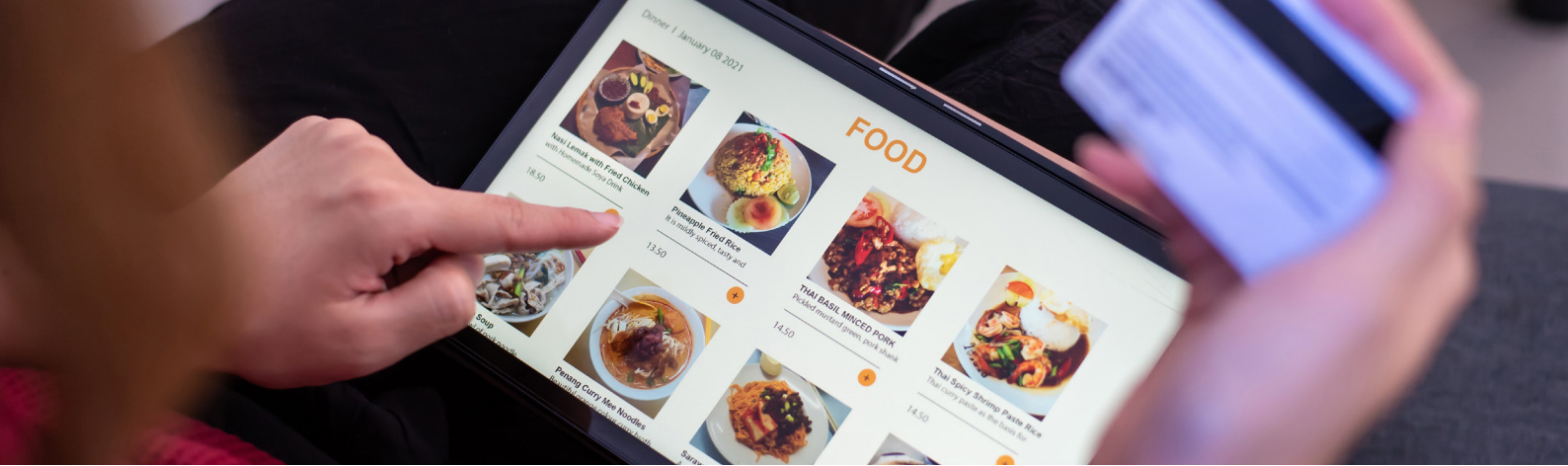
3. Digital Technology Is Now at the Core of Any Restaurant Model

All industries are currently being **transformed or disrupted by Digital Technology**. Restaurants are not exempt from this shift in all their aspects: from ordering to in-store experience and augmented kitchen operations. And this transformation is happening for both customers and employees.

On the customer side, **the marketplaces and the ordering mobile apps** — such as DoorDash — are the biggest visible change. Since the pandemic, they have become deeply rooted in customer consumption habits, both at the office and at home, particularly among the younger generations. Mobile ordering has become the "new normal" and has extended to other universes: groceries, local small shops, drugs, etc. Furthermore, online booking apps (e.g. The Fork, OpenTable) are now part of the experience: these integrate into the restaurants booking system and offer loyalty points, reviews, etc.

Within the restaurant premises, **tablets and solutions** like those provided by Tabesto are now a typical sight — indeed, customers are now surprised if they aren't there. These solutions has proven their efficiency by improving the order flow, reducing the number of customer-facing employees required, multiplying upselling opportunities and making the restaurant experience seamless for customers. Since the pandemic, QR codes are also embedded in the ordering process: associated with digital solutions, they allow consumers to consult the menu, order from the phone and even pay the bill — resulting in reduced contact between staff and customers.

Customer experience is also **enhanced by loyalty programmes**. In the digital age, these programmes sit in mobile apps connected to the point of sales system. They allow restaurants to connect regularly with customers through push marketing messages with offers and novelty and event-driven messages. With the customer in the vicinity, apps can provide additional incentives to visit the closest restaurant. They can also add an element of gamification:

— **McDonald's** developed a mini-games app inspired by the brand's products and visual universe with redeemable in-store rewards.

— **Burger King** developed royale roulette game within its mobile app, offering discounts and products.

Employees and restaurant operators can also benefit from these new technologies. They, too, are getting used to the elements found in digital marketplaces, from order acceptance to order on-time fulfilment and runner relationships. Tablets and digital in-premises solutions facilitate shift execution and allow employees to focus on high-value tasks. Managers nowadays use apps for labour scheduling (e.g., 7 Shifts, Skello) to assign and distribute shifts directly to employees, as wall as for temporary labour needs (e.g.. shiftNOW, redwigwam).

Hardware devices like **Internet of Things** enablers, connected cooking devices and RFID chips have allowed the development of Restaurant 2.0. Software has been developed and implemented to enhance and facilitate all processes: forecasting, scheduling, managing inventory and replenishment, handling customer orders, ensuring smart dispatches and analysing performance.

Some restaurants have accelerated their **digital transformation by acquiring food tech companies** to drive cost savings, enhance productivity or secure a competitive advantage. Think of Yum! Brands acquisition of Dragontail, an Australian company that built a powerful AI system that sequences orders for freshness and accuracy.
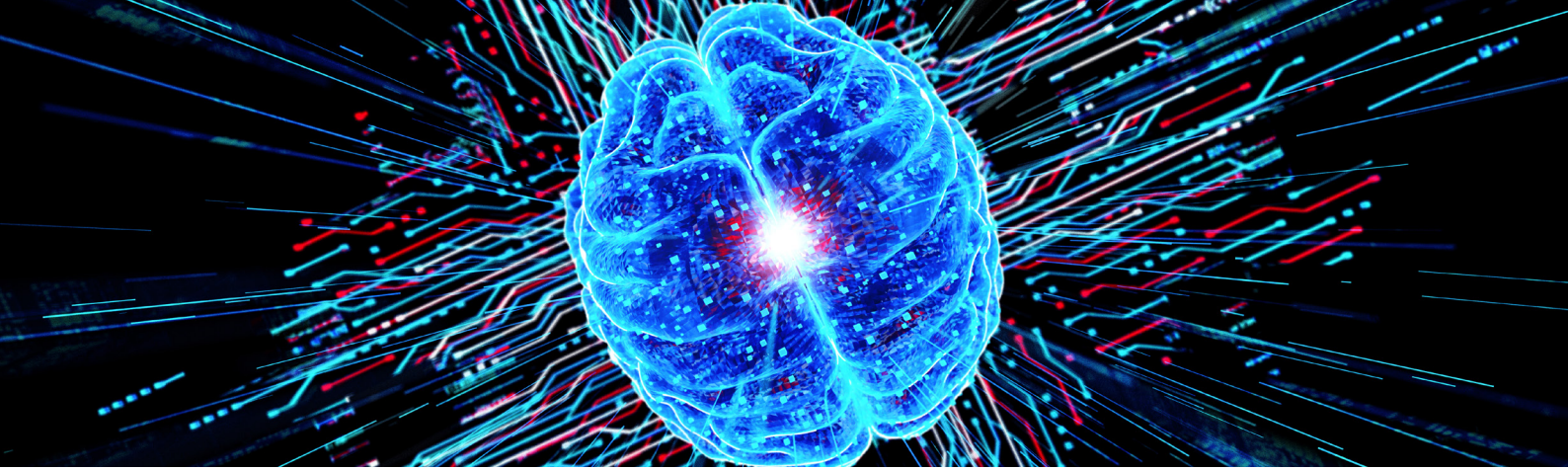
4. AI Finds Ways To Improve the Employees and Guest Experience

If 2024 has been but one thing for all industries alike, then definitely be this would be **the rise of AI**. The launch of ChatGPT in November 2022 has shown the world how advanced AI now is. Companies from all sectors have started to invest heavily into it, looking for the most appropriate use cases. Technology companies are naturally ahead, but more traditional companies are also jumping in: consider how Walmart is using AI for a range of applications, from inventory management to customer analytics through in-store autonomous robots.

The **restaurant industry is staying on top of the current AI trend**. 2023 saw a few precursors showing the way, particularly around improving **customer experience**:

— Wendy's, the US quick-service restaurant company, partnered with Google to **automate its drive-thru ordering system**. Named "Wendy's FreshAI", the system mimics crew members to interact with customers: AI manages order-taking, customer questions and answers and the digital display. Ask for a "large chocolate milkshake," and the AI will order you a large chocolate Frosty.

— Bunkr, a Dutch independent chain, has used AI as the **main interaction tool with eat-in customers**. Customers entering the restaurant scan a QR code, then are welcomed and seated by the AI. The customer can then ask it questions like: "What kind of dish suits me?" or "Which wine goes best with my fish?," and AI then recommends the best options.

So what does 2024 hold for the use of AI to improve that experience? Customers entering a store may automatically received a personalized menu suggestion based on their dietary preferences and past orders. **Generative AI** may also be used to improve customer experience even further with features such as personalised suggestions or original menu creations.

Restaurants will also increasingly use AI to **improve their operations**, thereby enhancing the **employee experience**. Consider Chili's Grill & Bar, a US casual dining restaurant chain, which partnered with the customer experience start-up Tattle to improve its guest feedback collection process. Chili's collects feedback from different platforms, feeds them to Tattle, then the AI comes into play. Not only does it analyse the data, it turns it into actionable insights for each of the brand's franchisees. It can also address automatically negative reviews with pre-sent e-mail responses, such as offering an apology or a free menu item — addressing the major challenge of service recovery.

As restaurants progress on the adoption curve, **the use of AI will become ever more ambitious**. From its "classic" use in data analytics and outreach marketing, AI will enter kitchens in a more visible way:

— Before the customer has even placed an order, **kitchen management systems** have started preparing the most-sought-after food items based upon historical sales, real-time weather data and number of the customers identified in the store.

— AI will be leveraged to improve **back-of-house operations**, transforming them one piece at a time: from inventory and supply chain management to operational automation.

— The **store itself will be designed and optimised by AI systems** that generate the overall concept, the decoration and the menu items based on an analysis of potential customers' preferences — in particular locations. Sounds whimsical? In fact, this has already happened: Israeli chef Tom Aviv used Open AI to open the Branja in Miami back in 2023.

5. Labour Shortages Remain an Ongoing Concern and Challenge for Restaurants

Structurally, the restaurant industry is **more exposed to labour shortage with inherent challenges of employer attractivity**.

First, the industry's jobs are **demanding** and **unpredictable** for most types of employees: waiters, cooks, runners, etc. These employees are exposed to high temperatures in kitchens and outside venues. In addition to this, the unpredictable nature of the business can include cuts in afternoon hours and two-shift setups, which are difficult to reconcile with work-life balance. Hence, in many geographies, these positions tend to be filled by students – which often leads to high turnover, another challenge.

Second, **salaries are low compared with other industries**. The restaurant industry is in competition to recruit employees with many other businesses that cater jobs to the same population such as warehousing handlers, delivery workers and brick-and-mortar retail sales people. Potential restaurant employees are often tempted by higher pay or similar pay, with more favourable working conditions.

The pandemic worsened the general labour situation, and was particularly hard on the restaurant industry. For instance, in the U.S. in 2022, according to the National Restaurant Association, 62% of restaurants reported not having enough employees to meet customer demand, while 79% reported having job openings that are difficult to fill. Indeed, much of the workforce left the industry amidst successive lockdowns. The industry never recovered from this shock, and hasn't recruited enough new employees to offset the loss. Explanations for this continued shortage include:

— A general increase in focus on and the importance of working conditions, reducing the attractivity of many manual jobs.

— Salaries in the restaurant industry have become less attractive, as other industries have significantly raised wages to attract employees, in the face of continued low unemployment rates.

— The restaurant industry can't allow working from home options, now a strong consideration for many employees.

In 2024, **many restaurants are still not able to fill all their positions** and are still trying to find the right economic balance between costs and salaries on the one hand, and affordable customer prices on the other hand. Indeed, nowadays, the competition is not only for customer acquisition but also on talent retention, the cornerstone of which is **employee well-being**. For instance, McDonald's has become the first quick-service restaurant in Australia to use a digital platform, Sonder.io, to provide for the health, safety and well-being of its employees.

Fortunately, some restaurants chains have found **solutions to improve employee attraction and retention**. McDonald's is one of them, as it focused on three key aspects. First, employee recognition: the brand celebrates and rewards nominated employees for outstanding customer care. Second, incentives: it implemented referral and performance bonuses to motivate employees. Third, career development: the brand provide clear paths for career growth, together with adequate training programmes allowing, to allow its employees to start at the bottom and progress towards management positions.

6. Robots Slowly Make Their Way Into the Labour Force

The labour shortage hasn't weakened in 2024 — if anything, it's gone up. How did restaurants react? Did they passively wait for market conditions to revert back to what they were? No: they resorted to the Chippies and Flippies of this world — **specialised robots** that offset, to a degree, the lack of skilled workers.

Chippy is **Chipotle's tortilla-making robot**: an autonomous, AI-powered cooking assistant that prepares this popular dish in an efficient way. To some extent, it even performs its task better than humans: Chippy will use the exact quantity of ingredients — corn flour, water, sunflower oil — to prepare tortillas, while human cooks would inevitably vary their mix.

Flippy is a similar-looking **burger- and fries- cooking robot** used by White Castle, a U.S. regional hamburger restaurant chain. Flippy will take your fries, drop them into the fryer, take them out at exactly the right time, shake them and prepare them for staff to pick up and serve customers. Its cost is competitive compared to its human counterparts: approximately $3,000 a month.

In fact, robots are not only used behind the scenes in restaurants: **they are also starting to be used for customer-facing interactions**, notably to help alleviate the lack of waiters. In Atlanta, the Wing Factory chain "hired" robots it named "R2WING2" to serve food, clear dishes and greet incoming customers. They cost about $800 per month — i.e. only about $4 per day.

Still, **2024 won't be the year when robots make a major breakthrough** into our restaurants. Robots predominantly remain as thing of vanguard chains like Chipotle — which, after Chippy, has went on to create avocados-making robots, digital makelines and other sophisticated devices. Small, independent restaurants will steal somewhat sit on the sidelines for a mixture of understandable reasons — larger product offering, cost of investment — and unavoidable resistance to change.

Navigating the Industry's Challenges

In today's rapidly evolving restaurant industry, navigating such challenges as hyper-competition, technological disruption, acing application of AI and persistent labour shortages can be daunting. However, with the right strategies and expert guidance, these obstacles can be transformed into opportunities for growth and innovation.

At FTI Consulting, we specialize in helping restaurant businesses like yours thrive in this dynamic environment. Our team of seasoned consultants brings deep industry knowledge and cutting-edge solutions tailored to your unique needs. Contact us today and let's work together to build a brighter, more profitable future for your restaurant business.

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