# Restaurants and Food Service Companies[1]

## Market Segment Overview


The National Restaurant Association's (NRA) 2013 Restaurant Industry Forecast indicates 54% of restaurants are planning to invest more resources in consumer-facing technology, including smartphone apps for ordering and viewing menus, and mobile payment options.

There are nearly a million restaurants in the U.S.— fine dining establishments, quick service and fast casual locations, pizza parlors, deli/take out places, coffee shops—there is really no end to the variety in terms of format, cuisine, price point and service levels.

Restaurants are expected to account for some $660 million in annual revenues in 2013, breaking down as follows:[2]

| | |
|---|---|
| Eating Places | 441.9 |
| Bars and Taverns | 19.5 |
| Managed Services | 45.6 |
| Lodging Place Restaurants | 33.1 |
| Retail, Vending, Recreation, Mobile | 62.4 |
| Other | 58.0 |

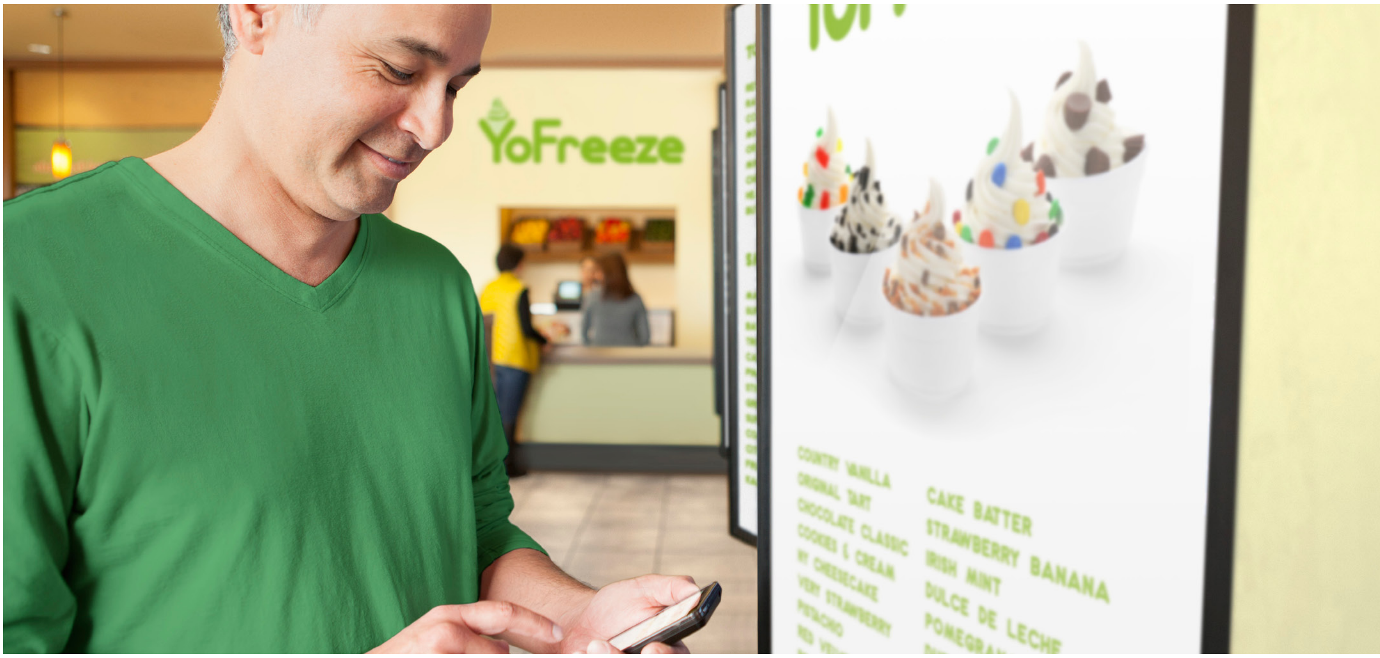
The vast majority of restaurants are small. Despite the prominence of national brands, most are independently owned and operated.

- 93% of eating-and-drinking place businesses have fewer than 50 employees.
- More than seven out of 10 eating-and-drinking place establishments are single-unit operations.
- Most average under $1 million in annual sales: Average unit sales in 2010 were $849,000 at full service restaurants and $753,000 at quick service restaurants.

### A Challenging Business

By almost any measure, running a restaurant is an extremely challenging business:

- **Margins:** Profit margins average well under five percent.
- **Revenue per employee:** Average revenue per employee is under $85,000 per year, far lower than in industries such as manufacturing or professional services.
- **Fixed costs:** The costs of food and personnel account for two-thirds of all expenditures.
- **Personnel:** Employee turnover is high.
- **Consistent performance:** Because repeat customers are critical, consistent quality and performance are essential to ongoing success.
- **Competition:** Choices for eating outside the home have never been greater and more competitive.
- **Waste:** $30-40 billion is lost annually due to food waste at commercial and retail food service operations.
- **Losses:** Loss of money and or inventory as a result of errors, employee theft, fraudulent claims etc., cost dearly.




## Risk Averse on Technology?

The restaurant industry has a reputation for being a technology laggard, but this may not be deserved. A typical restaurant owner is under 40, entrepreneurial and highly knowledgeable. The industry is less technology averse, than it is risk averse. A restaurant cannot afford to make mistakes that will drive away customers. Technology must augment and streamline existing processes and the implementation or operation of technology cannot be disruptive. The keys to selling technology in this sector are to (1) stress ease of use and reliability and (2) value and return. Also, it's important to keep in mind that small, independent restaurants lack the benefit of prescriptive solutions and enabling tools offered by large chain/brand enterprise "headquarters." This creates an opportunity for Intel partners to provide this support.

## Growth in Technology Investments

In spite of—or in part because of—the challenging nature of the business, restaurants have shown a strong appetite for technology investments. According to the US Dept. of Commerce, total spending by all food services companies in 2011 was $1.9 Billion, a 44% increase over the year before. Also per the Dept. of Commerce, point-of-sale accounts for the largest portion of tech spending (at 35%), followed by back-office solutions (25%). Networking, security, mobile/web and kitchen technologies account for the rest.

The typical lifecycle of a POS system is 4 years. The biggest driver for replacement is the desire to take advantage of new features.[3]

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Much of this is driven by demand. As indicated by the results of surveys taken by the NRA[4], restaurant patrons today are prepared to embrace new technologies:

- 44 percent of adults said they would be likely to utilize a self-service ordering terminal if it was offered by a quick service restaurant.
- 40 percent of adults said they would be likely to utilize a smartphone application if it was offered by a quick service restaurant.
- 32 percent of adults said they would likely use a mobile or wireless payment option if it was offered by a full service restaurant.

## Major Challenges for Restaurants

The major challenges faced by food service management include:

**Increasing Revenues:** Restaurants continually battle erosion of the customer base due to declining appeal because of changes in customer demand/demographics, lack of investment in maintaining menu offerings, service levels, décor, etc. This erosion can take the form of outright loss of patrons and/or reduced re-visit frequency.

**Enhancing Operational Efficiency:** Given tight operating margins, restaurants constantly seek ways to maximize "total revenue per patron visit", reduce staff turnover (to limit hiring/training costs and potential quality of service issues) and also manage the variable demand for staff—to keep costly overtime under control and prevent staff shortages from impacting service levels.

**Minimizing Losses:** Limiting losses due to food spoilage, returned foods, employee error and employee theft are a constant battle for restaurants.

Effective use of technology can address all of these concerns. In addition, the following are other issues that are impacting technology investments:

**Mobile Payments:** The advent of mobile wallet/payment systems has captured the interests of restaurants and is a significant issue in POS and mobile POS deployments.

**Security:** Security is an increasing concern with the growth of credit card fraud, the proliferation of Internet-based payment and transaction systems and the installation of more customer-facing technology such as digital signs and kiosks. Security solutions for authentication, malware prevention and logging and anomaly reporting are becoming increasingly popular.

**Analytics:** Restaurants in general have been slow to embrace new capabilities for analytics (i.e., using anonymous images gathered via digital signs or video surveillance to analyze customer traffic or demographics), however as analytics capabilities are bundled into other technology offerings such as POS, digital signage, payment processing and social media, the use of analytics is expected to increase and mirror its increasing in other sectors.

**Integration:** A vendor selling a new capability must demonstrate that integration into existing systems is possible. Research indicates that food services establishments will not invest in new technologies where integration is not possible because system or process duplication and manual interfaces between systems is inefficient and can cause other problems.

## A Growing Opportunity

The restaurants/food service industry is big: its $660 billion in sales represents about 4% of the U.S. gross domestic product. The 13 million people employed in the industry make up 10 percent of the U.S. workforce.[5] Today's new digital solutions offer enormous advantages for restaurants to attract more business, operate more efficiently and limit the inevitable losses that occurred in such a fast-paced business.



[1] Intel commissioned BUNN (www.LyleBunn.com) to undertake a research study of the restaurant/food services industry. Unless otherwise noted, facts and figures cited here are taken from that research.

[2] http://www.restaurant.org/Downloads/PDFs/News-Research/Factbook2013_LetterSize.pdf

[3] Restaurant Tech Goes Full Spectrum, 15th Annual 2013, Hospitality Technology

[4] http://www.restaurant.org/Downloads/PDFs/News-Research/Factbook2013_LetterSize.pdf

[5] http://www.restaurant.org/Downloads/PDFs/News-Research/Factbook2013_LetterSize.pdf



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