



Staying fresh in the restaurant industry

**Insights from KPMG's Annual Restaurant
Financial Executives Share Forum**

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Drinking in disruption: Hot restaurant trends

How are the technology landscape, the regulatory environment, current culinary trends, and overall business conditions impacting restaurant operators? What are the near- and long-term outlooks for restaurant industry sales and growth? How are restaurants innovating menus, food services, dining experiences, and back-end operations?

As disruptive forces continue to shake up the restaurant industry, these are just a few of the questions KPMG practice leaders and guest speakers addressed at **KPMG's Annual Restaurant Financial Executives Share Forum**, an annual event which provides restaurant finance leaders with a big-picture view of the key trends shaping the future of restaurants.

In this event recap, we highlight what's happening in and out of the kitchen to reveal best practices—from a financial perspective—for restaurant companies to stay fresh in a transforming industry.

“Our clients aren’t sitting around waiting. Some are trying to figure out strategy to react to disruption, but the best companies are forward-thinking—trying to adjust strategy to predict or at least be prepared for the next disruption.”

***Paul Fultz,
National Restaurant Segment Leader***



Digital ordering takes off

Will apps one day replace paper menus? As customers get more used to using technology for all types of consumption, guest-facing restaurant technology is becoming as all-American as apple pie.

According to the National Restaurant Association, 37 percent of restaurants now offer online ordering and 32 percent accept mobile payments¹. Restaurant companies see many benefits from online ordering, including improved order accuracy, lift in check, and the ability to collect detailed customer profiles and spending data.

Digital ordering may be the best fit for primarily take-out/delivery restaurants like Papa Johns, especially as mobile food ordering for delivery continues to rise in popularity. But today, more quick-service brands, such as Taco Bell, are taking advantage of digital ordering, given speed and accuracy that surpasses the drive-thru. Where drive-thru customers must wait in line, quickly order from a menu board, and converse with someone who may not hear them well or get their order wrong, online ordering does away with all of these issues. Even some fast-casual, dine-in eateries, such as Red Robin, are asking guests to place their meal orders on touchscreen tabletop tablet computers.

Many airport restaurant operators have also jumped on the digital ordering bandwagon. For example, at Newark Liberty International Airport in New Jersey, more than 1,000 customer-facing iPads are deployed for digital ordering at both full-service establishments and in the food court. The iPads let harried, baggage-laden travelers enjoy a faster and more convenient meal experience. They can order food without waiting online, pay on the spot with frequent flier miles or credit cards, get food recommendations based on past orders, and check flight status or surf the web while eating. Meanwhile, the restaurants are able to maximize operating efficiency².

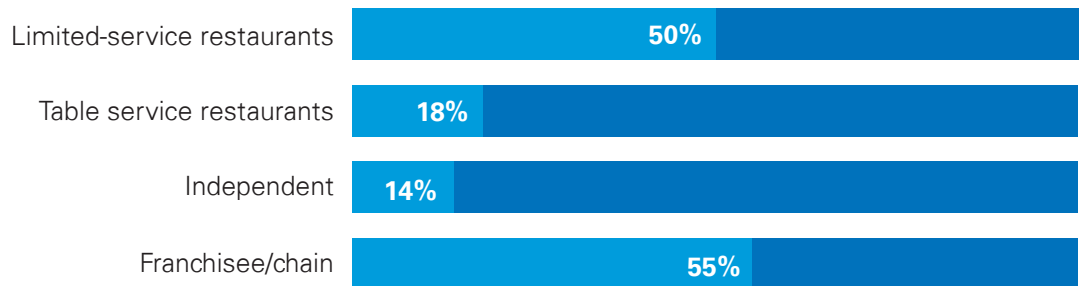
Considerations for financial executives

- ✓ Will your organization need to invest in new or upgraded technology systems to support digital ordering?
- ✓ How can you use digital ordering to not only increase customer satisfaction, but also bring your costs down?
- ✓ How can you leverage digital ordering to enhance your loyalty program?
- ✓ How can you monetize customer data collected from digital ordering platforms?

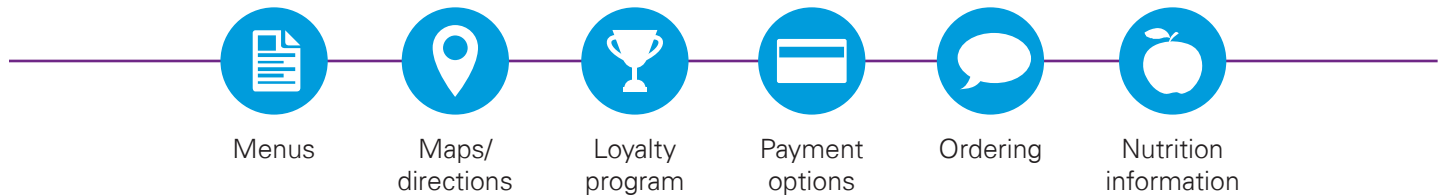
¹ Mapping the Technology Landscape (National Restaurant Association, May 23, 2016)

² How iPads are making airports less terrible (The Verge, Nov. 20, 2014)

Smartphone Apps¹



More than half of apps feature:



“From a cost perspective and from a customer satisfaction perspective, restaurants are going to look to technology solutions. The question executives should ask is: ‘How can I be perceived as being on the cutting edge to give my customer the unique, more value-added experience they expect from other aspects of their life?’”

***David Seay,
Audit Partner, KPMG***

¹ Restaurant.org/technologytrends

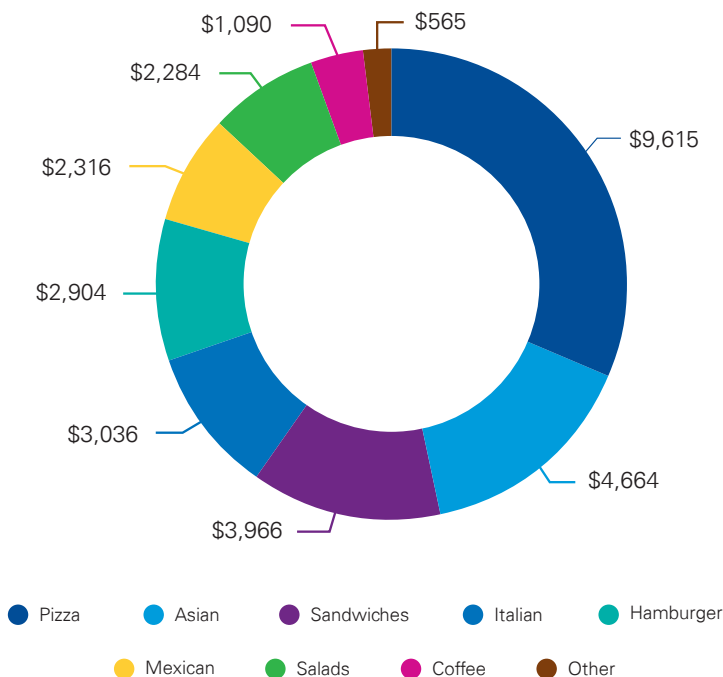


Delivery: A huge opportunity

Just like their television shows, today's consumers want their food on demand. This represents an enormous opportunity for restaurant companies. The food delivery sector is currently valued at \$10 billion—primarily concentrated in pizza—but analysts say most food delivery demand is still unmet and the market has a \$210 billion potential.³

Consumers' expectations for delivery continue to rise in part due to an influx of third party online delivery businesses. Apps like Grubhub and EatStreet, which offer consumers access to many brands, are making on-demand ordering and delivery of anything from hot pizza slices to sizzling steaks quicker, more convenient and affordable for many types of establishments. Meanwhile, online startups like Blue Apron are introducing new, highly-competitive home recipe delivery business models aimed at taking advantage of consumer preferences for convenient, fresh meals without much preparation—thereby increasing competition for the business of would-be restaurant patrons.

Food delivery dollars by food type (\$billions)



Considerations for financial executives

- ✓ Are door-to-door delivery costs sustainable for your business?
- ✓ How will you preserve margins? Will you increase menu prices, deliver only to certain areas, require a minimum dollar check amount, or charge a delivery fee?
- ✓ Should you partner up with a third party site or create your own delivery platform and infrastructure?

Source: AlphaWise, Morgan Stanley Research

³ Food Delivery: What If All Food Could Be Delivered as Easily as Pizza? (Morgan Stanley Research, June 14, 2016)

“Third party delivery service providers are driving growth in the delivery market; while broadly unprofitable, they’re creating consumer demand for restaurants to broaden accessibility.”

***Andrew Charles,
Restaurant industry analyst
Cowen and Company***





Menu innovation matters

Appetites today differ greatly by demographic, and appealing to them all is a major challenge for restaurant companies. Among the large, big-spending and influential millennial segment, especially those entering parenthood, it's all about quality, health and food transparency. And that isn't as simple as it sounds. "Organic" and "locally sourced" are the latest menu crazes, not necessarily "low-calorie" or "low-fat." More than almost anything, millennials want to know what's on their plates—and they're willing to pay a premium for it if it's wholesome, sustainably produced, and meets their own individual dietary needs.⁴

That doesn't mean all restaurants should swap French fries for apple slices. Knowing your repeat customer and introducing exciting new menu choices designed to please them—such as a limited-time, latest-and-greatest burger—is key.

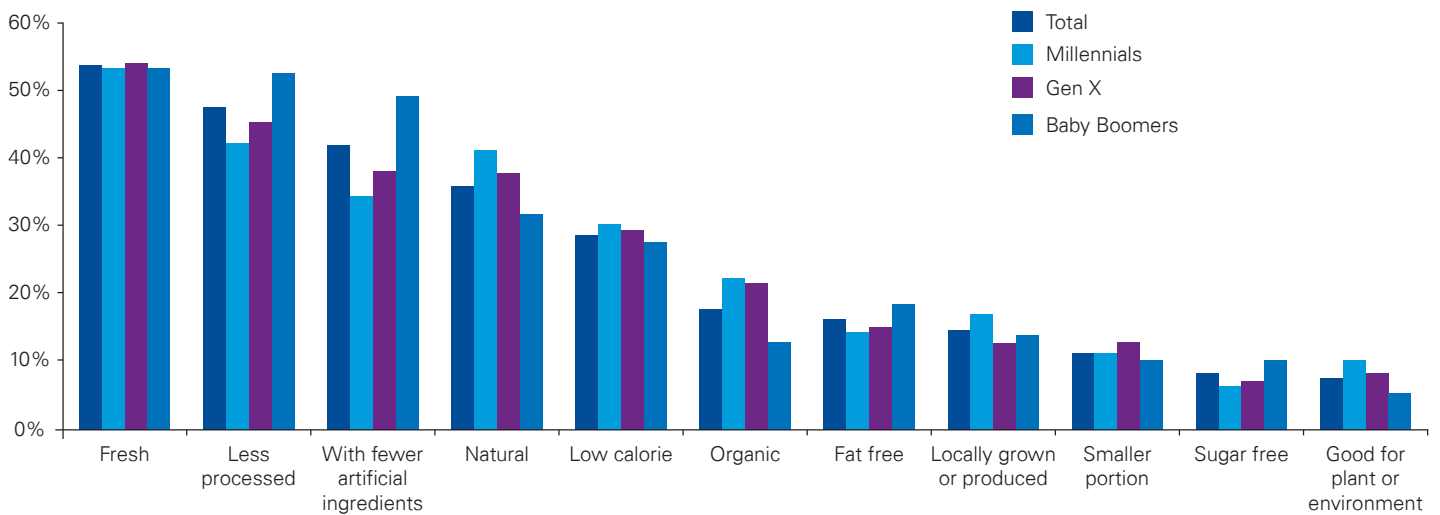
It's also important to consider creating healthier alternative options for consumers who might not be your core customer. Domino's, for example, continues to define itself as a pizzeria, but now it also offers salads. Although it might not be a large category grower for the brand, putting salads on the menu helps Domino's appeal to wider range of preferences without alienating frequent customers. The goal is to garner business from groups and families with a handful of health-conscious members who might have previously avoided the restaurant chain.

Considerations for financial executives

- ✓ How will you use sales and customer data to anticipate new food trends?
- ✓ How can you ensure introducing fresh, healthy, organic and often expensive ingredients drives sales without negatively impacting profits? How do you maintain the price value you want for your customers?
- ✓ How will you control the procurement cycle to ensure the highest food quality for all customers at all times?
- ✓ Have you considered how regulatory rules on displaying calorie counts might impact your menu choices? How will you strike a balance between compliance and appealing to your consumer?

⁴ We Are What We Eat: Healthy Eating Trends Around the World (Nielsen, January 2015)

What healthy food at a restaurant means



Morgan Stanley

“Product innovation is always going to be a major player, especially in the competitive world of fast food. From a disruptive perspective, in order to grow and be able to break away from the competition, you need to try something new.”

***Shelly Cole,
Managing Director, KPMG***



Culture change and innovation

Given the rampant market disruptions across the restaurant industry, many organizations are turning to internal cultural change—goals, values, and behavioral norms—to help them innovate and outpace competitors. We are seeing restaurant brands re-focus their efforts to be trend-setters in different competitive areas, whether it's on price, freshness, dining experience, technology or something else.

However, making strategic decisions about where to play probably isn't the biggest challenge facing restaurants. In all industries, innovation requires an entrepreneurial spirit and a risk-averse approach where it's okay to make some mistakes.

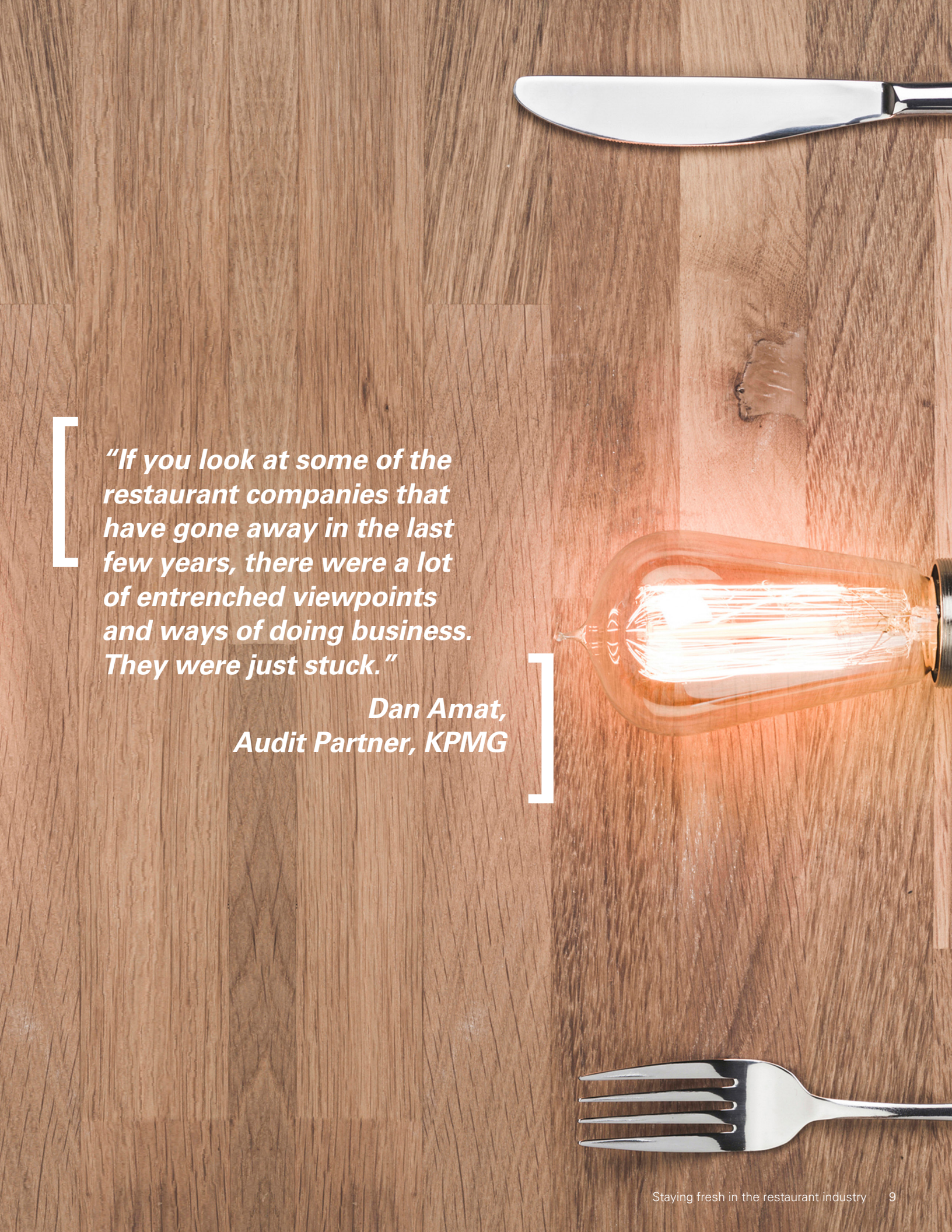
But culture is a like a slow moving barge. The longer a restaurant company has been around and the more success it has had, especially recent success, the harder it is to move. It's easy to succumb to an "if it's not broke, don't fix it" type attitude, hurting efforts to try something new—even the longer-term strategic moves the company needs to make to innovate ahead of disruption.

Considerations for financial executives

- ✓ How can you leverage the things your business is already good at to get ahead of competitors?
- ✓ What will be the next big thing you can do to improve the customer experience, reduce costs, or better yet, do both?
- ✓ How will you balance shareholder demands that include a focus on short-term results and quarterly earnings with an innovative, future-focused approach?

"Part of success is about adapting to the trends, but you have to strike the right balance and not try to transform overnight. You have to stay true to your heritage as a restaurant company."

***Mark Larson,
National Retail Sector Leader, KPMG***



“If you look at some of the restaurant companies that have gone away in the last few years, there were a lot of entrenched viewpoints and ways of doing business. They were just stuck.”

*Dan Amat,
Audit Partner, KPMG*



Accounting for discounting

In 2016, the U.S. experienced slow but steady economic improvement and modest wage growth. However, a string of headwinds went against restaurant industry growth: increased gas prices, falling grocery prices, economic uncertainty surrounding the U.S. presidential election, and as many as 1 million Americans losing food stamp benefits. Combined with some consumers saving a bit more, and others spending disposable income on new houses instead of eating out, the overall trend has been somewhat disappointing restaurant sales since the spring.

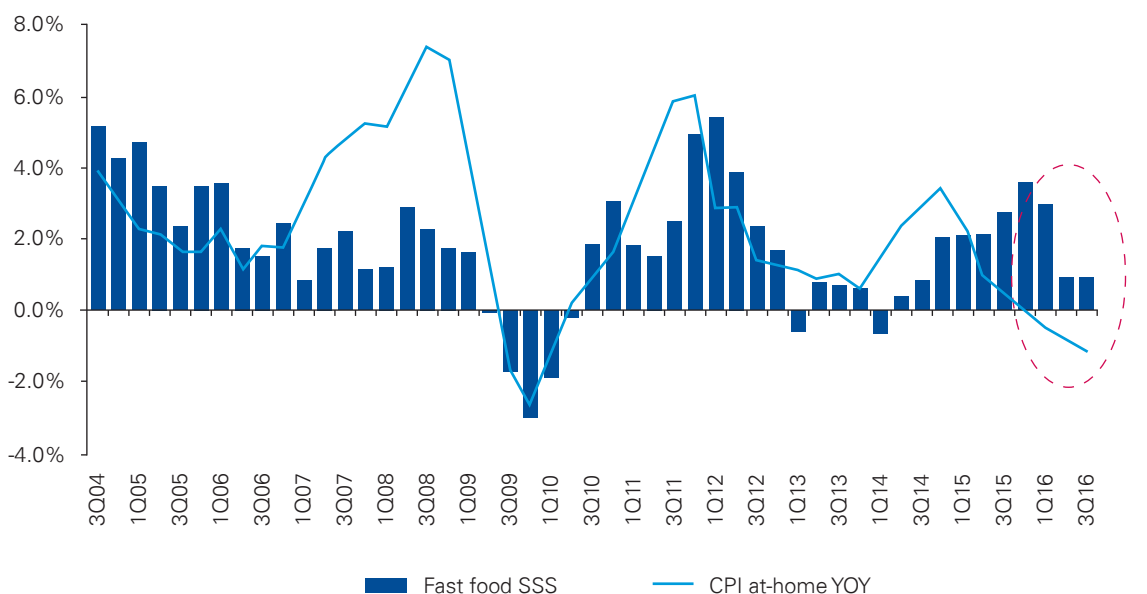
In reaction, restaurants have been getting creative from a marketing perspective. Many have been extremely aggressive with discounting programs, including couponing, giveaways, customer loyalty programs and gift cards, in an attempt to attract restaurant-goers from their homes, where food is simply cheaper at the moment.

Considerations for financial executives

- ✓ What is your forecast for near- and long-term sales given current U.S. wage and job growth patterns?
- ✓ How will your business combat food inflation trends that skew toward groceries and supermarkets?
- ✓ As marketing gets more creative with programs like gift cards and loyalty points, what are the tax and accounting implications, especially in light of the new revenue recognition standard that will go into effect in 2018?

Markets Chart of the Day

Exhibit 3: Fast food SSS vs. CPI at-home inflation



Sources: Company documents; RBC Capital Markets estimates; Bureau of Labor Statistics

“Understanding loyalty programs is complex. When you mix that with the accounting rules changing all around, it creates a lot of challenges to get the accounting right.”

*Valerie Boissou,
Audit Principal, KPMG*



About the author



Paul Fultz
Restaurant Segment Leader

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Paul is an Audit partner, managing partner of the Louisville office, and the national restaurant segment leader for the firm. He is also an SEC reviewing partner—KPMG's designation for its top technical partners.

How KPMG serves the restaurant industry

KPMG International and its network of member firms (collectively 'KPMG') are a global network of professional firms providing audit, tax, and advisory services operating in 155 countries and employing more than 174,000 people. Our U.S. member firm, known as KPMG LLP, traces its origins all the way back to 1897 and became a limited liability partnership in 1994. As a leading professional services firm, KPMG LLP has more than 30,000 partners and professionals providing services throughout all 50 states. With 90 offices, we are a significant presence in your current markets and in those locations where you may want to expand.

KPMG is one of the leading professional service providers to the largest restaurant companies. This experience, coupled with our access to and knowledge of all major international markets, strongly positions us to assist our clients in recognizing opportunities and taking actions in response to industry, marketplace, and regulatory changes.





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