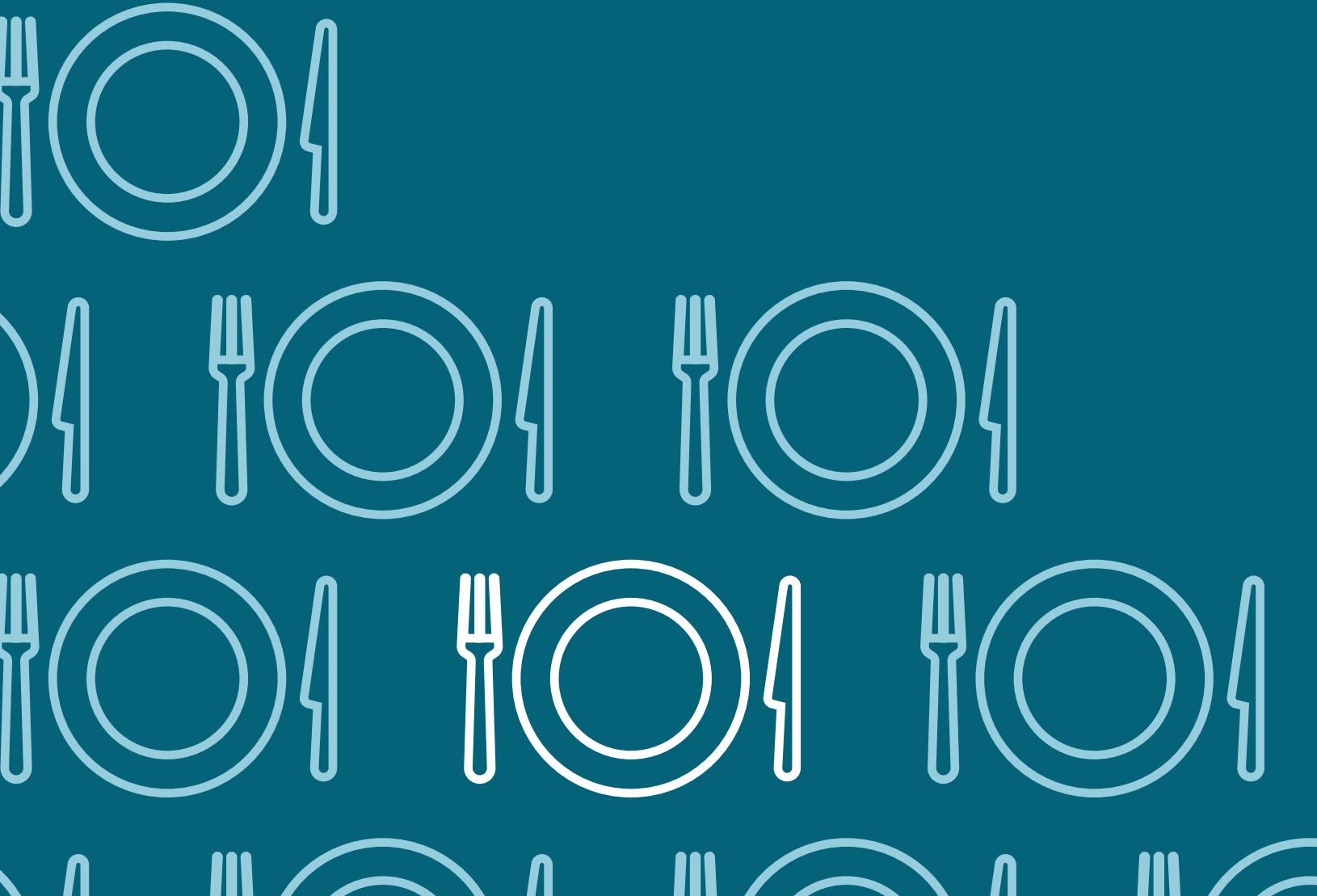


OCTOBER 2016

Global Restaurant Outlook: Feeding the global consumer



At A Glance

1

On our menu

- We surveyed 4,600 diners in nine countries: Brazil, China, France, Germany, Italy, Japan, South Korea, the United Kingdom, and the United States.
- We interviewed executives from more than 40 different restaurant concepts to understand how they plan to address worldwide consumer trends in the future.

2

Highlights on the table

Five key trends shaping the global restaurant market include:

- Increased interest in food quality
- Growing price sensitivity
- Impact of health & wellness concerns when dining out
- On the go lifestyles changing dining habits
- Successful localization of global chains

3

What's cooking?

- International expansion is crucial for growth, though some previously hot emerging markets are now cooling off.
- Tactics for managing growth are changing to include a more focused approach to build critical scale and the use of partnerships to handle complexities encountered in new markets.
- New organizational structures are emerging to manage expansion and achieve procurement and supply chain effectiveness.

4

The takeaway

- Consumers have clear preferences and expectations for two types of dining experiences - on-the-go and full service. Successful operators are choosing to focus on one or the other rather than trying to be everything to everybody.
- Operators will need to address supply chain challenges and better serve the on-the-go market through speedy and improved service and the use of technology. Others will have to review and manage their local delivery capabilities.
- Casual dining operators need to focus on price and fresh offerings in the enduringly popular full service category.

Keeping global diners happy is getting tougher, as they become ever more demanding. Worldwide, spending is flat, and consumers are becoming increasingly savvy at searching for deals and fresh options. Operators need to focus on ways to attract and retain discerning consumers.

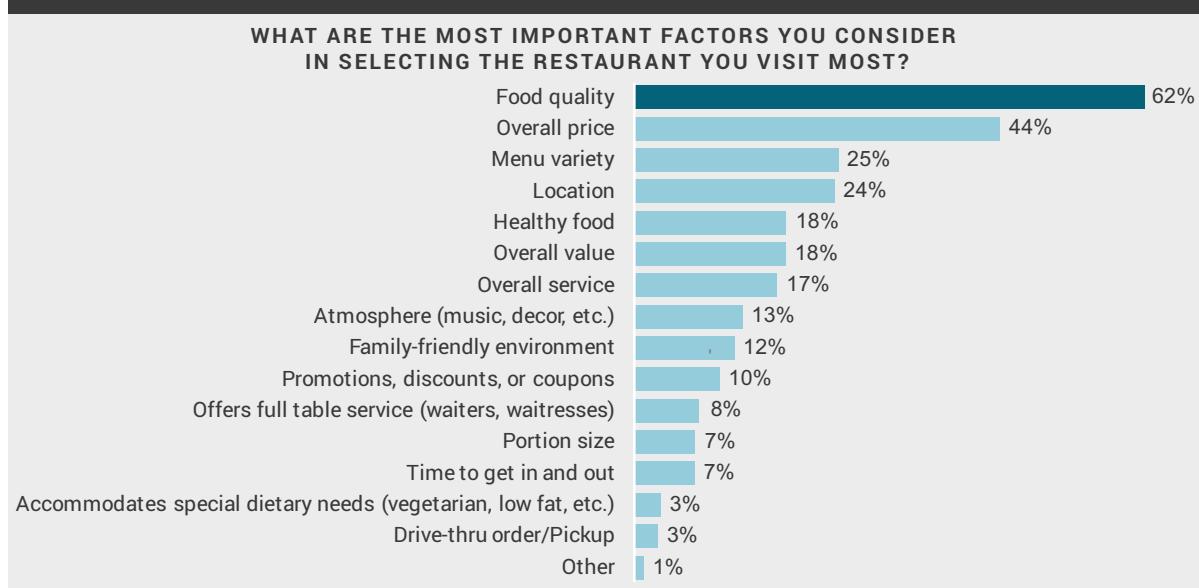
Most consumers say they plan to seek out more discounts in the coming year, and many plan to cut back on dining out. So, when they do visit restaurants, they're more discerning than ever, and their standards are high. The pressure is on operators to keep prices down while still meeting diners' requirements for fresh food, in a modern spot, at a good price.

Restaurant operators—juggling all of this and trying to effectively manage their global supply chains—have to be able to win with less.

ON OUR MENU

To find out more about what, when, and where consumers are eating, as well as their dining plans for the coming year, we surveyed 4,600 diners in nine countries: Brazil, China, France, Germany, Italy, Japan, South Korea, the United Kingdom, and the United States.¹ In addition, we interviewed executives from more than 40 different restaurant concepts with 2015 revenues in excess of \$90 billion to get their thoughts about international restaurant development and, specifically, how they plan to address worldwide consumer trends in the future.

FIGURE 1: FRESH IS TOP PRIORITY AMONG CONSUMERS SELECTING RESTAURANTS



Source: AlixPartners' global consumer survey

¹ 2017 AlixPartners' Global Restaurant Outlook: Feeding the Global Consumer. The study examines global consumer preferences and provides the latest thinking on trends that could shape the coming year. All references, facts, and opinions contained in this article can be found in the 2017 Global Restaurant Study.

THE MAIN DISH: CHEAP EATS

Globally, many consumers are cutting back on visiting restaurants—but for different reasons: in Asia and the Americas, the driver is predominantly health, and in Europe, it's finance. And when consumers do eat out, they want a terrific deal.

How to capture and keep these penny-pinching customers? Lowering prices is one of operators' top priorities, along with improving menu quality and food safety.

HIGHLIGHTS ON THE TABLE

Overall, dining frequency is comparably high across all of the countries we surveyed.

Lunch and dinner are most popular across the board, with lunch taken across all core segments and with dinner dominated by casual and fine dining. The number one attribute in a dining decision is whether a restaurant has freshly made food.

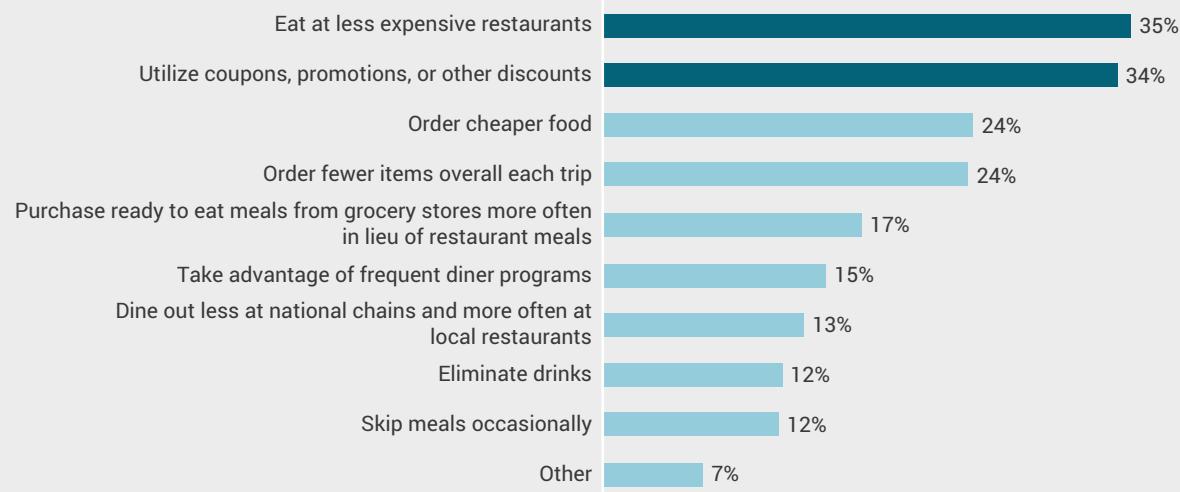
Consumers value chain restaurants for price, speed of service, use of technology, and convenience and less so for food safety, cleanliness, atmosphere, taste, and options. And now more than ever, the key to success depends on tailoring chains to local markets and delivering an independent-feeling experience with the operational efficiency of a chain.

Our research found five key trends shaping the global restaurant market.

- 1 **Food quality** is critical, with more than two-thirds of those surveyed saying that food freshly made with fresh, local ingredients is the most important element in their choice of restaurant (figure 1). More than half said they want their food to be free of artificial ingredients and preservatives. And sustainability is gaining significance, with sustainable ingredients and packaging top of mind. Many household name restaurants have accommodated that demand; for example, Taco Bell and Applebee's are among those recently committing to cage-free hens. The number one factor is locally sourced fruit and vegetables, followed by fish and seafood.
- 2 **Price** is very important to diners, and globally, we're seeing a shift toward spending \$10 or less on a meal. Diners surveyed are economizing by using coupons and eating at less-expensive restaurants (figure 2). And most said they'll be hunting down more discounts in the coming year: more than 70% said so in China and Brazil. Customers in the USA and South Korea were the most interested in cutting back on number of visits. Those in Brazil, Italy, and China said they expect to dine out more during the next year, but only those in China said they expect to spend more.

FIGURE 2: HOW DINERS PLAN TO CUT COSTS

AT RESTAURANTS, HOW WILL YOU REDUCE THE AMOUNT YOU SPEND IN THE NEXT 24 MONTHS?



Source: AlixPartners' global consumer survey

3 Health and wellness is on consumers' minds

worldwide, with more than 90% citing healthy menu options as at least "somewhat important" when they choose where and what to eat. Diners in Italy and China were the most likely to consider healthy menu options "extremely important" or "very important"; those in the United Kingdom and Japan were the least interested. Clearly, this issue is on the table not least because of government support for healthy eating initiatives. For example, US authorities recently introduced food quality legislation ranging from soda taxes to new menu-labeling guidelines from the US Food and Drug Administration. However, food quality trumps criteria such as low calorie or portion control. It's interesting that the survey found no link between obesity prevalence and concerns about healthy eating.

4 On the go is a key trend, as lifestyle changes and economic growth patterns affect the industry and eating habits.

Globally, 30% of meals are now eaten on the go, and the prepared-foods segment, including prepackaged salads and sandwiches, is expected to grow by 3% through 2021.² Therefore, successful operators have adapted to focus more on service enhancements and speed. However, this is typically a cost-conscious consumer: in four out of five global regions, consumers identified prepared food as one of the top two most-price-sensitive grocery categories. And they indicated they would cut back—or even cut it out—if prices went up.³

The United States is starting to see that lower grocery prices lead to consumers' eating more at home, which means there's an opportunity for prepared foods—if grocers get pricing right. In contrast, the restaurant industry has seen modest price increases, and the fear of rising labor costs could bring further price rises—a concern that weighs far less heavily on the grocery channel. And retailers stand to benefit from the trend as more and more Americans live and eat alone.⁴

Another factor keeping diners at home is the rise in meal delivery services worldwide. Providers such as DoorDash, Deliveroo, and Foodpanda are transforming eating habits, as consumers summon hot meals from their smartphones. In the United States, weekly use doubled in 2010–15; in India, food ordering is growing at up to 20%; in Brazil, takeaway grew by a fifth last year; and in the United Kingdom, the delivery market is expected to triple by 2020.⁵

As this market soars, funding continues pouring into food tech to develop new ventures and delivery formats: start-ups in the sector saw more than \$1 billion in quarterly investment in the past year.⁶

5 Global chain restaurants are gaining traction in local marketplaces worldwide, partly because they get some of the key elements right: for instance, they can adapt and localize their menus, which chains such as McDonalds have managed to do successfully. In Italy, 78% prefer the Italian version of the menu when they're offered it. But there are risks; for example, Domino's was less successful in China, where the pizza staples of bread and cheese didn't work so well.⁷

And localization is now extending beyond the menu to include the restaurant format, employment structure, and ingredient sourcing. For example, Domino's in India now delivers to trains and offers vegetarian options.

The chains can invest in technology—for example, in digital marketing, with online discount services having the greatest influence. Loyalty programs have had mixed results despite that half of global consumers said they're at least "somewhat influential." In South Korea, 73% of consumers use loyalty programs regularly, as do 68% in China. However, loyalty programs haven't taken off in either Japan, France, Italy, or Germany. In fact, more than 80% of consumers said they use two or fewer programs regularly. And online reservation services and company-sponsored Web sites are more influential than social media and e-mail are.⁸

² "Chilled and Deli Foods Market - Global Industry Analysis, Size, Share, Growth, Trends and Forecast 2015 – 2021," Transparency Market Research; <http://www.transparencymarketresearch.com/chilled-and-deli-food-market.html>.

³ "Think Smaller for Bigger Growth, How to thrive in the new retail landscape," Nielsen; <http://www.nielsen.com/us/en/insights/reports/2016/think-smaller-for-big-growth-how-to-thrive-in-the-new-retail-landscape.html>, June 15, 2016.

⁴ "Food service spending is up but visits are flat as consumers continue to eat more meals at home", NPD; <https://www.npd.com/wps/portal/npd/us/news/press-releases/2015/foodservice-spending-is-up-but-visits-are-flat-as-consumers-continue-to-eat-more-meals-at-home/>, June 3, 2015.

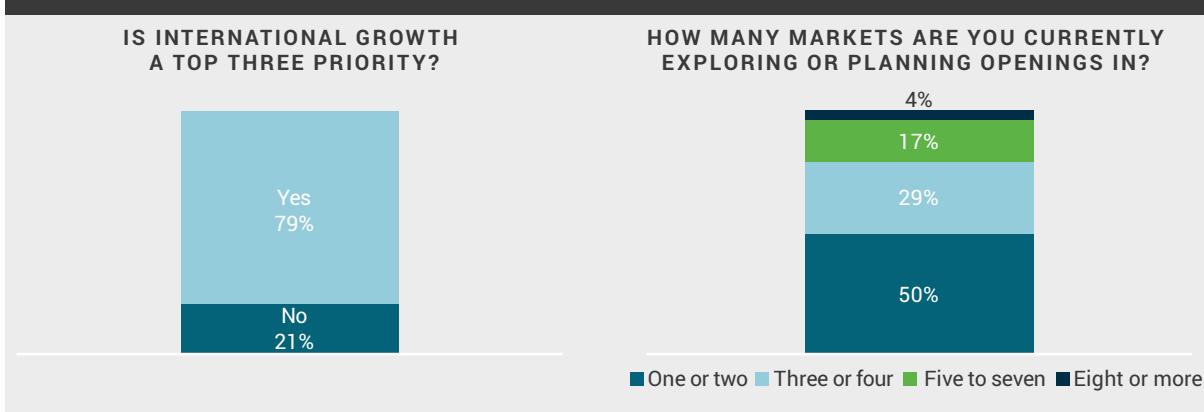
⁵ "UK Food delivery market hots up," BMI Research; <http://www.bmiresearch.com/news-and-views/uk-food-delivery-market-hots-up>, 03/08/2016.

⁶ "Global Food Tech Deal Activity Reaches All Time High in Q3'15," CB Insights; <https://www.cbinsights.com/blog/global-food-delivery-tech-funding-q315>, November 23, 2015.

⁷ Xiao Lixin, "A Cultural Lesson on Business in China," ChinaDaily, May 7, 2015, http://usa.chinadaily.com.cn/epaper/2015-05/07/content_20646996.htm.

⁸ "Online Reviews: The New Word of Mouth," National Restaurant Association; <http://www.restaurant.org/Downloads/PDFs/onlinereviews1.pdf>, accessed September 06, 2016.

FIGURE 3: INTERNATIONAL DEVELOPMENT IS CHAINS' TOP PRIORITY



Source: AlixPartners interviews with executives from over 40 different concepts with 2015 revenues in excess of \$90 billion.

The chains are capable of modernizing, which is a significant factor when diners choose where to eat: almost two-thirds of diners in Germany said the modern look of a restaurant is important to them; globally, 40% said it's a factor; and thus many operators are launching renovation programs. It works, too: in South Korea, brand refreshes have delivered improved financial performance.

Globalization has caused the number of independent restaurants to fall around the world, as the chains come up with new and innovative concepts. But penetration by global chains is still relatively low. In western Europe, consumers still like their independents; those in Asian countries tend to prefer chains. Consumers said they're interested in seeing more casual-dining chains globally. Some US fast-casual chains that have already launched global expansions are now looking to pick up speed. However, we found that the cachet of international brands is fading. And higher customer expectations will put more pressure on supply chains and global partners to deliver their brands consistently.

WHAT'S COOKING?

So, what do these trends mean for the global restaurant industry and the supply chains that support it? We wanted to understand the effects the trends are already having and the things operators must do to manage them in the future. We talked to more than 60 operators representing more than 40 different restaurant concepts with more than 100,000 locations around the world about their global supply chains and the challenges they face.

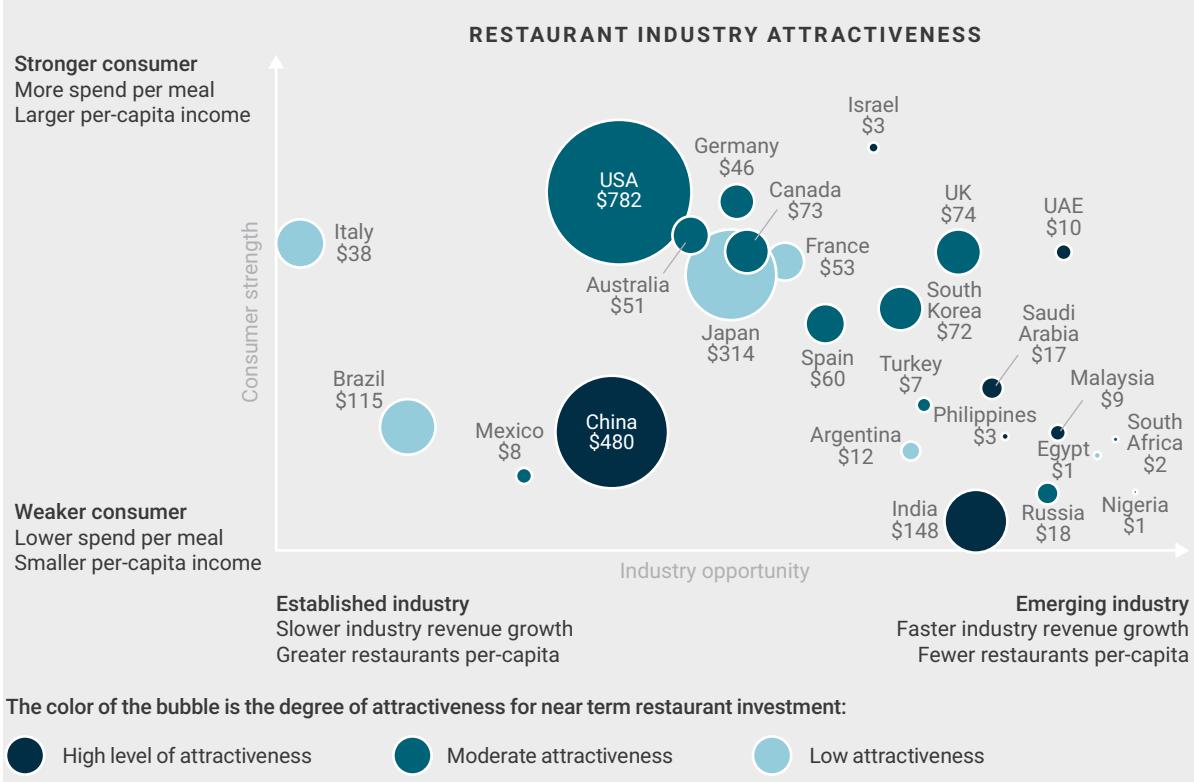
Several chains told us they see **international development** as crucial for growth (figure 3). Hot markets include the United States, India, China, Vietnam, Indonesia, and the United Arab Emirates. South Korea, Brazil, and Russia are cooling off (figure 4).

To manage growth better, chains' **tactics** are changing. Scattering stores throughout regions and countries has created inefficient networks for several of the legacy brands. Some are now taking a more-focused approach to build critical mass in fewer markets. Fewer chains are willing to go it alone: they're seeking partnerships to handle the complexities involved in real estate and regulations. But this has meant that the demand for qualified partners with capital is outpacing the supply.

We're seeing different **organizational structures** emerge to manage expansion and achieve procurement and supply chain effectiveness. Several chains are maintaining traditional structures, whereas others are opting for center-led models or regional frameworks using centers of excellence. And though tactical responsibilities remain local, it's recognized that talent must be upgraded throughout the supply chain.

Whether the ownership structure is a franchise arrangement, a joint venture, or something else, **support** varies considerably. Many can now offer culinary support to alter menus for local tastes and match what's on offer in local markets. Some offer support to try to lower high procurement and supply chain costs and to manage risk.

FIGURE 4: THE GLOBAL RESTAURANT MARKET



Other new big ideas being considered include:

- Increasing **collaboration** across brands or with nontraditional competitors to identify and work with suppliers with a view to reduce development costs
- Eliminating frozen-food imports and **creating recipes** that can be made from scratch with local ingredients
- Applying greater leverage with global suppliers to support development and become more competitive in international markets
- Improving communication and becoming more **transparent**, particularly around costing within brands
- Giving more support to **local teams** in their accommodation of changing consumer needs

Significant **challenges** remain: Many international locations struggle to stay up-to-date with consumer trends. Lack of scale is a problem, as is including international demand in the context of domestic pricing and supply agreements. Demand for qualified partners with capital is outpacing supply. And communication between franchisees, joint venture partners, and company resources can be guarded and complex.

Summary

Several chains view international development as a key ingredient for growth:

- Areas of interest: US, parts of Middle East, India, China, Vietnam, Indonesia
- Cooling off: South Korea, Brazil, Russia

Many (over 80%) positioning international ahead of domestic, devoting resources to accelerate efforts.

THE TAKEAWAY

Faced with an array of options, restaurants have to accept that they can't be everything to everybody. Consumers seem to have two clear types of eating occasion in mind—on the go and full service—and they also have clear expectations of both. It may make sense for operators to focus on excelling in a specific area, which would enable them to gain share from one type rather than grab customers from both. Global winners have typically taken that approach.

Supply chains are bound to come under pressure from consumers' increasing demands for fresh food. Operators must be able to support both rising local demand and distant demand on the inbound side. And the inexorable rise of on-the-go eating will require some to step up their service, increase their speed, and extend their use of technology; and they'll have to review and manage their local delivery capabilities.

The good news is that despite the push for speed and on the go, the sit-down dining experience remains enduringly popular—overwhelmingly in the area of casual dining. Across the board, a keen eye on price and an unwavering focus on fresh, quality food are essential if restaurant operators are to keep their customers satisfied—and win with less. **A**

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