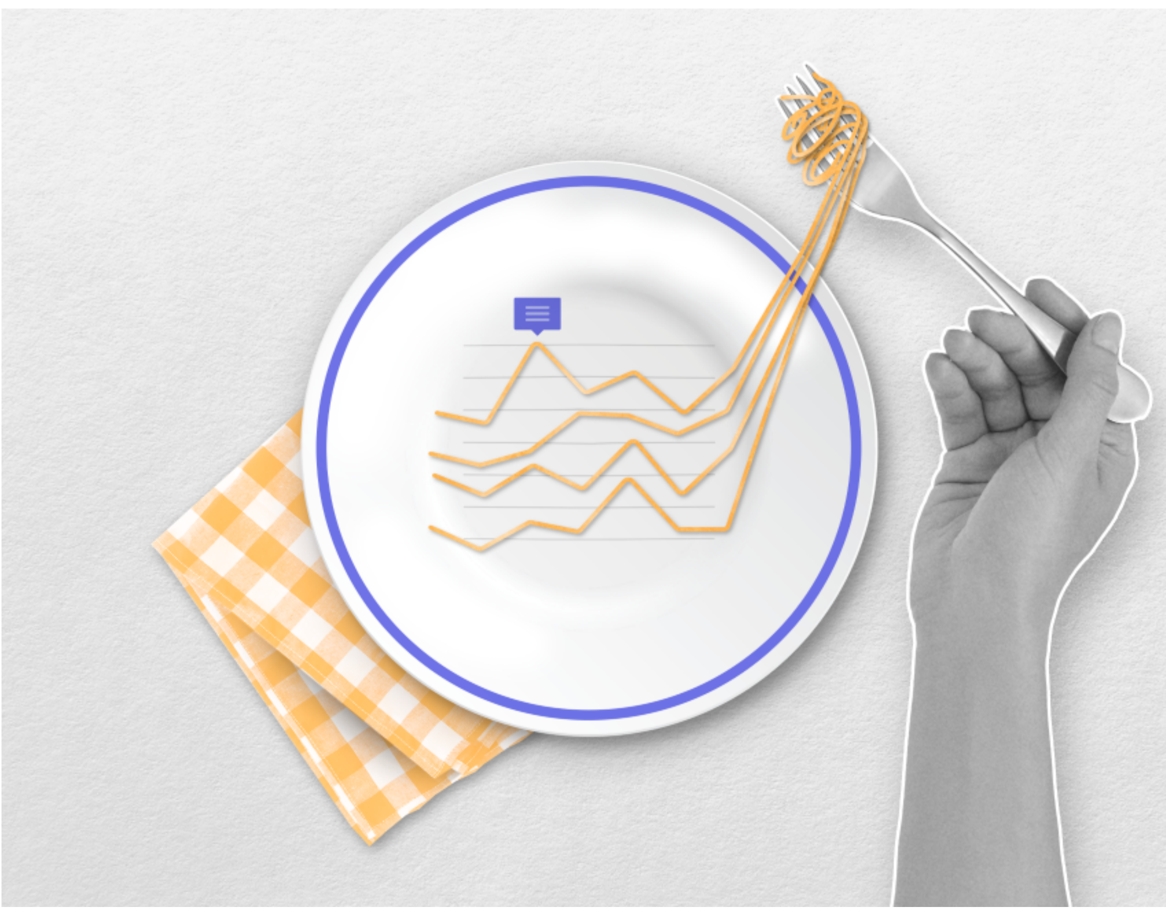
January, 2023

How Innovative Dining Chains are Shaking Up the Industry

This report draws on the latest location intelligence metrics to identify some of the key strategies that are helping leading dining brands stand out and thrive in a challenging environment.



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The dining industry is struggling to regain its pre-pandemic footing. COVID-induced store closures, ongoing inflation, and significant labor shortages have combined to create the perfect storm for a category that relies on discretionary spending to thrive. But even in the face of these challenges, some concepts appear to be working better than others.

With rising food prices continuing to take their toll on American consumers, this white paper utilizes location analytics to identify winning strategies in the dining space. How are some dining chains finding success despite the difficult overall environment? What are money-strapped consumers willing to splurge on? And what can restaurants and other eateries do to maximize customer engagement and satisfaction?

We dove into the data to find out.

2022 in Focus: The Cheaper the Better?

To get a sense of how the industry is faring overall, we first looked at 2022's nationwide monthly dining visit patterns, in comparison to both 2021 and 2019. And given the unusual circumstances of the past three years, the two comparisons tell somewhat different stories.

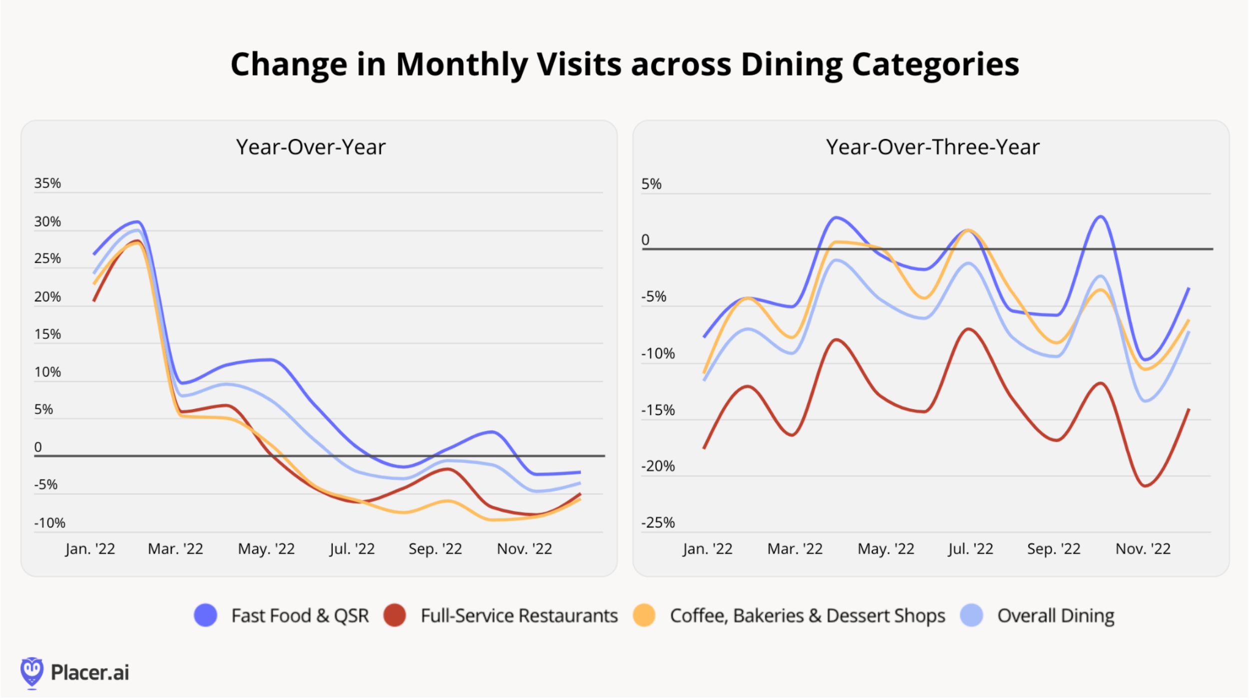
To a large extent, the year-over-year (YoY: 2022 compared to 2021) fluctuations reflect the volatile visit patterns of 2021. Omicron kept people home early on in the year, while vaccines, loosening restrictions, and pent-up consumer demand drove people back to restaurants later on. As a result, overall YoY foot traffic growth to the dining industry as a whole remained positive for the first few months of 2022 – peaking in February at 29.9% – before dipping over the summer.

But the comparison to 2019 highlights the pandemic's long-term impact on the space and brings the challenges facing the industry into sharp relief. While COVID did not precipitate a restaurant "extinction event," as some had predicted, it did lead to a dramatic increase in the number of venues permanently shuttering their doors. And even as the sector began to re-open, continued labor shortages have made running a dining establishment harder than ever. Chefs and servers on the ground describe a scramble to hire large numbers of people at once – many of them lacking the requisite experience – leading some restaurants to shorten their opening hours and undercutting others' ability to provide stellar service. Add to that skyrocketing food prices, which force restaurants to pass on additional costs to already cash-strapped consumers – and the persistent 2022 year-over-three-year (Yo3Y: 2022 compared to 2019) monthly visit gaps should come as no surprise.

At the same time, zooming in on different sub-sectors within the dining category shows that the current challenges are impacting some categories more than others, with a clear divide between cheaper and pricier venues. Fast food and QSRs (quick-service restaurants), which offer particularly affordable meals, had one of the lowest pandemic-induced permanent closure rates and continued to have the narrowest visit gaps in 2022, even outperforming 2019 visit levels at several points during the year.

> The current challenges are impacting some categories more than others, with a clear divide between cheaper and pricier venues.

Next in line are coffee houses, bakeries, and dessert shops, which also provide treats that don't break the bank. Both of these sectors are likely benefiting from the (partial) return to office, as many people need to grab a cup of joe or a quick bite during the work day. And coming in last are full-service restaurants – the category most affected by COVID restrictions – which continue to bear the brunt of economic headwinds.



A Finger On the Pulse of Consumer Demand

Still, despite the challenges, some chains are seeing success by staying on top of popular trends and tweaking their menus to add sought-after items likely to generate enthusiasm. Anticipating up-and-coming consumer interests allows restaurants to expand their reach by meeting customers where they are, and introducing innovative menu items can help guide new consumer tastes and create a buzz that drives visits and sales.

Wingstop's "Swicy" Approach to Innovation

One restaurant with its ear to the ground is popular chicken wing chain Wingstop. Founded in 1994, Wingstop boasts more than 1600 restaurants nationwide – with over 150 locations added last year alone – and the chain aims to expand to 4000 domestic venues in coming years. Ranked by Fast Company as one of 2022's top ten innovative dining companies, Wingstop has proven itself to be deft at adapting to changing circumstances.

> Wingstop is listening closely to what people like and incorporating up-and-coming trends into its offerings.

And the chain's commitment to innovation extends to its menu as well. Wingstop "is questioning consumers' current chicken sandwich tastes and calling for a breakup," the eatery proclaimed in an August 2022 press release debuting new chicken sandwich flavors. But while Wingstop may invite customers to step out of their comfort zones, it is also listening closely to what people like and incorporating up-and-coming trends into its offerings.

Last June, Wingstop introduced its limited-edition Hot Honey Rub – a "swicy" (sweet and spicy) dry rub that offered delicious tangy flavor with none of the sticky gooeyness of traditional honey wings. The rollout came just weeks after leading food-industry data tracking company Tastewise ranked spicy honey as a top flavor trend for the summer – noting that while discussion of the term on social media had gone up 49% over the previous year – and its use in online recipes had jumped 60% – only 2% of restaurants incorporated the flavor into their menus. While the Hot Honey Rub was available only through the summer, it appears to have been a hit, generating plenty of online buzz.

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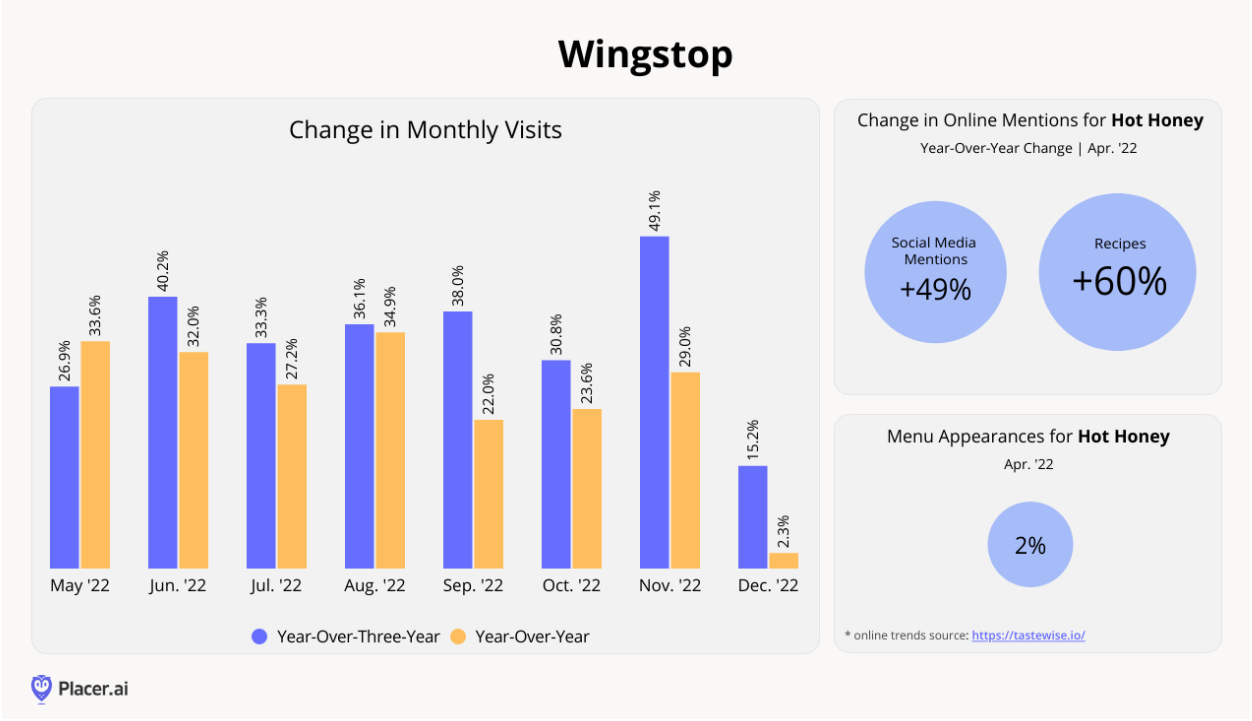
Wingstop's nimble approach to menu offerings appears to be working. In Q3 2022, the fast casual franchise posted a 18.4% increase in net income compared to the third quarter of 2021. And between May and December 2022, foot traffic to its restaurants was up both YoY and Yo3Y, with November seeing a whopping 49.1% increase in visits compared to 2019.



First Watch Sails Ahead

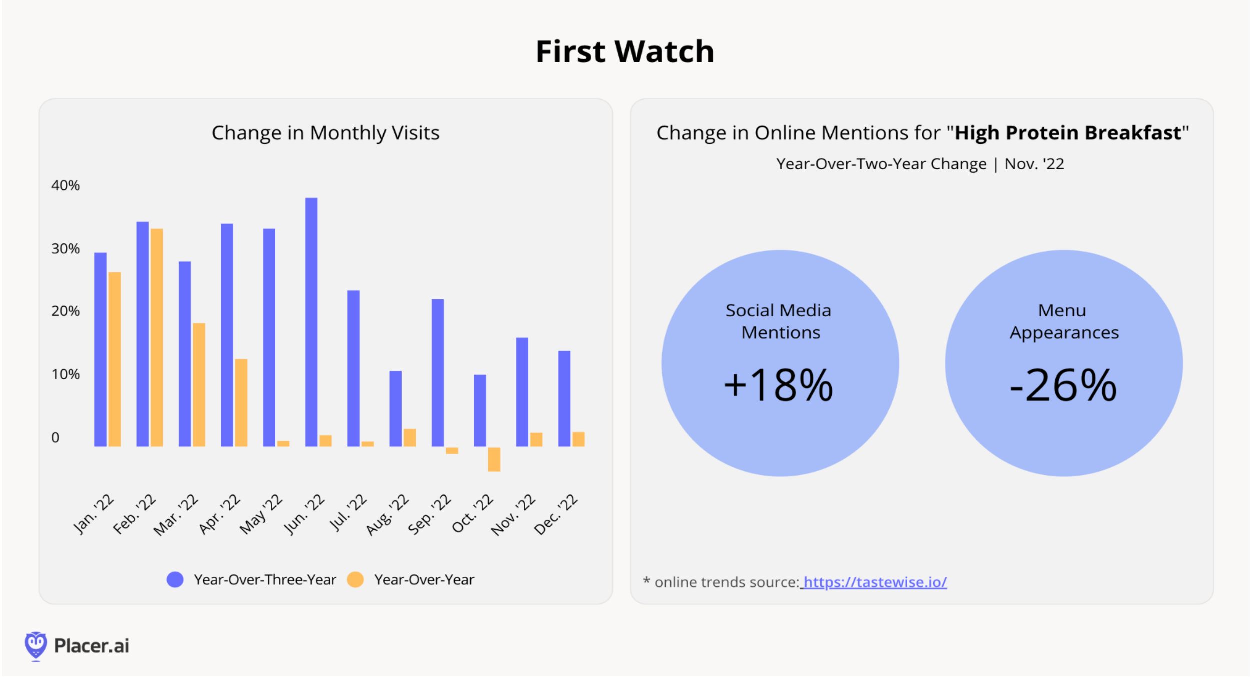
First Watch is another dining chain that has been quick to respond to shifting consumer demand. Named after sea crews' first shift of the day, First Watch specializes in breakfast, lunch, and brunch, and is only open from 7:00 AM to 2:30 PM. Since going public in 2021, the company has continued to expand and now has 455 restaurants in 29 states. And like Wingstop, First Watch experienced significant growth in 2022, reporting a 29.6% increase in same-restaurant sales compared to 2019.

First Watch CEO and President Chris Tomasso has highlighted the company's system of identifying early trends and quickly rolling out new menu items as a key element of its success. And the importance of this innovation-driven strategy is borne out by a look at some of the eatery's recent menu changes. In early 2022, First Watch introduced Superseed

Protein Pancakes – a new product geared towards health-conscious customers who crave a nutrient-packed sweet treat.

The decision to launch the product appears to have anticipated unmet consumer demand for high protein breakfasts: According to Tastewise data, 2022 saw an 18.0% year-over-two-year (Nov. 2022 compared to Nov. 2020) jump in use of the term “high protein breakfast” on social media, and a 26% drop in menu mentions. Additional Tastewise data indicates that pancakes were among the most popular prepared food pairings for “high protein” last year, and that there was an uptick in interest in energy-fuelling breakfast foods as well.

Foot traffic data indicates that consumers are receptive to First Watch’s menu innovations, and the company has seen significantly more foot traffic growth than the dining industry as a whole. Despite an already strong performance in 2021, YoY foot traffic for the brand was up for most of 2022, and Yo3Y foot traffic growth ranged between 11.4% and 39.5%. While the chain’s fleet expansion undoubtedly contributed to this remarkable visit growth, the visit increase likely also reflects increased demand for the company’s offerings.



Health and Wellness Driving Visits

While some chains have been driving visits by keeping pace with hot trends, others are making their mark by leaning in more broadly to current consumer interests – including the increased focus on personal well-being.

> Brands that can emphasize their healthful offerings at reasonable prices are positioned to do better than most.

In the wake of COVID, health and wellness have become major priorities for consumers across industries – and dining is no exception. The pandemic, which saw more people cooking and eating at home, changed how we think about food, and recent survey data indicates that more Americans – and especially GenZers – are following special health-based diets. Brands that can emphasize their healthful offerings at reasonable prices are positioned to do better than most.

Chipotle Puts a Lens on Wellness

One chain that has been doing exceptionally well is Chipotle. With close to 3100 restaurants nationwide – up from around 2500 three years ago – the chain plans to add 250 more venues in 2023. And throughout 2022, monthly visits to the chain have consistently exceeded 2019 levels. While this growth in foot traffic was surely driven, in part, by the eatery's expansion, it also appears to reflect growing demand for what Chipotle has to offer.

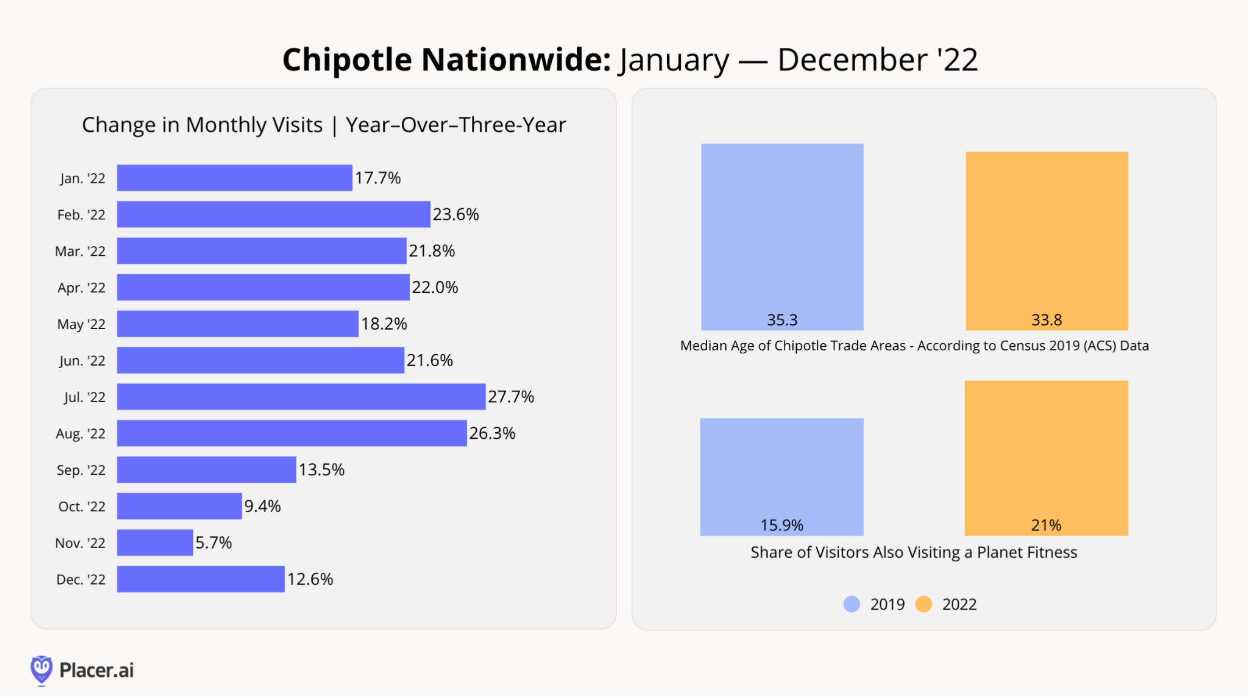
One of Chipotle's key strategies in recent years – even prior to COVID – has been to reach out to fitness and health-conscious consumers by embracing the growing interest in wellness. In 2019, Chipotle first launched its line of "Lifestyle Bowls," designed to help customers keep to their diets, whether keto, paleo, high-protein, grain-free, or just generally more nutritious. That same year, the company announced enhanced mental health and wellness benefits for all workers, including discounts at fitness centers. In 2021, as the pandemic highlighted the need for increased attention to emotional well-being, the chain launched a company-wide mental wellness platform, offering its workers tools to set personalized wellness goals. And most recently, Chipotle kicked off 2023 with new Lifestyle

Bowls geared towards GenZers and Millennials, as well as a Snapchat lens promoting physical activity and general well-being.

Chipotle Mexican Grill Restaurant in Naples, Florida, Image: shutterstock.com

> Perhaps due to the brand's emphasis on health & wellness, Chipotle's True Trade Area (TTA) has shifted in recent years to encompass a greater share of younger customers and fitness buffs.

Given this focus, it should come as no surprise that Chipotle's True Trade Area (TTA) has shifted in recent years to encompass a greater share of younger customers and fitness buffs. The data shows that Chipotle's TTA changed between 2019 and 2022, bringing down the median age of the chain's visitor base from 35.3 to 33.8. At the same time, the share of residents in Chipotle's TTA who also visited a Planet Fitness gym increased from 15.9% in 2019 to 21.0% in 2022.



Juice It Up! Goes Mainstream

Juice It Up!, a regional franchise specializing in handcrafted smoothies, raw juice and superfruit bowls, is another popular chain that appears to be benefiting from the wellness craze. Despite its limited regional reach – about 80 venues in California and several more across New Mexico, Texas, Oregon, and Arizona – the juice bar was ranked one of America's favorite restaurant chains by Newsweek in December 2022.

And fresh on the heels of three successful years, Juice It Up! has reiterated its goal of expanding to 200 locations over the next four years. Foot traffic data shows consistent Yo3Y visit growth throughout 2022, ranging from 16.2% to 60.2%. Yearly visits per venue also increased by 20.5% between 2019 and 2022.

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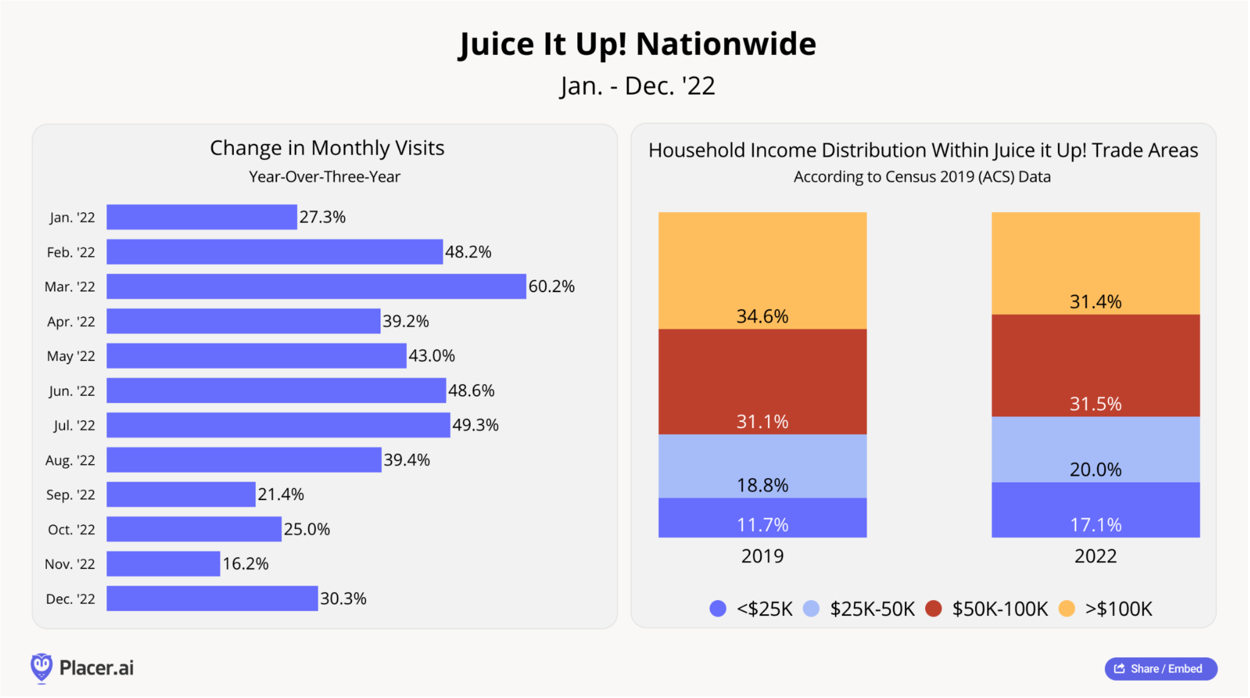
The success of Juice It Up! may be partially attributed to the brand's affordable and healthy offerings that give consumers on a budget the opportunity to invest in their wellness. Indeed, a deeper dive into the data reveals that the health-focused chain is attracting a more economically diverse customer base. In 2019, only 30.5% of the population in Juice It Up!'s TTA earned a yearly household income (HHI) under $50K. But by 2022, the chain's trade areas shifted to bring this share up to 37.1%. The proportion of households in Juice It Up!'s trade areas making less than $25K per year also jumped over the same period from 11.7% to 17.1%.

This means that, despite economic pressures, Juice It Up's healthy offerings appear to be gaining more traction among lower-income Americans – possibly indicating the further mainstreaming of wellness-based eating. And as some have pointed out, inflation may also be leading less affluent consumers to seek out juices and similar products as healthy replacements for pricier prepared meals.



Eating Out at C-Stores

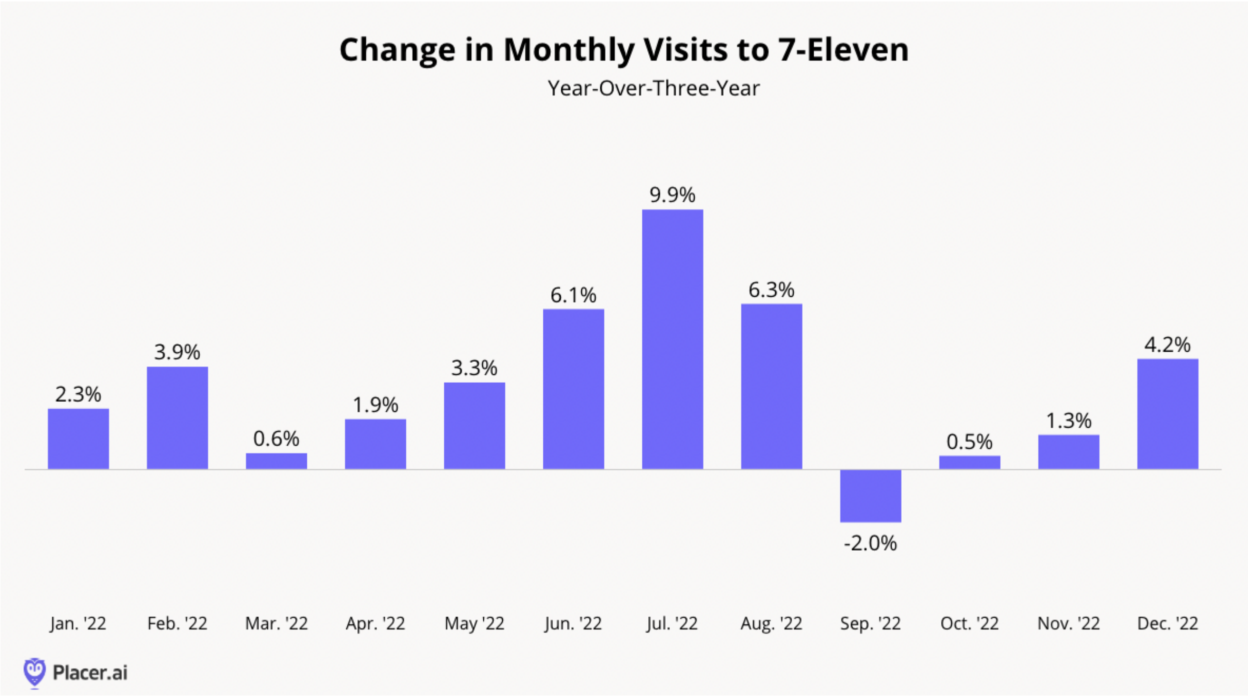
While convenience stores might not be the first things that come to mind when thinking about restaurants, c-stores have been doing especially well in the current environment. And recent years have seen them emerge as new quick service favorites, with several c-store leaders adding sit-down and drive-through venues and building out their menus with dinner and hot food offerings. Even when times are tough, busy families and harried workers need prepared foods – and c-stores provide affordable, easily-accessible alternatives to regular restaurant fare.

Cheap Treats: The “Slurpee Effect”

> C-stores appear to benefit from a “Slurpee effect” – the culinary equivalent of the beauty industry’s “lipstick effect.”

As one-stop shops for groceries, inexpensive meals, and sweet pick-me-ups – where consumers can treat themselves while purchasing essential items – c-stores thrived in 2022. Indeed, as we have noted, when inflation is rampant, c-stores appear to benefit from a “Slurpee effect” – the culinary equivalent of the beauty industry’s “lipstick effect,” in which money-stressed consumers splurge on cheap discretionary treats that make them feel good.

And like other c-stores, 7-Eleven enjoyed significant Yo3Y foot traffic growth throughout 2022, peaking at 9.9% in July. While September saw a slight visit gap, foot traffic appears back on an upward trajectory, closing out the year with 4.2% Yo3Y growth in December.

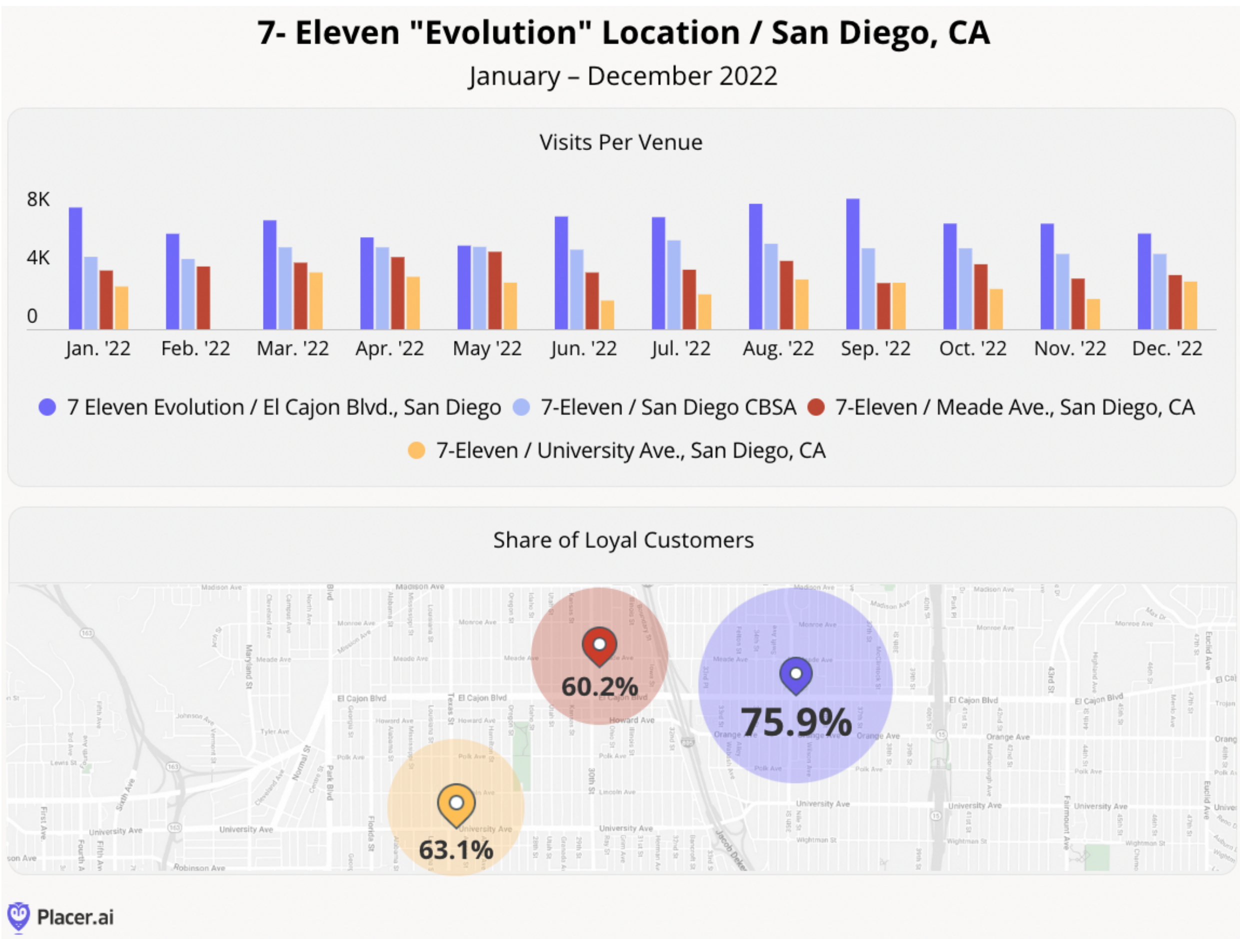


The Evolution of 7-Eleven

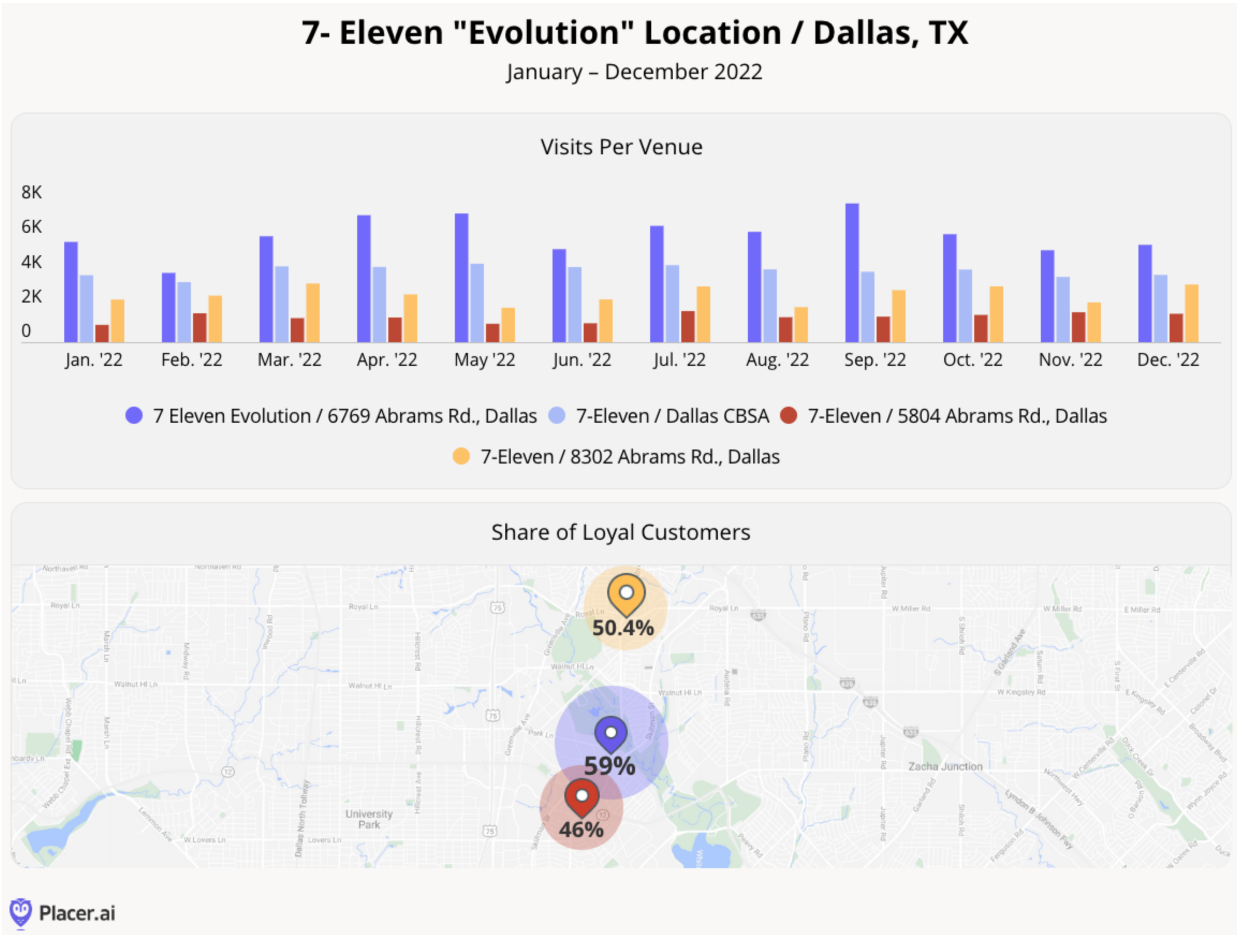
In particular, 7-Eleven’s “Evolution” stores – in which the chain has embraced QSR most fully – are standing out as overperformers. 7-Eleven entered the dining space in 2019 with a series of Evolution stores that boast wine sellers, curated specialty offerings, and on-site sit-down restaurants – featuring 7-Eleven’s own Laredo Taco Company and Raise the Roost eateries. The venues serve as “lab stores” for testing new concepts and are customized to the specific areas they serve. Customers can stop in for an affordable burrito, a margarita, or an ice-cold beer and pick up a snack on their way out.

To quantify the draw of these enhanced locations, we compared the number of visits per venue at two Evolution stores with visits at nearby 7-Elevens and with the average number of visits per venue at other 7-Elevens in the same CBSA. We also looked at data on customer loyalty, which shows the percent of consumers that visited a particular location more than once over a given time period. And the Evolution locations are outperforming their standard counterparts, both in terms of visits and in terms of loyalty.

In San Diego, the El Cajon Blvd Evolution Store received, on average, 35% more monthly visits per venue during 2022 when compared to 7-Eleven's average visits per venue in the San Diego CBSA as a whole. The El Cajon Blvd Evolution store also saw 74.6% and 145% more visits, respectively, than nearby standard locations on Meade Ave. and University Ave. The number of customers who visited the store more than once over the year was also about 20% higher for the Evolution store than for the University Ave. location, and about 26% higher than for the Meade Ave. location.



Similarly, the Abrams Rd, Dallas Evolution store saw, on average, 50.1% more monthly visits per venue during 2022 than 7-Elevens in the Dallas CBSA as a whole, and more than twice as many visits as other standard 7-Elevens on the same street. The number of loyal visitors to the Evolution location was also significantly higher.



> The success of the 7-Eleven Evolution stores reveals the potential of enhanced one-stop venues, where customers can grab a meal and treat themselves at the same time.

The success of the 7-Eleven Evolution stores reveals the potential of enhanced one-stop venues, where customers can grab a meal and treat themselves at the same time. When prices are high, cash-strapped consumers may cut down on forays to the grocery store and limit basket size, leading them to make more frequent trips to neighborhood venues for essential items. And if they can grab a cheap coffee while they're at it – or even a tasty meal without the sticker shock – all the better.

Experience, Experience, Experience

In dining, like in other walks of life, the importance of experience has only grown since the pandemic. And some chains are rising above the pack by making their restaurants prime locations not just to eat, but to have fun and hang out with friends.

Taco Bell Embraces "Fast-Social"

Taco Bell, the popular Mexican-inspired QSR chain with over 7000 restaurants nationwide, is known for its affordable Tex-Mex fare. But since 2015, when the chain launched its first Taco Bell Cantina, the quick-serve has been upping its experiential game. Cantina locations offer the full Taco Bell menu, but with a twist: customers can order shareable appetizers and alcohol to go with their burritos, including the chain's signature "Twisted Freezes."

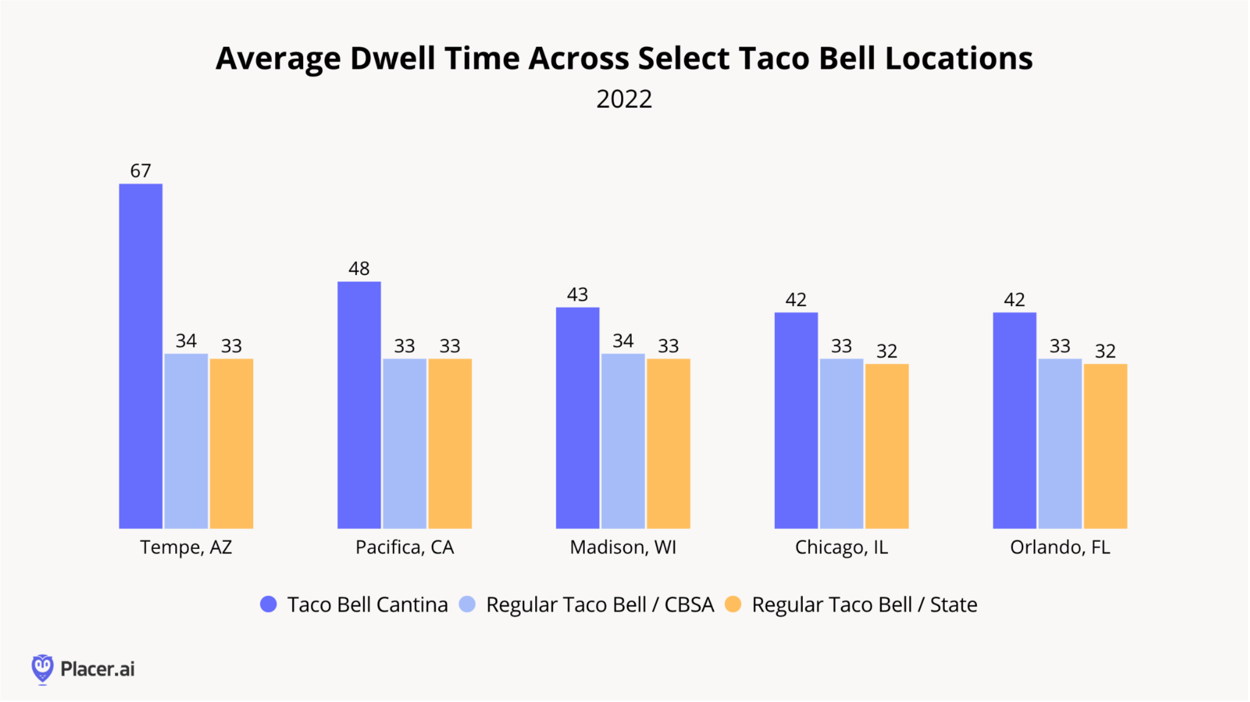
Taco Bell Cantina in Newport Beach, California, Image: shutterstock.com

The restaurants – whether on the beach or in town – are also designed with ambiance in mind, making them ideal spots to hang out with friends and linger over a nice meal. Cantinas have also become community hubs, boasting wedding chapels, gaming rooms, fire pits, and even drag shows.

> Dwell times at the Taco Bell Cantina locations analyzed are significantly longer than the average dwell time for Taco Bell locations in the CBSA and state.

Cantinas, meant to promote what Taco Bell execs have dubbed "fast-social," were introduced in response to the realization that customers crave social experiences. And in today's post-pandemic reality, that insight is more relevant than ever before. After years of lockdowns, social distancing, and online gatherings, in-person interactions and experiences have become the name of the game. To gauge the impact of "fast-social" venues on customer behavior, we looked at average dwell times for Cantina locations in select CBSAs nationwide, comparing them to dwell times at regular Taco Bell restaurants. The data revealed that dwell times at the Cantina locations analyzed are significantly longer than the average dwell time for Taco Bell locations in the CBSA and state.

In Tempe, AZ, customers stayed about twice as long at Cantina locations as they did at the chain's area and statewide restaurants overall. In other areas, too, average dwell times at Cantina locations was 26.5% to 45.5% higher than the CBSA or statewide averages – showing that Taco Bell has succeeded in creating venues that are fun to visit and that invite people to kick back and chill out. This is good news for the chain, since people who stay longer at a restaurant are likely to order more food. And against this backdrop, it should come as no surprise that the enhanced locations are continuing to pop up around the country.

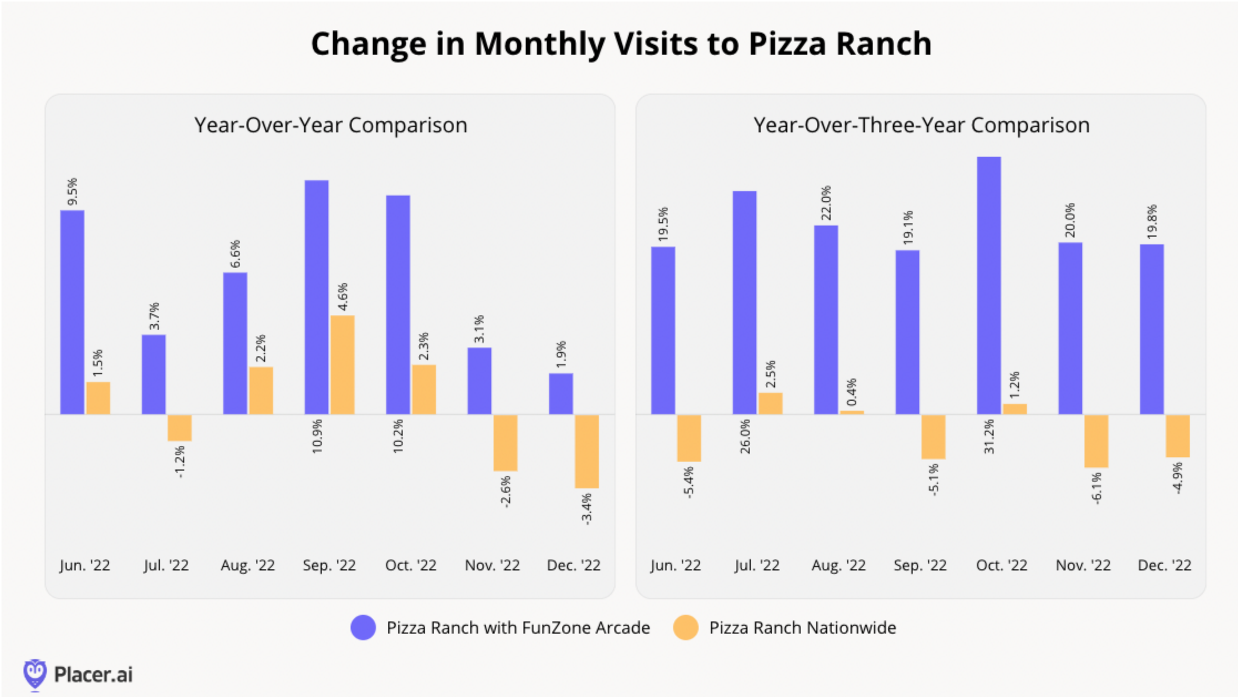


Pizza Ranch Enters the FunZone

Pizza Ranch, founded in Iowa in 1981, is a Midwestern chain that offers pizza, fried chicken, wings and a famous all-you-can-eat buffet. With over 200 locations across 14 states, the restaurant has plans to further expand its footprint in coming years.

And more recently, the chain has become an experiential arcade haven. Following the lead of franchise owners who began adding arcades to their restaurants in 2010, Pizza Ranch adopted the concept and incorporated it into dozens of venues. The FunZone venues, which boast multiple party rooms, have become birthday-party-central – and a great place to let the kids run around while enjoying a leisurely lunch.

The concept also seems to be driving increased traffic to the restaurant. Analyzing foot traffic to Pizza Ranch venues with and without arcades reveals significantly higher visit increases to the FunZone locations, both YoY (relative to 2021) and Yo3Y (relative to 2019).



Dining Steps up its Game

Inflation and cutbacks in discretionary spending have presented an already pandemic-weakened dining industry with significant challenges. But even in trying economic times, people want to unwind and treat themselves to experiences that make them happy. While rising food prices undoubtedly put a damper on eating out, people still need places to get together with friends, blow off a little steam, and grab a bite to eat. And work and school routines often leave little time for leisure – so it isn't always possible to cook at home.

In this unusual environment, innovative dining chains have found success by meeting customers' evolving needs. Staying affordable, keeping an ear to the ground, leaning into wellness, and optimizing venues to serve as social hubs are some of the strategies that have helped brands stay ahead of the curve.

Key Takeaways

1. **Cheaper wins the day**. When prices are high, people seek out less expensive alternatives. Dining venues that can provide tasty, no-frills food that doesn't break the bank are more likely to succeed in the current environment.

2. **Customers crave innovation**. People may like to order their "regular" – but new items engender buzz and excitement. Leaning into popular trends can be a recipe for success.

3. **Prepared food may be an affordable luxury – but it's also a necessity**. There will always be demand for inexpensive, ready-made meals that help busy consumers get through the day. At the same time, when budgets are tight, people will seek out delicious cheap treats to brighten their days. And venues that can provide both – such as c-stores carrying hot food – will continue to draw crowds.

4. **Wellness is on the agenda**. On the heels of the pandemic, an increasing number of consumers are focusing on wellness and following healthy diets. A health-centered approach that meets consumers where they are can be key to attracting audiences – and especially GenZ consumers.

5. **Experience is king**. Today more than ever, people want to get out of the house and enjoy fun experiences with friends and family. Restaurants that are more than just a place to eat will be poised to compete in today's environment.