Dining Deep Dive

While COVID has led to major changes across all industries, perhaps none has been more affected than the dining sector. Between restrictions that come and go to the growing need of many to minimize extra eating-out expenses, the sector has been one of the hardest-hit by the pandemic.

However, the pandemic's foot traffic and economic toll has not been evenly distributed across the different dining subcategories. Where segments with strong drive-thru, delivery and takeaway services like QSR benefited, others like sit-down restaurants struggled as visits dropped significantly and revenues sometimes fell to zero.

The performance gap between dining segments and chains was further deepened by pandemic-driven shifts in consumer dining behavior. As optimism around the end of the pandemic draws nearer and encouraging signs of recovery have begun to appear, the question that begs to be answered is: Which of these pandemic-driven industry shifts will have a lasting effect on the continued recovery of restaurant chains?

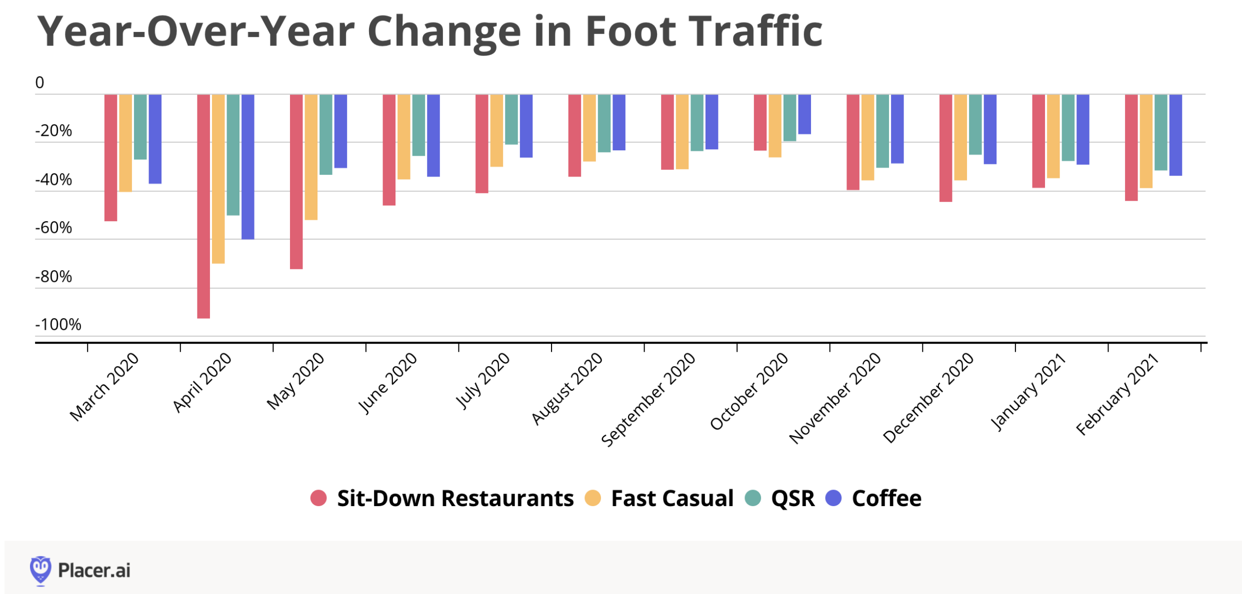
This report uncovers the changes in consumer dining needs and patterns and examines the impact of these shifts on the performance of various dining segments during the pandemic. We will analyze the findings to see how these trends could affect the dining industry's post-pandemic future.

Investigating the Industry

A Slow but Steady Recovery

A comparison of year-over-year foot traffic rates across different dining subcategories reveals that they are all experiencing a slow but steady recovery with varied strength across segments. Unsurprisingly, the hardest-hit dining segment was sit-down dining, which saw a dramatic drop of around 40% in year-over-year visits during the winter months. In contrast, QSR chains, which tend to fare well during periods of economic uncertainty and benefit from high off-premise sales and takeaway services, have been performing relatively well, seeing a drop of only 25% to 30% in year-over-year visits during those same months. The coffee segment also saw an impressive recovery, with similar year-over-year visit rates to those of the QSR category.

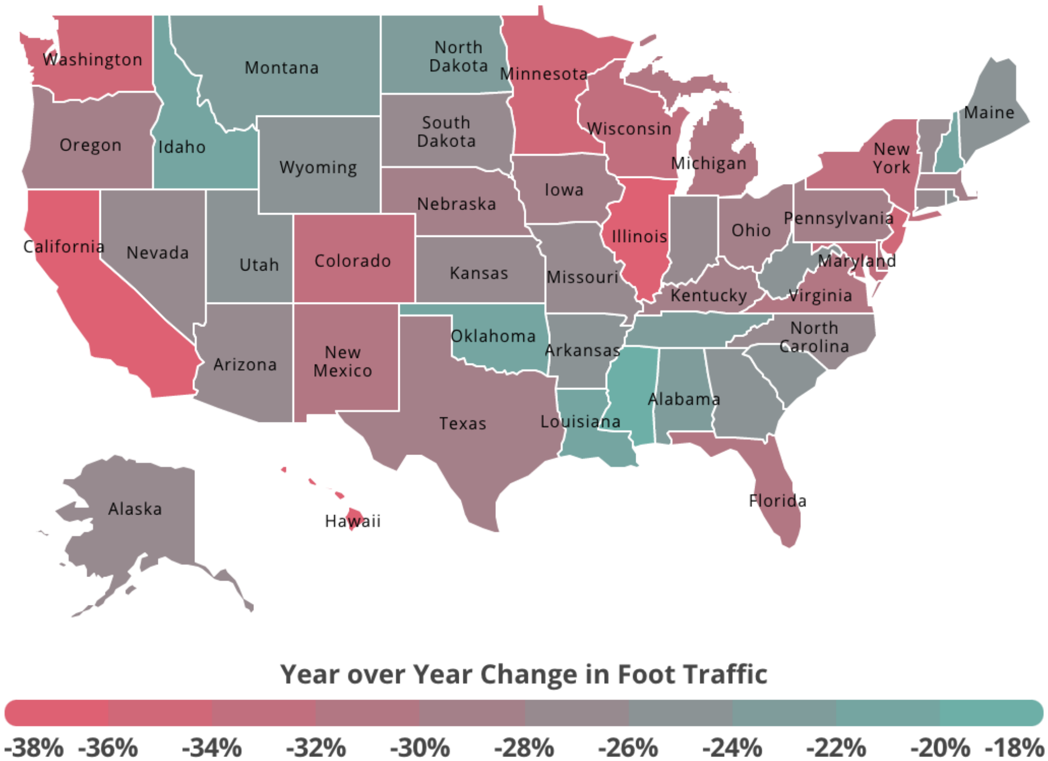
Location data also showed that despite the sector's overall positive recovery trend, the winter of 2021 brought with it another small dip in year-over-year visits across the four analyzed segments. However, there is hope that the sector's impressive recovery will continue to climb at a powerful rate, as more customers eat outside due to warmer weather and the vaccinated population grows.



Regional Differences

While an overall recovery is undoubtedly en route, its magnitude is expected to differ across states and regions. Declines in restaurant visits have been highest in states centered around high-density urban areas, like Illinois, California, and New York, with year-over-year visits in those states down by 38.1%, 36.1%, and 32%, respectively in 2020. In contrast, lower populated states like Mississippi and New Hampshire have had milder drops, with year-over-year visits down by only 17.7% and 20.3%.

Besides population density, tourism and travel have a significant impact on the local dining scene. Restaurants in major cities like New York and Los Angeles were the first to get hit once business and pleasure travel was limited since they rely heavily on tourists.



Shifts in Consumer Behavior Patterns

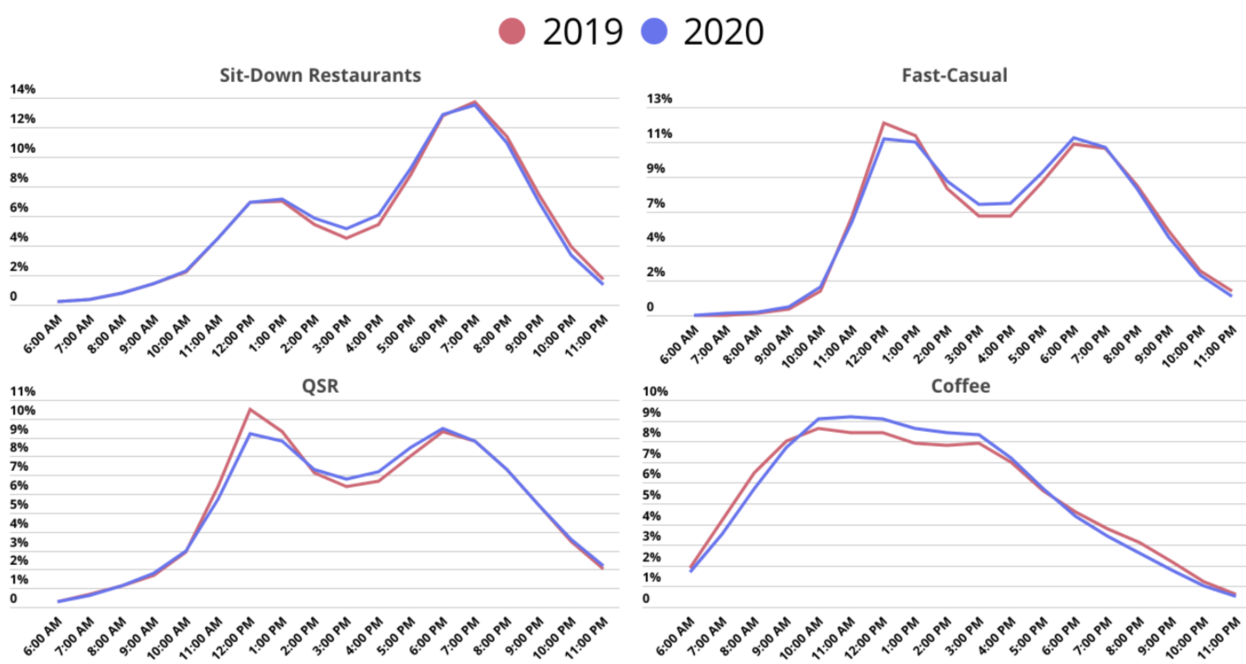
Daily Routines Have Changed

The change that the pandemic brought to the daily schedules and routines of many had a varied impact on the different dining segments. Segments that rely more heavily on daily routines like the coffee and breakfast space were affected more by these shifts.

Coffee chains like Starbucks and Dunkin' saw a decline of around 1% in each morning hour from 6 to 9 AM, as many were cutting off their on-the-way-to-work coffee stops. On the other hand, the percentage of mid-day visits grew significantly across all dining segments in comparison to the previous year. As homes became the new office and daily work schedules became more dynamic, mid-day lunch outings became a more significant piece of the puzzle. The QSR, fast-casual, and sit-down segments all saw an average increase of around 1% in visits between 2 to 4 PM as well. The coffee space saw the increase of mid-day visits span across more hours, from around 10 AM to 3 PM. As flexible work becomes a more commonplace practice, the escape from home to local places to work –

even for just a few hours – could provide a valuable asset, especially as normal routines return. Longer stays at the coffee shop midday could drive larger order sizes and increase output throughout the day, especially as more normalcy returns

Monitoring and accommodating the changes in hourly visits can have a considerable impact on dining sales, whether by optimizing the menu or by regulating restaurant foot traffic in times of social distancing. As the impact of COVID begins to dissipate and daily schedules and work-life start to shift back to normal, the time distribution of restaurant visits will likely continue to change and require ongoing monitoring.

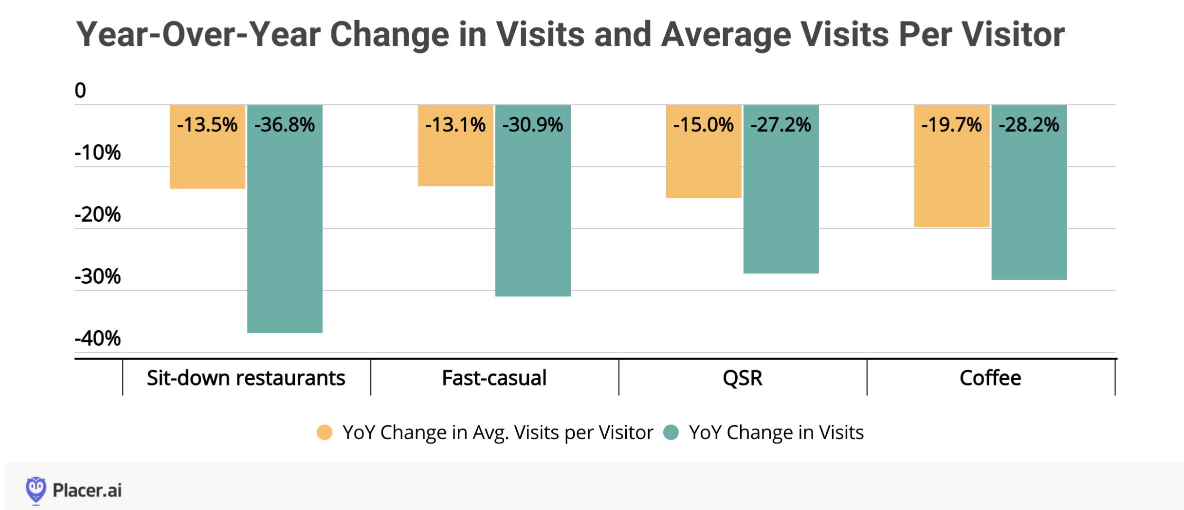


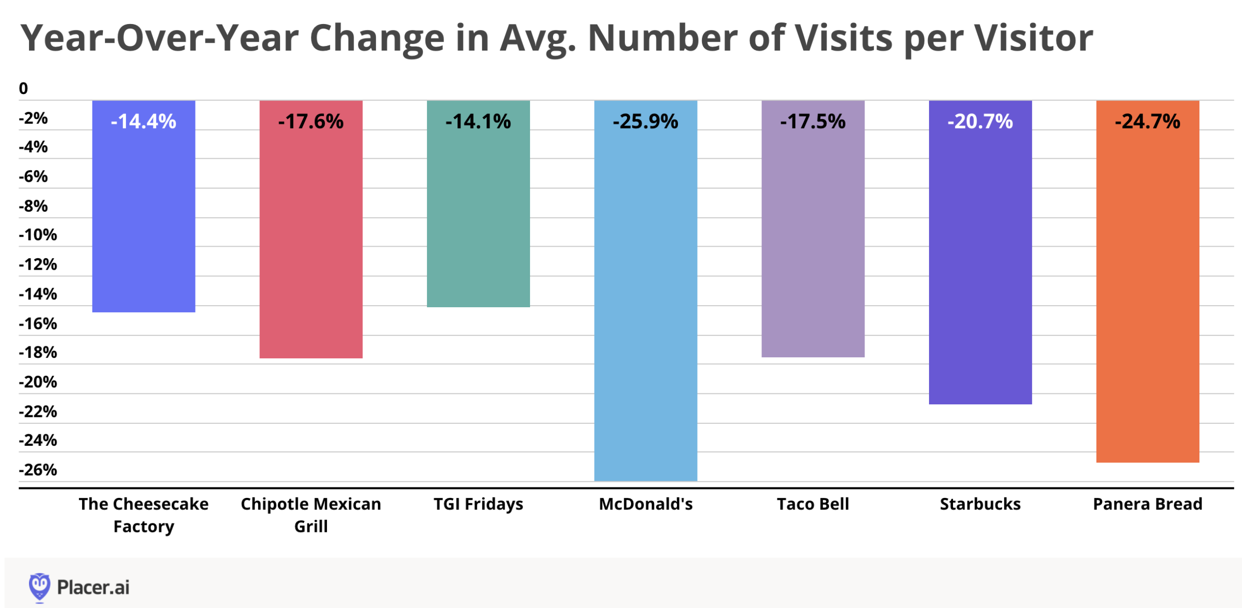
Fewer are Ordering the Usual

The dining sector has not only seen a dramatic decline in restaurant visits throughout the pandemic, but also a significant decrease in the average number of visits per visitor. In other words, not only were fewer customers visiting, but those who were visiting were doing so less frequently.

Although sit-down restaurants and fast-casual dining were the segments that saw larger drops in year-over-year visits during 2020, they saw smaller drops in the average number of visits per visitor. While QSR and coffee witnessed year-over-year drops of 15.0% and 19.7% in the average number of visits per visitor, respectively, the sit-down and fast-casual segments experienced drops of only 13% and 13.5%. So despite the fact that a major sit-down chain like Olive Garden lost a higher percentage of year-over-year visits than Starbucks or McDonald's did during 2020, the latter two have struggled much more to retain their base of regular and frequent customers. This is also heavily influenced by the regularity of coffee visits and the impact the loss of routine had on this sector.

Chains that can retain a high percentage of their frequent customers will have an easier time reaching their pre-pandemic visit numbers as the recovery proceeds and the competition over regular customers increases.

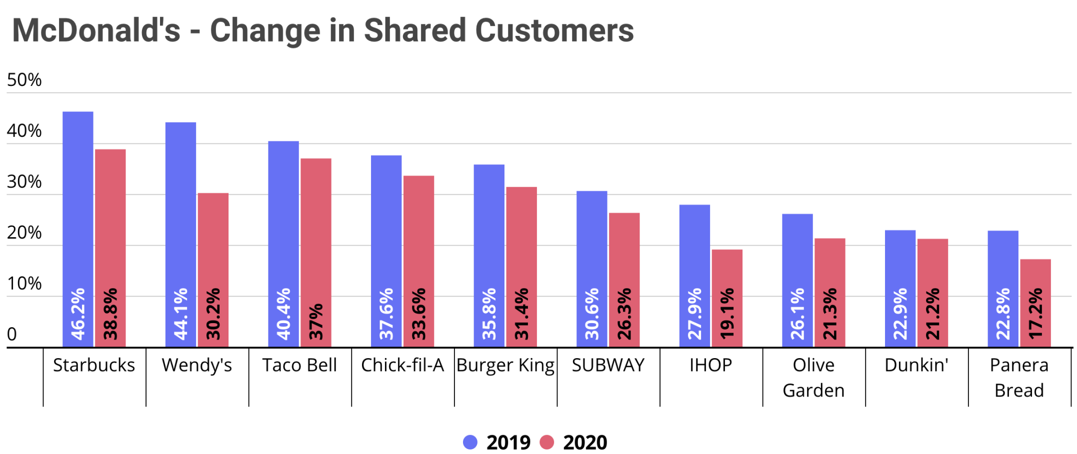


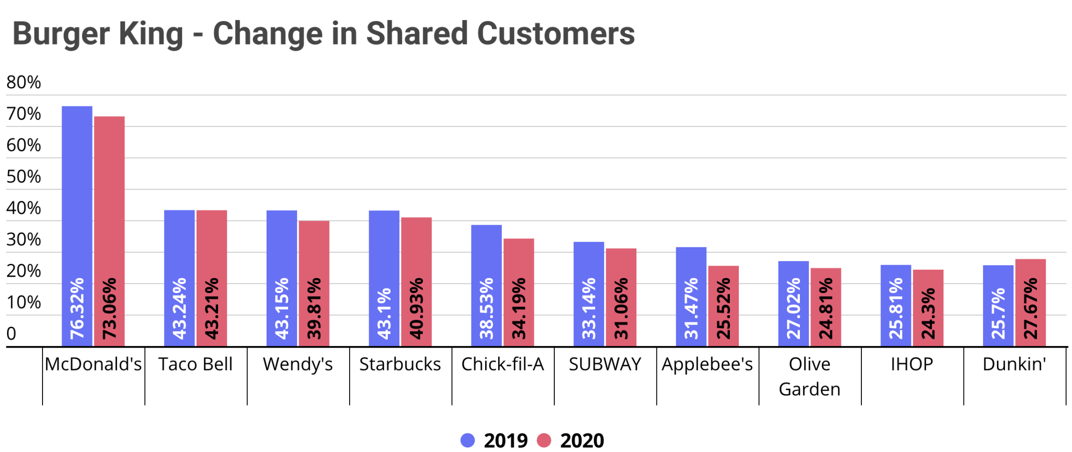


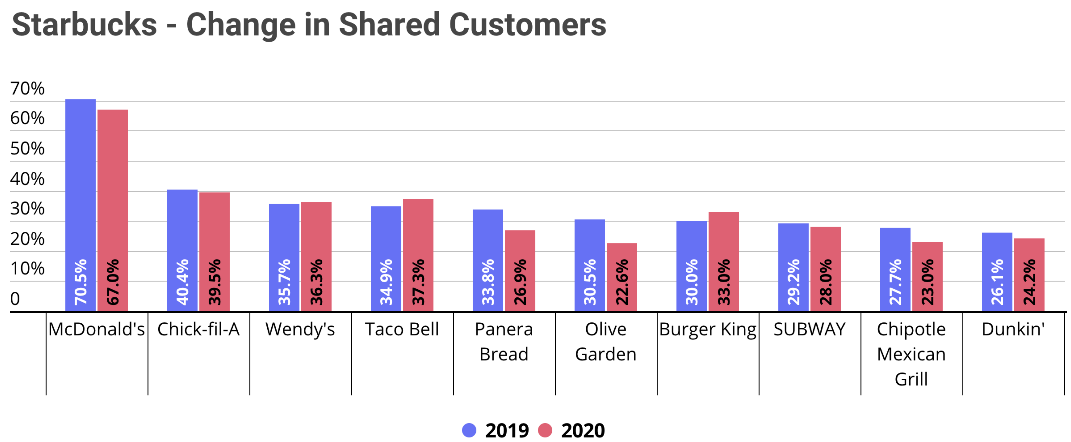
Competition Goes Up a Notch

Comparing yearly cross-dining data reveals another interesting shift. In 2020, leading restaurant chains had often experienced a decrease in the percentage of their shared customers with other restaurant chains.

Top players like McDonald's, Burger King, and Starbucks saw average decreases of 2.8%, 1.5%, and 1.8% in their shared customers with other restaurant chains, respectively. As eating-out decreased during the pandemic, many customers who in the past would have visited several restaurants in a month or even week began to visit just one or two of their favorites. This drop in shared customers could be seen within the same dining segment and across segments. And as the competition between restaurants over once-shared customers has grown, their need to leverage competitive advantages has also increased.







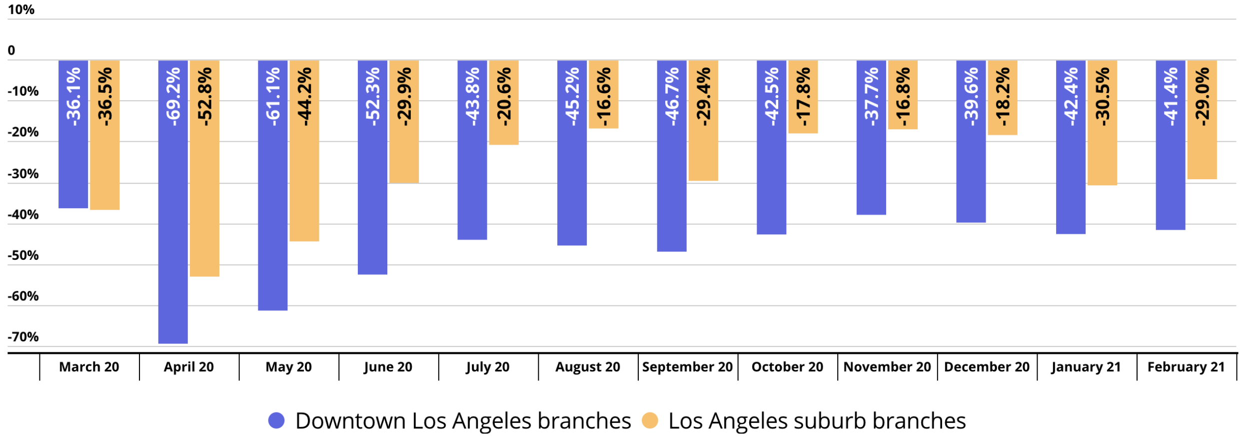
Location, Location, Location

One of the most significant pandemic-related trends that had a huge impact on retail, dining, and work was a suburban migration pattern and the geographical change of countless Americans' centers of living and working. As many people moved to the suburbs from major cities and city centers lost much of their power due to the new ability to work from anywhere, city- and suburb-located restaurants were forced to adapt in different ways. And while this downward trend in cities is likely short-term, suburban locations could leverage this larger visit potential by upgrading their sit-down component or enhancing customer experience to lengthen visit duration. This would be especially true should flexible work arrangements prove sustainable, even if only in part.

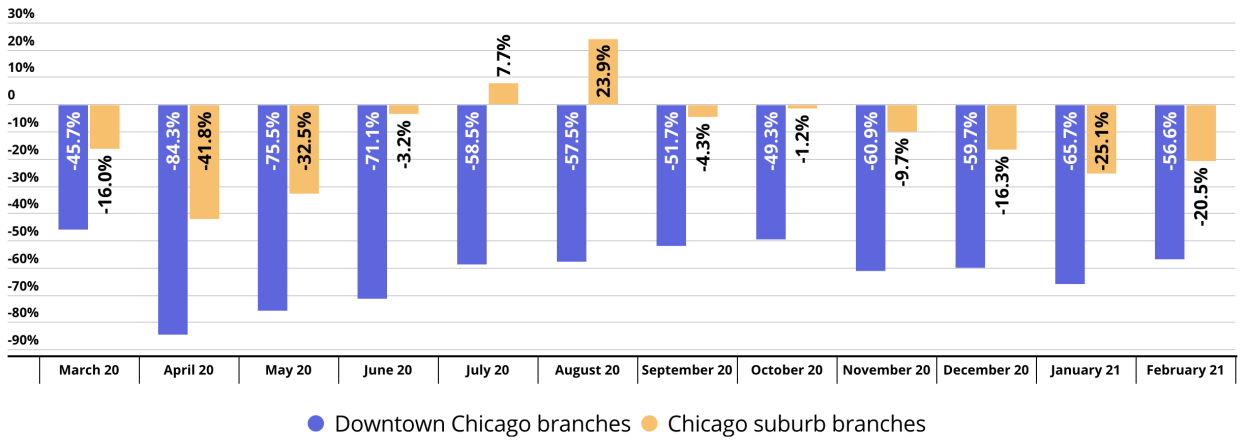
But even with these called-for adaptations, location data has shown a considerable gap in the foot-traffic recovery rate of city- and suburb-based restaurants. A comparison of year-over-year visits of thirty central Starbucks branches across Los Angeles, Chicago, and Washington D.C. with thirty other suburb-based branches around those cities showed that the suburban venues had far outperformed the city locations.

Interestingly, the performance gap between the city and suburb branches in all three metropolitan areas was highest during the summer months and then gradually decreased during the winter. This could be a possible indication of a certain return to normal, as more Americans return to their workplaces as vaccinations increase.

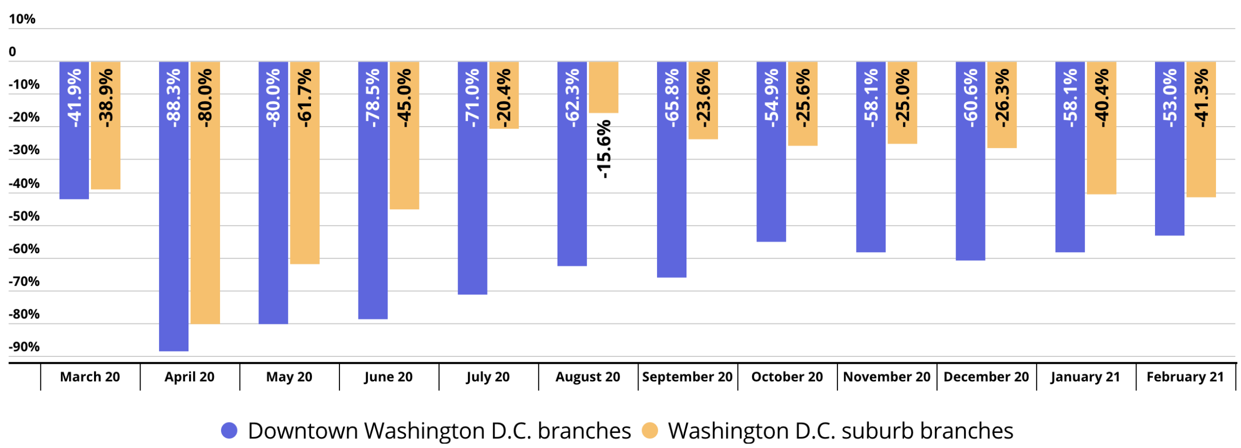
YoY Change in Visits to Starbucks Branches in Los Angeles DMA



YoY Change in Visits to Starbucks Branches in Chicago DMA



YoY Change in Visits to Starbucks Branches in Washington D.C. DMA



Placer.ai

Key Takeaways

The restaurant industry has suffered one of the hardest COVID-19 hits - more than almost any other sector. Consumers have been dining out less and less, leading to the largest number of sales and job losses since the pandemic's outbreak and a huge drop in foot traffic due to closures and restrictions.

With that said, location data suggest critical signs of recovery across dining segments, with some, like the QSR and coffee sub-sectors, expected to reach a full recovery more rapidly. In addition, many major brands in the sit-down, coffee, and fast-casual segments have significantly strengthened their takeaway and delivery capabilities, giving them more diverse ways of reaching customers. Finally, there is a very high likelihood that the end of COVID will bring back customers who missed having out-of-home dining experiences.

But as the longed-for recovery is seemingly on the horizon, the key for any restaurant chain to fastest reach it will be to fully internalize and adapt to the pandemic-driven shifts in dining consumer behavior, including:

- **In the Race Back to Normalcy, Location Still Matters - But Might Matter Differently -** Although there was always an inseparable connection between the foot-traffic performance of a restaurant chain and its location, the rationale behind locations was significantly shifted by the pandemic. The population shift from heavily populated cities and states to suburbs and lower populated states, along with the transformation of urban work life to at-home-offices has created an entirely new element and opportunity in the dining landscape. The result is a potential win-win scenario that will privilege brands that can adapt to a changing urban and suburban environment.

  In this new landscape, brands need to rethink the way they attract visitors by providing city experiences that make the trip - like the one to the office - more attractive or providing a suburban get away from the work-from-home-monotony. Those that can find a balance, and adapt better to changing city and suburban patterns, will be those that succeed most.

- **Hourly Demand Will Continue to Shift -** The pandemic-driven shift in daily schedule and time of day visits to restaurants has affected the various dining segments differently, with those relying more heavily on daily routines like the coffee and breakfast space feeling the effect more. With that said, a strong trend that could be seen across all segments was the rise of mid-day lunch visits. Working for a few hours in a local cafe or restaurant could provide a valuable asset as flexible work becomes more common. Longer midday stays at the coffee shop should drive larger transaction sizes and increase output throughout the day.

As the impact of COVID begins to dissipate and daily schedules start to shift back to normal, the time distribution of restaurant visits will likely continue to change and require ongoing monitoring. It will become crucial for a restaurant to track these changes in order to best optimize its menu and regulate foot traffic.

- **Competition Goes Up a Notch -** Many leading restaurant chains experienced a pandemic-related decrease in the percentage of their shared customers with other restaurant chains. In other words, many diners who in the past would have visited several restaurants in a month or week began to visit just one to two of their favorites during the pandemic. As the competition between restaurants over once-shared customers has grown, their need to leverage competitive advantages has also increased.

  Critically, this is *not* a trend that is likely to continue, and as more people venture out to restaurants more expect the zero-sum game scenario to rapidly shift into a growing pie for all.

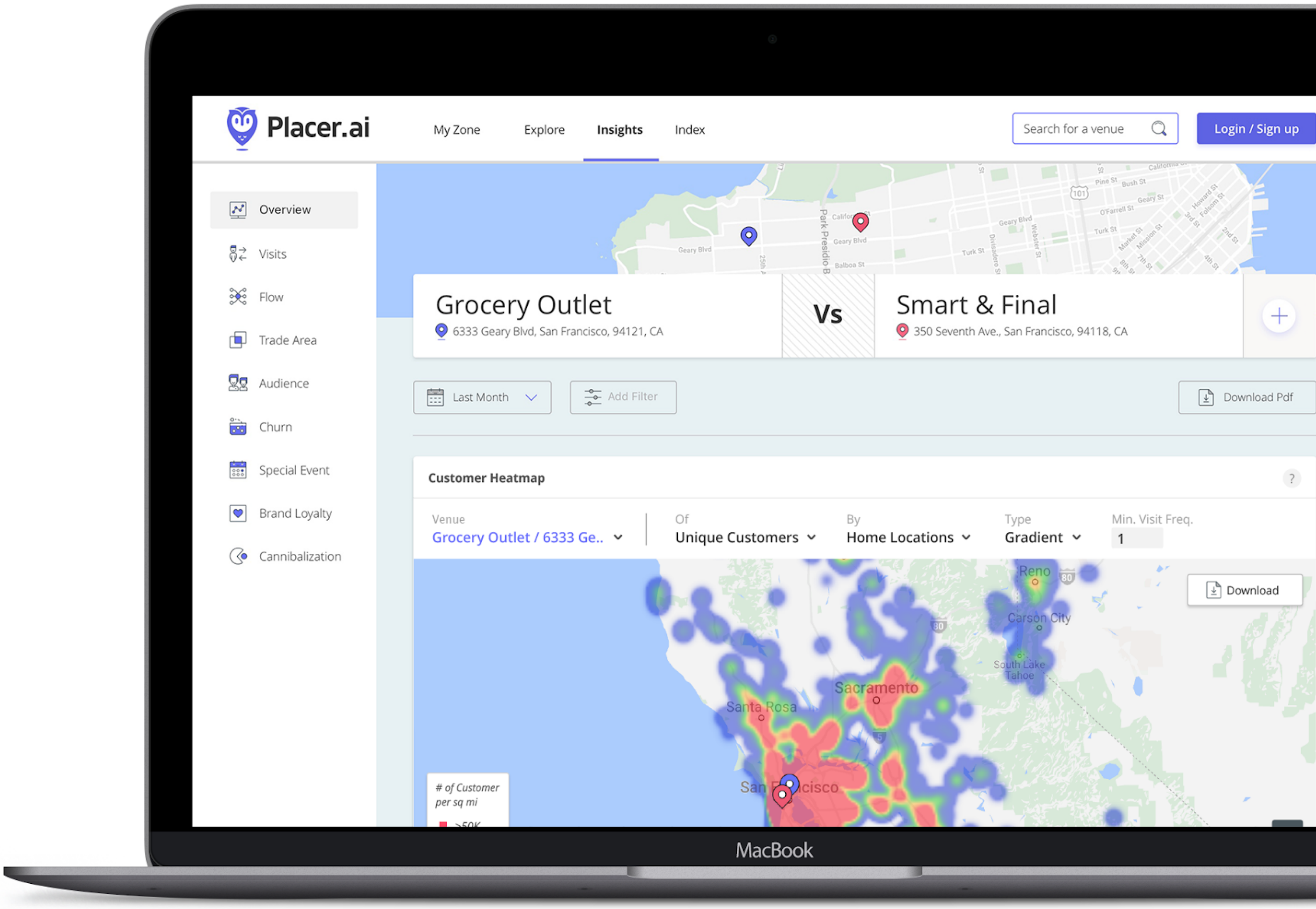
- **Fewer are Ordering the Usual -** Despite the fact that sit-down restaurants and fast-casual dining were the segments that saw the largest drops in year-over-year visits during the pandemic, they were better able to retain regular customers than the QSR and coffee segments were. With the former two seeing smaller drops in the average number of visits per visitor compared to the previous year, they are better equipped than the latter two to reach their pre-pandemic size base of regular customers in the days to come.

  The ability to hold a significant base of committed regular customers could prove to be more crucial than ever as pandemic-driven competition intensifies between restaurant chains.

Uncover Location Intelligence Insights

Placer.ai is the world's most advanced foot traffic analytics platform allowing anyone with a stake in the physical world to generate instant insights into any property to understand the factors that drive success.

Try for free



Placer.ai