BANK OF AMERICA RESTAURANT GROUP

State of the Restaurant Industry 2024

Ebbing inflation, easing labor pressures and advances in technology are brightening the outlook for restaurant operators

Key takeaways:

- Higher prices are causing customers to seek more value at restaurants
- Operators are investing in point of sale (POS) system upgrades, kitchen display systems, self-serve kiosks, mobile apps and automation to counter labor pressures and streamline operations.
- The worker shortage has eased somewhat, but rising wages and employee turnover continue to pose challenges for operators.
- While restaurant M&A activity has been muted in 2024, there is optimism that dealmaking will rebound as interest rates fall.

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Industry trends and insights

Key factors owners and operators must consider

> The quick-serve restaurant sector is expected to reach $316 billion in 2024, up 7.1% from 2023.
>
> Source: Fast Food and Quick Service Restaurant Report 2024

Though some restaurants have struggled to cope with cost increases, wage issues and decreased foot traffic, there are substantial reasons for optimism. Lower inflation and interest rate cuts will help create a more normal economic environment. We're seeing a divergence between consumer behavior and the owner/operator response. For some consumers, enthusiasm for dining out has proven resilient in the face of rising prices, but others have traded down in a search for greater value or stopped eating out as frequently. The labor market and supply chains have returned to states approaching normalcy, giving operators a more stable environment in which to do business. Technology is helping streamline many restaurant operations, relieving staffing and payment issues.

"We are coming back to normal," says Cristin O'Hara, head of Bank of America Global Commercial Banking's Restaurant Group. "Restaurants are among the best pivoters in terms of adapting to shifting market dynamics. Now that we're getting back toward more normal times, many operators are in a good position to really focus on execution."

Here is a further look into the trends and insights from this year:

Spending and traffic are down as consumers chase value

Total spending on food away from home climbed to $1.5 trillion in 2023 from $1.3 trillion in 2022, significantly outpacing the increase in the total spend on food at home.[1] Even amid anecdotal reports that more people are choosing to eat at home, restaurant spending has been fairly stable year-over-year through August.[2] Diners seem to be holding steady, but they are changing how and where they spend and showing a strong preference for value. As Bank of America Institute's publication *Restaurants: Quantity is the new quality* notes, "For six years, customers pivoted the majority of their restaurant spending toward standard tier restaurants, taking market share from both premium and value tier restaurants. But this trend has reversed since fall 2023, as the market share of value tier restaurants has increased, while that of premium fell and standard flattened."[3]

Rising food prices and other factors, such as consumers maxing out credit cards in a slowing economy, contributed to traffic declines in both the first and second quarters at QSRs (see below).[4] Traffic slid another 2.5% in July 2024, compared with the previous July, according to research firm Revenue Management Solutions.[5]

Brands and operators experiment with new approaches

To reduce costs, address labor shortages and streamline operations, restaurants are adapting to new layouts and service models. In the QSR space, we're seeing a reduction in square footage, more efficient kitchens, self-serve kiosks and drive-through-only concepts. QSRs and casual dining alike are investing in POS system upgrades, kitchen display systems, mobile apps, artificial intelligence (AI) and automation that utilizes loyalty programs to learn more about customers. See the "Technology boosts efficiency and mitigates fraud" section below for more on these enhancements.

Brands are addressing consumers' value needs through limited-time offers, discounting and several other strategies. And in both QSRs and fast-casual, these approaches have met with mixed success. Second quarter earnings reports showed that the concepts that have done better were those that could be adjusted quickly, such as rolling out innovative and desirable menus at lower price points or by incorporating food that is healthier, higher in value or served in larger quantities. These operators managed to protect margins and retain customers by making minor price increases and diversifying menus. Other operators ran into resistance when they bumped up prices too aggressively, causing them to then offer discounts as volume dropped. Challenges arise when strategic moves are out of sync with a restaurant's customer base or when capital structures can't weather bumps in the road, which may have played a deciding role in 10 bankruptcies so far this year. Prices can't be raised forever, and some menus haven't been changed fast enough to provide the value that customers are looking for.

> *"The restaurants that are able to tinker with pricing, menu offerings and ways to reduce friction in as many customer touch points as possible will be the winners."*

Cristin O'Hara, head of the Bank of America Global Commercial Banking's Restaurant Group

Traffic dips

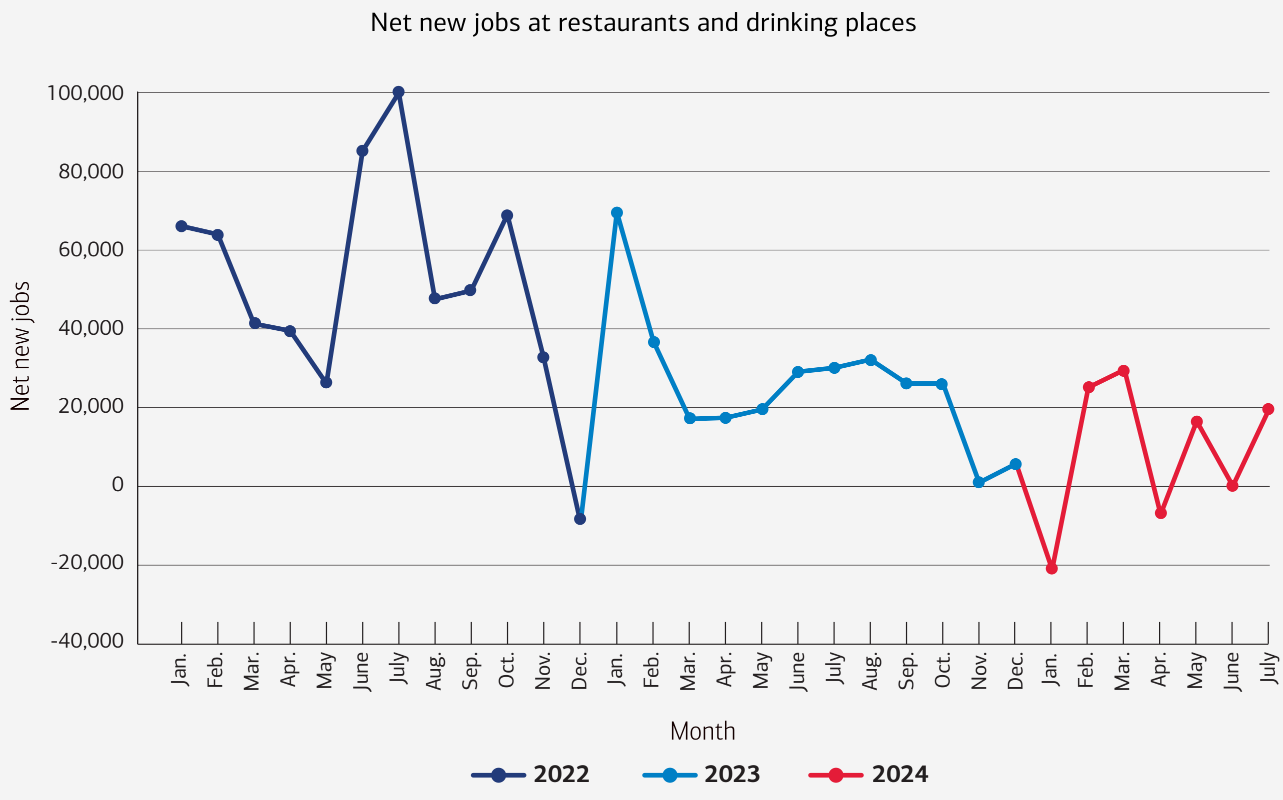
Traffic at QSRs declined in the first two quarters of 2024 compared with the same time periods a year earlier.

Q1 2024	Q2 2024
–3.5%	–2.3%

Source: Revenue Management Solutions, "Restaurant Trends, July 2024 (Q2 Trends)," July 2024

Employment growth is slowing

After booming as the pandemic receded, employment growth at restaurants has slowed in 2024.



Source: Bureau of Labor Statistics, "Food Services and Drinking Places: NAICS 722," Aug. 29, 2024

The challenge of wage increases and labor issues

Twenty-two states raised the minimum wage for restaurant employees, led by California's increase to $20 an hour, squeezing margins as restaurants sought to retain customers by offering value meals and cutting prices. According to the Bureau of Labor Statistics, seasonally adjusted total wages and benefits for workers in the accommodation and food services sector were up 1.5% in the second quarter of 2024, far above the overall average increase of 0.9%.[6]

Pressure on restaurant operators to find staff diminished somewhat, with job openings in the sector falling 16% to 866,000 in June 2024 from 1.03 million a year earlier.[7] Eating and drinking places added just 7,200 jobs a month in the four-month period ending in July, a third of the average during the previous 15 months.[8] See the "Persistent workforce challenges — and solutions" section below for a deeper dive into this topic.

Equity markets have cooled

Restaurant stocks and initial public offerings have both been impacted in the first half of 2024. Fears of slowing demand, market volatility and inflation have spooked some investors. As of mid-July, the S&P 500 restaurants index P/E was trading at below its five- and 10-year averages relative to the S&P 500.[9] However, BofA Global Research notes that "the fundamental data has been less clearcut than the stock performance would suggest."[10] While some operators saw foot-traffic growth slow, input prices, such as for beef, seem to be stabilizing and could trend lower.[11] Ben Phelps, managing director in BofA Securities' Global Corporate & Investment Bank, notes that so far in 2024, it's been a tough market for restaurant IPOs. "You almost need a perfect storm — scale, profitability and a strong market presence — to make it through the IPO process."

Technology boosts efficiency and mitigates fraud

Digital tools are more important than ever

Whether with mobile apps, ordering kiosks, customer service chatbots or algorithms that forecast demand and analyze customer spending habits, restaurant operators are adopting a wide range of advanced technologies. Digital tools are being deployed to address labor shortages, increase efficiency and order accuracy, boost customer loyalty and reduce costs.

Why restaurants are deploying technology

To improve digital customer engagement
59%

To support revenue-generating oportunities
56%

To improve business analytics
44%

Source: Hospitality Technology, "2024 Restaurant Technology Study," 2024

The latest tech trends include:

Using POS software data to help manage inventory and scheduling, ensuring restaurants have the right staff numbers at peak times and avoiding overstaffing during slower periods. Many systems now also capture and analyze consumer data to predict traffic patterns and optimize inventory, as well as enhance and personalize the customer experience.

Leveraging AI to optimize operations and improve customer service. Voice AI technology can handle orders and customer inquiries with fewer errors. Gen AI is also being used to sift through customer loyalty data to identify customers who may be interested in trying new menus and special offers.

Because food and labor costs generally account for at least 70% of restaurant expenses, they are the primary areas of AI focus. "AI can manage inventory through recommended re-order quantities, but it can also support production in real time," notes a BofA Global Research report on AI use in restaurants.[12]

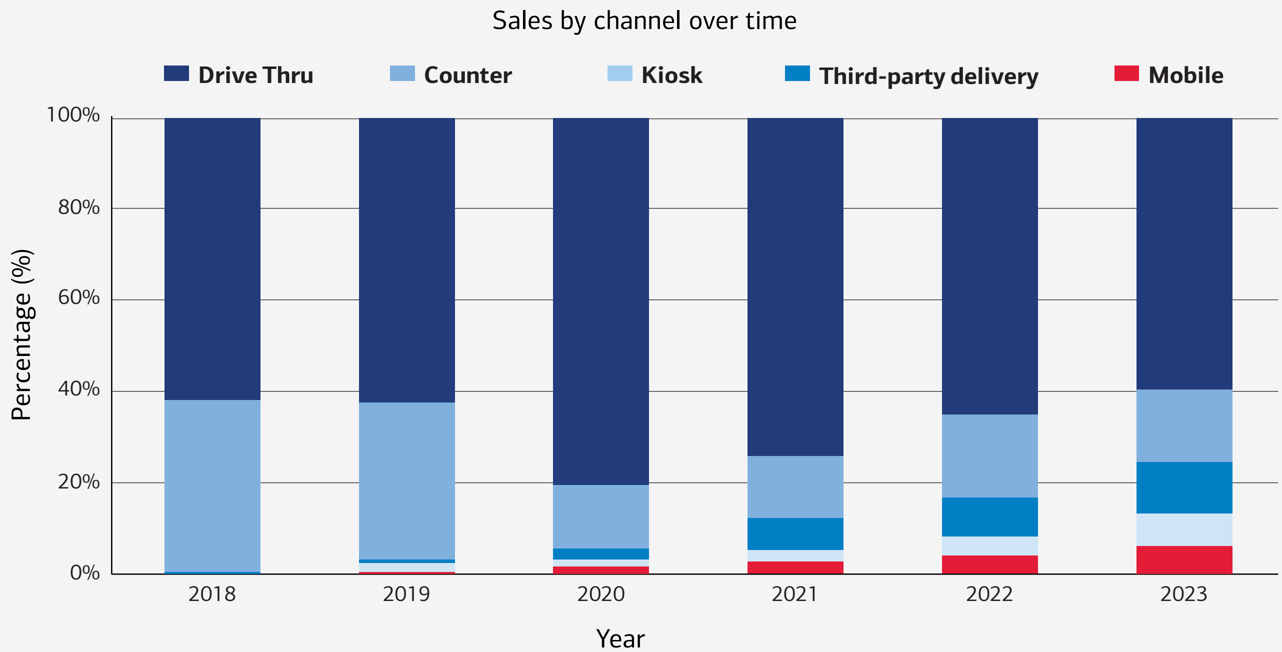
Reconciling payments from different sources: apps, kiosks, mobile wallets, third-party services, gift cards. A back-end system that can reconcile all these transaction sources is becoming essential to improve cash flow and mitigate fraud. "Operators often end up setting up accounts for each payment source, which then have to be reconciled, and having all this complexity can introduce fraud risk," says Charles Murphy, senior treasury sales specialist in Bank

> 17% of sales came via mobile and third-party apps, surpassing those from counter for the first time in 2023.

Source: Delaget, "2023 QSR Operational Index," July 19, 2024

Changes in consumer purchasing preferences

Due to the multiple ways consumers can order meals, updated ERP systems are critical to reconcile transactions, compile data to enhance the customer experience, improve operating efficiencies and mitigate fraud.



Source: Delaget, "2023 QSR Operational Index," July 19, 2024

of America's Global Payment Solutions division, who says updating IT systems can streamline the process and help thwart fraud. "Upgrading a point of sale or enterprise resource-planning [ERP] system can allow restaurant operators to consolidate those accounts, pull and aggregate purchase data, and ultimately make better informed business decisions.

Streamlining the order process with mobile apps and chatbots. At QSRs, implementation of self-service technology has generally been well received, particularly by millennial and Gen Z consumers, many of whom actively seek out contactless transactions. Taking orders and payments on screens rather than via employees is reducing staffing needs and customer wait times, maximizing upselling opportunities and improving order accuracy. This helps boost customer satisfaction and builds loyalty.

Deploying collaborative robots known as cobots for things like making salads and flipping burgers, helping the human staff become more efficient. But investments in robotic technology can be expensive, and BofA's O'Hara warns, "Cash flow is key right now, which means that for many restaurants spending money on a robot is not necessarily practical for this year or next."

Incurring high upfront costs to roll out the latest tools. "Investing in point of sale systems, hardware and software can be prohibitively costly, but investing in these digital applications to address consumer friction and aid in data analysis is necessary to stay competitive," says Aliya Willis, senior relationship manager for Bank of America Global Commercial Banking's Restaurant Group. "For companies that are finding the technology cost a challenge, there are leasing and financing programs available, and the return on that investment can be substantial."

CASE STUDY

Chipotle's digital evolution

Using the cloud to improve efficiency and increase customer satisfaction

When Chipotle Mexican Grill embarked on its digital transformation a decade ago, the company kept a simple goal in mind: creating a friction-free experience for both customers and employees. "We wanted to make digital ordering channels easy for our guests to use and seamless for our crew," explains Kevin Arndt, the fast-casual company's vice president of software development. "So we transitioned from on-premises technology and advanced to the cloud."

The decision was a game-changer. Trading a legacy system with bolted-on applications for a cloud-based, integrated platform and processes positioned Chipotle to thrive when digital orders surge. "Scale is the major benefit; being in the cloud gives us a huge capability to deploy faster," says Arndt, who adds that speed and capacity are critical when demand surges during a promotion. "Customer demand is high during our free guacamole promotions. With our previous on-premises implementation, it was harder to handle the load. Now, with the cloud, we can scale based on demand."

Another advantage is the visibility that managing operations from an integrated, centralized hub provides. Chipotle mines data from transactions across channels at all of its 3,500-plus locations to forecast demand, optimize employee scheduling and create personalized marketing campaigns.

The system allows Chipotle to leverage the ordering history of its loyalty program members to curate guests' user experiences. "Data analytics is an amazing tool that enables you to connect with customers on an individual basis versus en masse," Arndt says. "It allows us to customize what we send to make push notifications more personal. If you're vegan, we won't send you an offer for a steak burrito. When we know your dietary preferences, we can adapt the user experience, remove the content you don't care about and send you things you want to see."

Chipotle's cloud capabilities are just one component of an overarching commitment to expanding use of emerging technologies, including AI and cobots. "We're constantly looking at ways we can use technology to unlock value," Arndt says. "It's our ongoing commitment to deliver an exceptional experience for our teams and our guests."

Persistent workforce challenges — and solutions

Tackling persistent and renewed labor and wage headwinds

Big pay increases

While restaurants experienced some relief from staff shortages in 2024, rising wages remains a significant issue, particularly for operators located in the 22 states that passed minimum wage increases since January. In California, for example, a new law, which took effect in March, required "fast food" restaurant operators to pay a minimum wage of $20 an hour, nearly three times the federal minimum of $7.25. Washington, D.C. is a close second with a $17 minimum wage, followed by Washington state with $16.28 and New York City, Massachusetts and New Jersey with $15. Despite predictions that California's steep pay increase might lead to staff cutbacks, fast-food restaurants in the state added 20,000 workers in the first five months of the year.

With rising wages expected to be an ongoing issue, many operators are investing in upgraded systems and capabilities that reduce their reliance on workers by automating processes. Order taking by service kiosks and automated drive-through interfaces, for example, reduce the need for front-of-house staff, while cobots that handle routine kitchen work cut down on back-of-house staff needs. (See "Technology boosts efficiency and mitigates fraud" for more on this topic.)

High employee turnover

The cost associated with the loss of an employee is estimated to be thousands of dollars after totaling the expenses for paperwork, recruitment, onboarding, training and lost productivity during the transition. In addition, turnover can lead to slower service and a poor customer experience — further escalating the pressure on prices and margins.

In response, restaurants are adding enticements, such as retirement saving programs, tuition reimbursement and flexible wellness options. Some are also adding incentives such as award programs where associates can qualify to win a cruise or hotel stay. Finally, "some operators have also found that paying employees at the end of their shifts rather than weekly or biweekly helps sustain the loyalty of employees living paycheck to paycheck," says Willis. Learn more about this topic in the article "Restaurant employment strategies and benefits for a more stable workforce."

Workers' focus on values

Because 60% of restaurant and food service employees are under the age of 35 — millennials and Gen Z — communicating core values that resonate with these younger employees is another way to foster loyalty and reduce turnover. One sandwich franchise supports local sports teams and organizations within the communities it serves and hires employees who feel a connection to that purpose. "If you can figure out how to connect with your employees and prospective employees on a purpose level, that can make a meaningful difference in bringing in long-term employees who will become movers and shakers in your company as it grows," BofA's O'Hara says.

Increased union activity

Historically, the U.S. food service industry has had a significantly low union membership rate than other industries, but that's about to change. There has been a surge in union organizing activity at QSRs by at least three major unions. The movement has been helped by a recent change in the federal regulations regarding union elections, making it easier for employees to hold a vote. In most cases, the unions are seeking a wage increase to around $15 an hour and better working conditions. The drive for union membership in part reflects greater concern about work-life balance among younger workers where money is often not the sole issue. Because younger workers may feel disrespected or marginalized, some employers are avoiding unionization efforts by improving communications, responding to employee feedback, addressing complaints quickly and providing a clear route to pay raises, increased responsibilities and promotions.

2025 forecast

As inflation and interest rates decline, an improved growth outlook

A more stable environment

With consumer spending rebounding and interest rates on a declining trajectory, advancements in technology and a more stable operating environment are expected to fuel growth in the restaurant industry in 2025. Enjoying food away from home is expected to remain a priority for consumers, who are responding to rising prices by adjusting spending habits and dining choices rather than depriving themselves of restaurant meals. BofA Global Research expects costs for restaurants could moderate further as deflation hits many commodity prices in the fourth quarter and heading into 2025.[13]

Digital prowess remains critical

Digital proficiency will continue to be a key differentiator, with top-performing branded mobile apps delivering a competitive edge. Chatbots driven by AI are already handling restaurant customer inquiries and taking orders. The use of AI and machine learning for everything from predicting customer preferences to monitoring equipment for maintenance is expected to become more prevalent. While not yet common, automation and robotics are set to play a more significant role in the industry. Robots capable of performing complex food preparation tasks, ensuring consistency and speed, are under development or are being rolled out, but a critical need for capital will push these investments into the future (2026 and later).

Refinancing will surge

Interest rates are on a downward path, which should help consumers as well as owners, who will begin to explore advantageous refinancing. A big wave of refinancing is expected later in 2025 and through 2026; however, with the surge in bankruptcies in the market, it will be challenging to find lenders to work with.

M&A likely to rebound

Deal-making activity has been muted in 2024, but optimism remains for a rebound in 2025. “We’ve seen interest in the restaurant sector from a broad landscape of the buying universe, including private equity and sovereign wealth funds because it’s a nice asset for long-term holders,” says BofA’s Phelps. Pursuit of scale by restaurant operators is also fueling M&A activity. “A lot of our single-brand clients who are looking to extract synergies have had conversations about the possibility of adding another brand,” he says.

Partnerships provide strategic advantages

Operators will continue to benefit from partnerships with third-party delivery services, such as DoorDash, Grubhub and Uber Eats, which gained momentum during the pandemic and continue to be popular with consumers. The use of third-party apps tripled between 2020 and 2022. The commissions these service providers charge restaurants — ranging between 15% and 30% — are a pain point for many operators, says Shannon O’Donnell, senior specialist with Bank of America’s Merchant Services. “Working with third-party delivery services can expand a restaurant’s reach and provide its customers with the benefit of delivery,” she says. “But whether to absorb that upcharge or attempt to pass the cost on to consumers is a strategic decision that restaurants face.”

Agility remains essential

Over the past five years, QSR operators have faced a once-in-a century pandemic, high interest rates, and rising food and employee costs. Those who have been able to quickly adapt to changing operating environments and adopt new processes and ways of doing business have set themselves up to thrive. To remain competitive, restaurants will need to make thoughtful decisions as they adjust to shifting customer preferences and adopt emerging technologies. Increased union activity in the fast-food industry means owners may need to address new labor challenges in 2025.

“In recent years, restaurants have been the chameleons of the service industry, coming up with neat ideas and great marketing to get people through the door during difficult times,” says BofA’s O’Hara. “That adaptability, the ability to pivot on value and strategies to take advantage of technological advances, will continue to be critical in evolving to address changing market dynamics.”

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