

BDO'S RESTAURANT PRACTICE BENCHMARKING UPDATE

# THE COUNTER:

## Restaurant Industry Scorecard



## SAME-STORE SALES

The second quarter of 2017 revealed declines for some segments and unexpected heroes in others, ultimately netting an overall 0.2 percent dip in same-store sales. Where oversaturation from increased restaurant and grocery store competition affected the industry's same-store sales, new technology geared toward consumers' evolving restaurant dining preferences drove same-store sales up. As restaurants look for new revenue streams, cashing in on the [\\$43 billion](#) food delivery business appears to be a focus for many. Delivery services are disrupting the industry, particularly as companies invest in new ways to get food from their kitchen to your door and third-party services fight for market share.

Once again, the pizza segment led the charge when it came to same-store sales with a 3.5 percent increase through Q2. For the eleventh consecutive quarter, Domino's bolstered the segment with a 12.6 percent jump driven by the company's unique advancements in delivery technology and focus on successful franchisees. As technology continues to play a deciding role in restaurant success, consider looking to Domino's for a sneak peek at what might trend next. From smarter delivery to its easy-to-use app, Domino's is building a reputation on scratching consumers' convenience itch by offering speedy delivery and allowing users to place and precisely track orders.

Quick serve and upscale casual segments showed signs of life through the second quarter, posting increases of 0.3 percent and 0.2 percent, respectively. The quick serve segment was buoyed by Yum Brands' Taco Bell rising 6 percent and KFC's 3 percent gain. New menu items like Taco Bell's Naked Chicken Chalupa and KFC's Zinger Chicken Sandwich contributed to the solid second quarter for those restaurants. The upscale casual segment's modest growth may be attributed to J. Alexander's 4 percent uptick in same-store sales. Without that bump, the quarter may have been net negative given Sullivan's and Del Frisco's larger-than-normal decreases.

Fast casual experienced lows through the second quarter of this year, evidenced by a 1.7 percent decline. Fortunately for

The pizza segment experienced the most significant growth through Q2 2017, with a same store sales increase of 3.5%.



the segment, Chipotle brought up the industry average for the second consecutive quarter, with a 12.5 percent surge, despite the reverberated impact of the foodborne illness outbreak in 2016. Habit burger also lent the segment a helping hand with a 0.5 percent increase.

In addition to fast casual, the casual segment saw a 0.6 percent same-store sales decline though last quarter. On the upside, Bloomin' Brands—the company that owns and operates Bonefish Grill, Carrabba's and Outback Steakhouse, among other restaurants—led the pack with a 3.8 percent boost through the second quarter, followed closely by Texas Roadhouse with 3.6 percent growth. The Texas-themed restaurant owes its renewed success to its unconventional atmosphere and “Texas-sized” portions. At the same time, Applebee's and Kona Grill pulled the segment's average down. In fact, following a rough second quarter, Applebee's [announced](#) it would abandon its rebranding efforts catered to millennials and refocus on its traditional “middle-America roots.”

Cost of sales increased 0.2% across all segments.

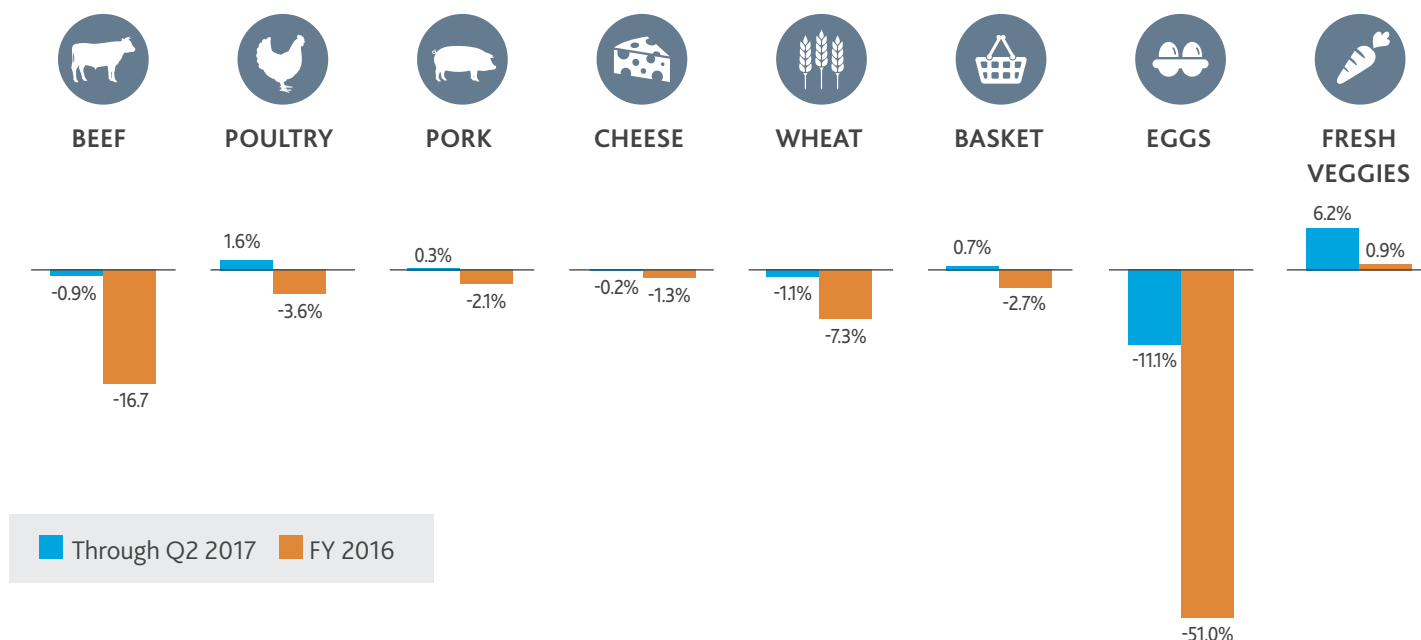


## COMMODITIES AND COST OF SALES

Cost of sales were up through Q2 2017 across all segments aside from fast casual, which was down by 0.1 percent over the same period last year. Heightened costs led to the rollback of discounts and promotions for many to make up for steeper costs.

Along with higher cost of sales, certain commodities rose as well—namely vegetables and poultry, up 6.2 percent and 1.6 percent, respectively. The industry experienced several years of favorable commodity pricing, which appears to be changing. To offset these expenses, some restaurants are re-engineering their menus and promotions to focus on high-margin items. Specifically, classic chicken and chicken wing-centric restaurants are drawing attention to other menu items as poultry prices experience inflation. Consequently, [Buffalo Wild Wings](#) eliminated its half-price Tuesday wing deal with a new boneless wing promotion taking its place. BDO will be keeping an eye on this for the remainder of 2017.

## Commodities



## LABOR COSTS

Cost of labor is always top of mind in service industries, particularly for restaurateurs. Overall, average workforce costs rose 0.8 percent through the second quarter, compared to the end of FY 16. Many attribute this rising cost to wage pressures and worker shortages, forcing restaurants to pay top dollar to retain quality employees. For most, it's challenging to offset this growing line item without increasing prices for consumers.

Technology holds promising solutions for labor costs. As technology permeates the industry, some front- and back-of-house jobs may be replaced by automation, resulting in an initial investment cost that could eventually be passed on to consumers. In the front of the house, kiosks and tablets are filling the roles of cashiers and servers

at QSRs and fast casuals alike. Similarly, companies like Miso Robotics are developing "robotic kitchen assistants" like [Flippy](#) to help prepare food.

## LOOKING AHEAD

As priorities adjust in Washington D.C., effects may trickle down to restaurateurs. With a slew of regulatory shifts on the horizon, from tax reform and North American Free Trade Agreement renegotiations, to changes at the Department of Labor, the industry should be ready to refocus if necessary.

Following Congress' summer recess, all eyes will be on tax reform—what could that mean for the restaurants industry? Potentially more money in the pockets of consumers. One of the pillars of the White House's plan is to simplify the individual tax code while decreasing the overall tax obligation. Lower taxes combined with steady consumer confidence could bode well.

No matter the segment, restaurants should keep abreast of regulatory and industry developments to make navigating ongoing issues like market saturation, rising labor costs and staying ahead of the technological curve easier. The restaurant that will be best positioned to grow is the one that is ready to pivot with the industry and consumer preferences, rather than on their own time.

Labor costs  
increased 0.8%  
across all  
segments.



### ABOUT THIS UPDATE:

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

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 Q2 2017	Through Q2 2016	Inc. (Dec)	FY 2016	FY 2015	Inc. (Dec)
Same Store Sales	0.3%			0.9%		
Cost of Sales	29.9%	29.7%	0.2%	29.7%	31.0%	-1.3%
Labor	30.1%	29.2%	0.9%	28.9%	28.4%	0.5%
Prime Costs	60.0%	59.1%	0.9%	58.8%	59.6%	-0.8%



## Fast Casual

Same Store Sales	-1.7%			-0.8%		
Cost of Sales	30.5%	30.6%	-0.1%	30.7%	31.2%	-0.5%
Labor	28.6%	27.6%	1.0%	28.0%	26.6%	1.4%
Prime Costs	59.1%	58.2%	0.9%	58.7%	57.8%	0.9%



## Casual

Same Store Sales	-0.6%			-0.7%		
Cost of sales	28.1%	27.9%	0.2%	28.0%	28.5%	-0.5%
Labor	33.0%	32.2%	0.8%	32.7%	32.0%	0.7%
Prime costs	61.2%	60.2%	1.0%	60.7%	60.5%	0.2%



## Upscale Casual

Same Store Sales	0.2%			-0.1%		
Cost of sales	27.7%	27.6%	0.1%	27.6%	28.0%	-0.4%
Labor	30.5%	29.8%	0.7%	29.9%	29.3%	0.6%
Prime costs	58.3%	57.6%	0.7%	57.6%	57.4%	0.2%



## Pizza

Same Store Sales	3.5%			4.6%		
Cost of Sales	26.1%	25.6%	0.5%	25.7%	25.9%	-0.2%
Labor	30.9%	30.5%	0.4%	30.3%	29.8%	0.5%
Prime Costs	58.7%	57.6%	1.1%	57.4%	56.8%	0.6%



## Grand Average

Same Store Sales	-0.2%			0.1%		
Cost of Sales	28.9%	28.7%	0.2%	28.8%	29.4%	-0.6%
Labor	30.7%	29.9%	0.8%	30.0%	29.3%	0.7%
Prime Costs	59.8%	58.9%	0.9%	59.1%	58.9%	0.2%

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