

BDO'S RESTAURANT PRACTICE BENCHMARKING UPDATE

# THE COUNTER:

Restaurant Industry Scorecard



## Same-store sales

2017 began similar to how 2016 ended—with a lackluster performance, evidenced by a 0.7 percent decrease in restaurant same-store sales. The impact of lower grocery store prices and a selective consumer class were felt across segments in varying degrees. Restaurants that were unable to draw in customers with an attractive space and menu options also faced roadblocks in capturing stragglers as higher menu prices were prevalent across the industry. Some identify new tax rules resulting in delayed tax returns as the culprit behind the industry's performance—but not all are buying into that theory.

Despite the overall dip, there were still signs of life. Bolstering the industry average, the pizza segment saw a 3.9 percent same-store sales increase. Domino's held the top spot for the tenth consecutive quarter, reporting a 14.1 percent surge through Q1 2017. As the chain continues to thrive, its peers are wondering how they can replicate the success of what some tout as the "Amazon of Pizza." The company says its secret ingredient is simply knowing the customer and building on old favorites. While other chains build up their e-commerce capabilities, Domino's [noted](#) that competitive improvements in digital and delivery have yet to impact their business.

Upscale casual was the only other segment to experience an uptick in Q1, with a 0.2 percent rise in same-store sales. Eddie V's Prime Seafood and J. Alexander's saw strong results, with 4.7 percent and 3.5 percent growth, respectively. Rising guest counts attributed to both eateries' positive momentum. J. Alexander's also cited early success in two new restaurants during Q1, favorable beef prices and higher average customer checks.

On the other hand, fast casual same-store sales continued to lag through Q1, falling 2.0 percent. But it isn't bad news for

The pizza segment experienced the most significant growth in Q1 2017, with a same store sales increase of 3.9%.



all players: This quarter, the tables have turned for Chipotle as the company reported a 17.8 percent bump—a solid rebound from the double-digit sales plunge experienced following the foodborne illness outbreak in 2015.

In addition to Chipotle, Panera Bread continues to hold its title as fast casual's rising star, posting a 5.3 percent increase. Last quarter, the chain attributed its successes to healthier menu options; this quarter, it considers its digital initiatives to be MVP. Ramped up online ordering and kiosk options contributed to 26 percent of total sales at company-owned locations, according to [CNBC](#).

Working against the fast casual segment average are Pie Five, Pollo Tropical and Qdoba, which reported negative same-store sales of 15.8 percent, 6.7 percent and 5.9 percent, respectively. And whereas Shake Shack had consistently been at the top of the fast casual segment since its IPO in 2015, its sales slid 2.5 percent through Q1—its first downturn since the offering. Shake Shack CEO Randy Garutti asserts that the lag is temporary, and blames crippling snowstorms for the anomaly, among other factors.

## Commodities and cost of sales

Cost of sales fell through Q1 for all segments except pizza, which rose 0.7 percent—perhaps inflated by the 2.2 percent hike in cheese prices.

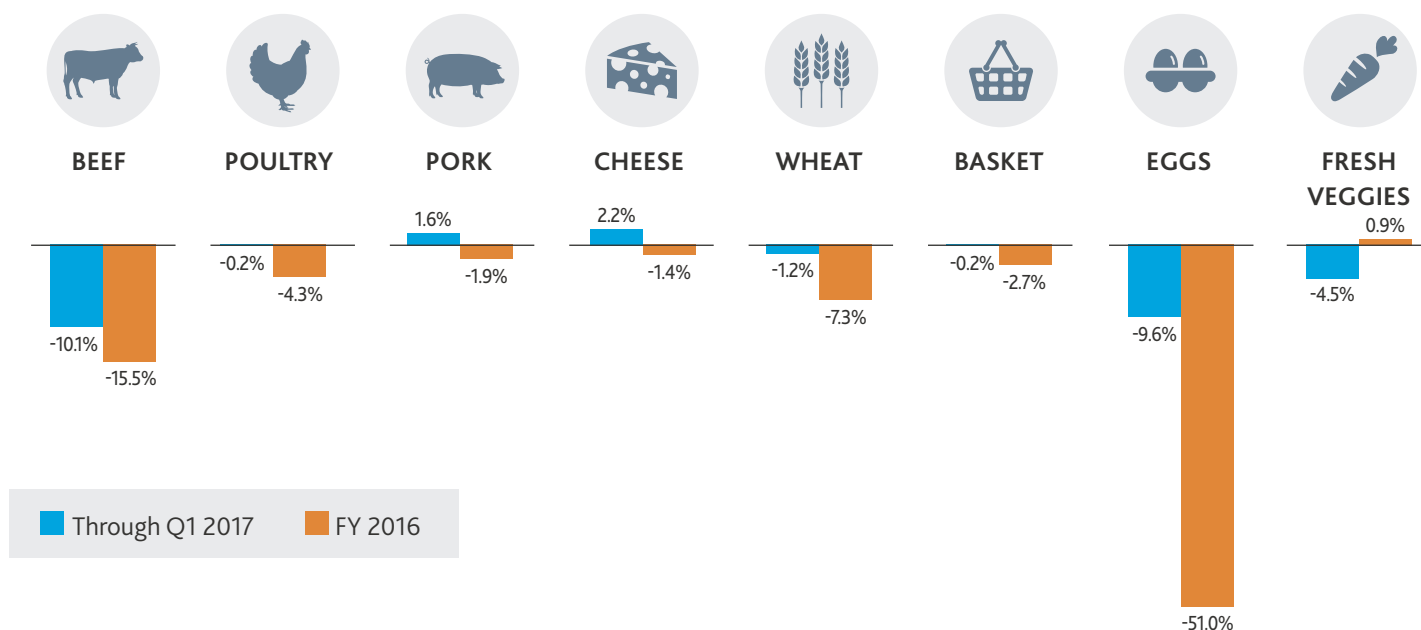
Aside from pizza, the industry at large is benefiting from lower commodity costs. A benefit for steakhouses and burger joints alike, beef costs dropped 10.1 percent. In addition, fresh vegetables prices declined 4.5 percent—good news for businesses aiming to refresh their menus with healthier options to appeal to the new generation of health-conscious eaters who are willing to pay extra to support these habits. In fact,

Cost of sales decreased 0.1% across all segments.





## Commodities



according to a recent survey by Land Mark Products, 67 percent of millennials prefer healthy options offered at restaurants.

## Labor costs

This quarter, the combination of high turnover rates and near-capacity employment resulted in increased labor costs across all segments for the fifth quarter in a row. Fast casual bore the biggest brunt with a 1.3 percent hike in labor costs, followed closely by pizza at 1.2 percent. To alleviate this rising expense, many restaurateurs are turning to technology like apps and table-top tablets to boost efficiencies and mirror consumers' moves online.



## Looking ahead

Some consumers place a premium on delivery and convenience, while others prioritize food and physical store aesthetics. As diners increasingly consume with their eyes first via social media, smart brands are investing in their social presence, ensuring consistent touchpoints with target customers. Others are finding success by offering "Instagram worthy" options, like Burger King's Cheetos Chicken Fries or Taco Bell's Waffle Taco.

To make an impression in-store, some chains, including McDonald's, are reimagining their dining rooms, while others focus on sustainability. Adding its own flair to alternative building, Taco Bell recently built a restaurant out of shipping containers, maintaining its mission to be "as green as possible" while experimenting with unique architecture.

Whether restaurateurs are focusing on the tech, the food or the room, what matters most is that decisions are made with evolving consumer preferences in mind. As millennials and Gen Z gain more market share, their opinions will grow louder. Adapting strategies both online and off in response to evolving demands can help to carry concepts through sluggish seasons.

### ABOUT THIS UPDATE:

Each quarter, we compile the operating results of publicly traded restaurant companies to provide you with timely benchmarking information.

Public company same-store sales citations are specific to company-owned locations. Cost of sales includes food and beverage for all segments. Quick serve and fast casual segments also include packaging costs. Labor costs include restaurant level wages, payroll, taxes and benefits.

*\*Prior results have been restated to conform to current-year data availability.*



## Quick Serve

	Through Q1 2017	Through Q1 2016	Inc. (Dec)	FY 2016	FY 2015	Inc. (Dec)
Same Store Sales	-0.6%			0.9%		
Cost of Sales	29.6%	29.8%	-0.2%	29.7%	31.0%	-1.3%
Labor	30.9%	29.8%	1.1%	28.9%	28.4%	0.5%
Prime Costs	60.6%	59.8%	0.8%	58.8%	59.6%	-0.8%



## Fast Casual

Same Store Sales	-2.0%			-1.9%		
Cost of Sales	30.2%	30.7%	-0.5%	30.5%	31.1%	-0.6%
Labor	29.5%	28.2%	1.3%	28.4%	26.9%	1.5%
Prime Costs	59.7%	58.8%	0.9%	58.9%	58.0%	0.9%



## Casual

Same Store Sales	-1.4%			-0.8%		
Cost of sales	28.0%	28.1%	-0.1%	28.1%	28.4%	-0.3%
Labor	33.3%	32.4%	0.9%	32.9%	32.2%	0.7%
Prime costs	61.3%	60.5%	0.8%	60.9%	60.6%	0.3%



## Upscale Casual

Same Store Sales	0.2%			-0.1%		
Cost of sales	27.5%	27.6%	-0.1%	27.6%	28.0%	-0.4%
Labor	30.6%	29.9%	0.7%	29.9%	29.3%	0.6%
Prime costs	58.2%	57.7%	0.5%	57.6%	57.4%	0.2%



## Pizza

Same Store Sales	3.9%			4.6%		
Cost of Sales	26.2%	25.5%	0.7%	25.7%	25.9%	-0.2%
Labor	31.0%	29.8%	1.2%	30.3%	29.8%	0.5%
Prime Costs	59.0%	57.2%	1.8%	57.4%	56.8%	0.6%



## Grand Average

Same Store Sales	-0.7%			-0.2%		
Cost of Sales	28.7%	28.8%	-0.1%	28.7%	29.4%	-0.7%
Labor	31.3%	30.2%	1.1%	30.2%	29.5%	0.7%
Prime Costs	60.1%	59.3%	0.8%	59.2%	59.0%	0.2%

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