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2018 Top 200: Limited Service strives for reinvention

Chains are responding to a flurry of industry disruptions, from delivery to more demanding consumers

Nancy Luna | Jun 18, 2018



This is part of the Nation's Restaurant News annual Top 200 report, a proprietary ranking of the foodservice industry's largest restaurant chains and parent companies.



Disruptions in the industry, from delivery to dealing with finicky Millennials, have triggered an avalanche of reinvention among the nation’s top fast-food chains.

Chains entrenched in experimentation — stretching from menu tweaks to digital enhancements — are seeing modest gains in the Latest Year. Limited Service failed to outperform unit and systemwide sales growth compared to the Preceding Year.

The slowdown comes as diners continue to eat out less frequently, split their loyalties among a wide variety of brands and toil with meal kits delivered to their doorstep.

TOTAL U.S. SALES

\$129.9_B  **2.6%** FROM \$126.6B
A YEAR AGO

SEGMENT SALES LEADER

\$37.6_B 

TOTAL U.S. UNITS

103,019  **0.4%** FROM 102,594
A YEAR AGO

% SALES GROWTH

LARGEST: **32.5%** 

AVERAGE: **3.6%**

LARGEST DECLINE: **-6.6%** 

ESTIMATED SALES PER UNIT

LARGEST: **\$8.8 million** 

AVERAGE: **\$1.5 million**

SMALLEST: **\$359,600** 

Limited-Service chains in Nation’s Restaurant News’ Top 200 had average growth in U.S. systemwide sales of 3.6 percent, down from average Preceding-Year growth of 6.5 percent.

“That’s not a bad year. It’s not a great year. That’s about an average year,” said industry analyst Mark Kalinowski of Kalinowski Equity Research.

Chains making big gains were concepts that appeal to consumer demand for personalization and affordable but quality foods.

As such, the hottest fast-casual brands continue to expand like crazy, eclipsing the average unit growth within the total LSR segment. But even Shake Shack, which has been enjoying steady growth, slowed down a bit.

Shake Shack had a 32.5-percent gain in U.S. systemwide sales, down from Preceding-Year growth of 43.5 percent. Still, it maintained its No. 3 ranking in the Top 200 list of fastest-growing chains.

Limited-Service unit growth has also slowed.

LSR chains in the Top 200 had average Latest-Year unit growth of 4 percent, compared with 5.6-percent growth in the Preceding Year.

The industry is feeling the heat of cautious consumer behavior despite strengths in the economy, Kalinowski said.

“People are not feeling confident in their place in today’s economy,” Kalinowski said.

As they notice a slowdown in the fast-casual sector, fast-food chains are pouncing.

Experimentation, personalization and innovation are now ruling an industry born from feeding customers quickly in identical-looking restaurants from coast to coast.

Blending in is no longer in vogue. Sticking out, instead, is the key to survival.

Did value wars hurt LSR?

Another factor to consider: did the intense value war, which has continued its march on LSR menus through 2018, hurt systemwide sales? Yes and no.

In early 2017, chains such as Wendy's, Carl's Jr. and Jack in the Box saw an uptick in frequency after introducing bundled meal deals that hovered around \$4. The combo deals earned much buzz because at least two items in the package included sizeable meals, including a mix of burgers, sandwiches or chicken nuggets.

"It did move the needle because it was really new and different," said Warren Solocek, senior vice president of industry relations at The NPD Group.

Bev Cain, president of Sandelman & Associates, said the war on value serves another purpose.

"I think there's a desire to remind people that this is the core strength of QSR. It's affordable to all," she said.

Kalinowski said the value-menu battle might have brought diners through the door, but it didn't boost overall same-store sales.

"I'm not certain it's helping many concepts in a meaningful way. They all feel like they have to do it. They all have to be competitive because if you don't do it, you might lose share to zillions of others who are doing it," Kalinowski said.

Mexican fast-food chain Del Taco, often overlooked amid the menu antics of its Southern California rival, Taco Bell, and the high-profile troubles of Chipotle Mexican Grill, has experienced 18 consecutive quarters of same-store sales growth.

The chain has been rock solid, with a strategy of offering a diversified menu that caters to varying budgets — Epic burritos (one-pound Chipotle-size burritos), premium salads and Platos to go after the fast-casual eaters — with a Buck & Under value menu and a Late Night Bites menu also available.

Remodels galore

A wave of traditional fast-food chains such as McDonald's, El Pollo Loco, Wendy's and Taco Bell are modernizing stale cookie-cutter restaurants to appeal to a new generation of diners looking for individuality and storytelling from the brands they patronize.

The contemporary fast-food restaurants offer chic bar tops, booth seating, reclaimed wood and pendant lighting — similar decor found at fancier fast-casual brands.

Taco Bell has started using four distinct designs in its next-generation restaurants. Features include exhibition kitchens, mid-century modern lounge chairs, cushioned booth seating, hacienda-style light fixtures, tables with outlets for charging electronic devices, patios with fireplaces, and communal tables made of reclaimed wood.

“We've always been known as an innovative brand from a food perspective, and we're starting to carry that through from a design perspective,” Deborah Brand, Taco Bell vice president of development and design, told NRN earlier this year.

Industry watchers say demanding, younger diners looking for higher quality foods, affordability and ambience, as well as good food, are driving innovation.

In other words, the letter generation wants it all.

“Millennials are choosier and more specific in their tastes,” Cain said.

LSR chains are scrambling to accommodate. One of them working the fastest is also the biggest: McDonald’s.

Makeovers at the chain have been so dramatic that many of the old-style red-roofed restaurants have been razed and rebuilt from the ground up. Snazzier restaurants now offer table service, upscale burgers, modern furniture and delivery through UberEats. The company is also rolling out fresh-beef burger patties for Quarter Pounders in multiple markets.

Dozens of McDonald’s so-called Experience of the Future restaurants are also adding touch-screen kiosks for self-serve ordering. A separate initiative is Mobile Order & Pay, where customers can order through the app and pick up meals curbside, inside the restaurant or at the drive-thru. Curbside is available at most U.S. restaurants.

Individual McDonald’s units are reaping the benefits in terms of sales. And they are doing it at a time when the majority of Limited-Service brands in the Top 200 — 37 of 62 LSR chains — are working to counter Latest-Year decreases in Estimated Sales Per Unit.

The ultimate disruptor: Delivery

By far the biggest disruptor in the restaurant industry is delivery. But here's the twist:

While delivery is still dominated by traditional Pizza chains, the segment giving fast-food chains pause is a foe they've rarely had to deal with: Casual Dining.

Historically, casual diners could never compete on speed and convenience. But the steady rise of delivery in markets across the country has made Casual-Dining meals more accessible — and attractive — to diners looking to eat a quality meal while binge-watching their favorite TV show on Netflix.

The growing number of delivery apps is now placing burger choices at Red Robin next to Five Guys Burgers and Fries and McDonald's. Subsequently, delivery is blurring the lines between segments.

Technology “is leveling the playing field” when it comes to competing with fast food, casual-dining operator Chris Simms told NRN earlier this year.

And that's bad news because casual dining is definitely stealing share from LSR through delivery, Cain said.

Still, ignoring delivery is not an option for any sector.

“If I'm a restaurant and I don't do delivery, then I'm out of people's consideration set,” Solochek said.

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