



# Food & Beverage

Industry Report 2019



SCORPION

# The First Course

Much like 2017, 2018 has been a banner year for the American franchise industry, with US franchises generating nearly \$760 billion<sup>1</sup> (a 6.2% increase in 12 months). This is a dramatic uptick, one that will outpace overall US economic growth<sup>2</sup>, which is having its best year in over a decade.<sup>3</sup>

The financial growth is also boosting hiring in the franchise industry, with job numbers up 3.7% in the previous 12 months (another number that's beating the national average).<sup>4</sup> As of the close of 2018, at least one in seven American jobs exists as a result of the franchise industry, with 16 million roles created, and an estimated \$725 billion of wages paid out.<sup>5</sup>

And thanks to historic tax reform and the current pro-business policies of the federal government, this economic growth—both for franchises and the United States as a whole—should continue into 2019.<sup>6</sup>



1. <https://www.statista.com/statistics/190318/economic-output-of-the-us-franchise-sector/>

2. <https://www.franchise.org/franchise-sector-expected-to-outpace-us-economy-wide-job-creation-in-2018-according-to-new-ifa>

3. <https://www.npr.org/2018/10/26/660489729/will-headwinds-appear-in-u-s-economic-growth-benchmark>

4. [https://www.franchise.org/sites/default/files/Franchise\\_Business\\_Outlook\\_Jan\\_2018.pdf](https://www.franchise.org/sites/default/files/Franchise_Business_Outlook_Jan_2018.pdf)

5. <https://www.winmarkfranchises.com/blog/2018/february/how-does-franchising-impact-the-national-economy/>

6. [https://www.franchise.org/sites/default/files/Franchise\\_Business\\_Outlook\\_Jan\\_2018.pdf](https://www.franchise.org/sites/default/files/Franchise_Business_Outlook_Jan_2018.pdf)

# Food & Beverage Franchising at a Glance

Within the American franchise industry as a whole, the food & beverage sector continues to grow thanks to the proliferation of quick-service restaurants (QSRs), full-service restaurants (FSRs) and retail-food outlets (RFOs).

Food franchises now account for 36% of the eating establishments in the United States, and 48% of all sales for US franchises.<sup>7</sup>

More importantly, the food & beverage sector will likely account for more than half of US franchise revenue by the close of 2019. How is this possible?

It's possible because Americans are increasingly eating out—analysts estimate at least 5,000 new restaurant and retail food outlet franchise brands opened in 2018, with more projected to open in 2019.<sup>8</sup>

Is it any wonder why QSRs and FSRs are the fastest growing business types in the franchise industry as a whole at 7.3% and 7.2% respectively?<sup>9</sup>

## Did you know?

- **The average American spends roughly \$1,200 on fast food every year.**
- **Fast food restaurants in America serve 50 million people every day.<sup>10</sup>**

7. <https://www.franchisedirect.com/information/food-franchise-report-2018>

8. [https://www.franchise.org/sites/default/files/Franchise\\_Business\\_Outlook\\_Jan\\_2018.pdf](https://www.franchise.org/sites/default/files/Franchise_Business_Outlook_Jan_2018.pdf)

9. [https://www.franchise.org/sites/default/files/Franchise\\_Business\\_Outlook\\_Jan\\_2018.pdf](https://www.franchise.org/sites/default/files/Franchise_Business_Outlook_Jan_2018.pdf)

10. <https://blog.partnersforyourhealth.com/blog/more-shocking-fast-food-statistics-you-should-know>

# Hunger Pangs Fueling Expansion

In terms of productivity, 2018 has been a banner year for the food and beverage sector of the franchise industry, with sales expected to top a record-high \$367.2 billion by the start of the new year.<sup>11</sup>

Moving into 2019, these sales figures should continue to increase.

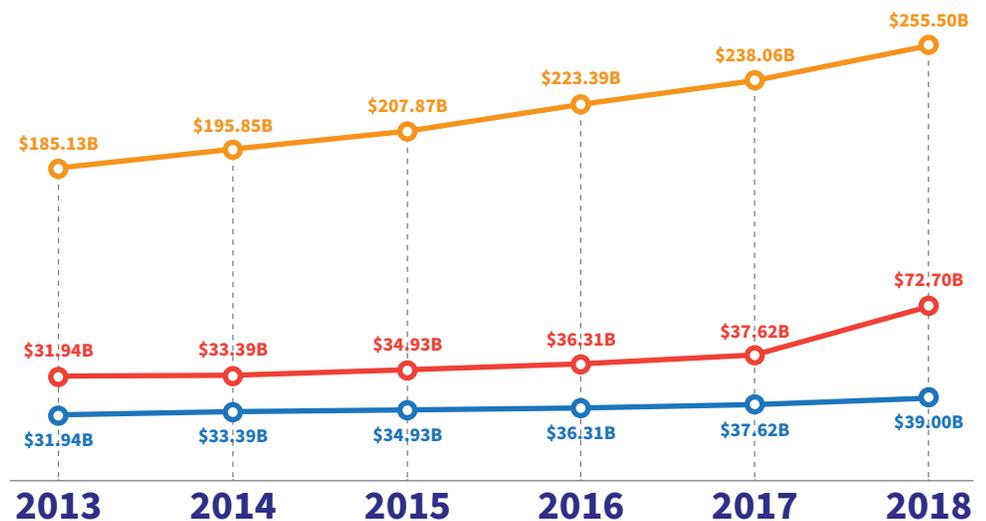
## The top three global franchises? All food.<sup>12</sup>

- #1. McDonald's
- #2. 7-Eleven Inc.
- #3. Dunkin'

Food & Beverage companies remain the hottest franchise investments due to a combination of investment size, growth opportunity, company support, brand strength and financial stability.<sup>13</sup>

## Annual Output Chart (in Billions)

**QSR Franchise**  
**Table/Full Service Restaurant**  
**Retail Food Franchise**



11. [https://www.franchise.org/sites/default/files/Franchise\\_Business\\_Outlook\\_Jan\\_2018.pdf](https://www.franchise.org/sites/default/files/Franchise_Business_Outlook_Jan_2018.pdf)

12. <https://www.entrepreneur.com/franchise500/2018>

13. <https://www.entrepreneur.com/slideshow/307379>

# Quick-Service Restaurant Update

Consisting of fast-food and fast-casual restaurants, QSRs rank #2 in franchise employment and #1 in revenue growth out of all American franchises.<sup>14</sup>

## Fast food

Fast-food restaurants (McDonald's, Burger King, etc.) are by far the most common type of business in the franchise industry, accounting for nearly 25% of all franchises—a number that will grow once again in 2019 by 2.5%.<sup>15</sup>

## Fast casual

Having said that, fast-casual restaurants (Chipotle, Panera, etc.) are nipping at the heels of traditional fast-food establishments.



14. [https://www.franchise.org/sites/default/files/Franchise\\_Business\\_Outlook\\_Jan\\_2018.pdf](https://www.franchise.org/sites/default/files/Franchise_Business_Outlook_Jan_2018.pdf)

15. <https://www.franchisehelp.com/industry-reports/fast-food-industry-analysis-2018-cost-trends/>

Fueled by evolving consumer tastes, the number of fast-casual establishments in the US has grown by a staggering 500% since 1999,<sup>16</sup> and the top 500 fast-casual brands have enjoyed a five-year compound annual sales growth rate of 10.8%,<sup>17</sup> well above the QSR average.

The category is also the only restaurant channel to increase patron visits over the past five years.<sup>18</sup>

### Top QSR franchises at the close of 2018:<sup>19</sup>

**#1. McDonald's**

**#2. Starbucks**

**#3. Subway**



16. <https://www.franchisehelp.com/industry-reports/fast-casual-industry-analysis-2018-cost-trends/>

17. <https://www.franchisehelp.com/industry-reports/fast-casual-industry-analysis-2018-cost-trends/>

18. <https://www.npd.com/wps/portal/npd/us/news/press-releases/2018/fast-casual-is-only-us-restaurant-channel-to-increase-traffic-over-past-five-years/>

19. <https://www.qsrmagazine.com/content/qs50-2018-top-50-chart>

# Full-Service Restaurant Update

Tracking just behind QSRs in terms of sales growth are full-service restaurants (Applebees, Denny's, etc.), estimated to reach \$72.7 billion by the end of 2018, representing a 7.2% increase over the previous year.<sup>20</sup> Employment in the FSR subsector is also growing, up 3.8% in the same timespan.

## Increasing competition

However, increasing competition (thousands and thousands of new restaurants will open in the US in 2019) will force full-service restaurant franchises to innovate if they are to continue enjoying so much success.<sup>21</sup>

In the coming year, FSRs will be forced to invest in oft overlooked arenas like customer experience and customer service to create better brand resonance and loyalty with consumers (in 2018, customers satisfaction for FSRs fell below customer satisfaction for QSRs for the first time in the history of the American food & beverage franchise industry).<sup>22</sup>

To increase foot traffic, look for FSRs to improve their amenities and service offerings (adding outdoor patios, offering take-out service, increasing portion sizes, adding culturally-specific items to their menus, etc.).

## Top FSR franchises at the close of 2018:<sup>23</sup>

- #1. Golden Corral
- #2. Denny's
- #3. la Madeline

20. [https://www.franchise.org/sites/default/files/Franchise\\_Business\\_Outlook\\_Jan\\_2018.pdf](https://www.franchise.org/sites/default/files/Franchise_Business_Outlook_Jan_2018.pdf)

21. <https://www.forbes.com/sites/sageworks/2018/01/26/restaurants-margins-are-fatter-but-competition-is-fierce/>

22. <https://www.foodnewsfeed.com/fsr/chain-restaurants/report-full-service-restaurants-are-losing-fast-food>

23. <https://www.entrepreneur.com/article/313513>

# Retail Food Outlet Update

Growth for retail food outlets (7-11, AM-PM, etc.) remains sluggish, with convenience stores projected to rank dead last in employment and economic output for all US franchises in 2018 and 2019—not just food and beverage franchises.<sup>24</sup>

This isn't to say growth will be impossible—for retail food outlets willing to adapt to evolving consumer tastes (without compromising speed, ease, and perceived value), the market is ripe with opportunity.<sup>25</sup>

## Revenue

Though revenue is expected to increase by as much as 3% in 2019, RFOs earnings still lag behind QSRs and FSRs which do a better job catering their offerings to Millennials looking for healthier dining choices prepared with quality ingredients.

## Hiring

Evolving business practices and advances in technology are improving productivity in the RFO subsector, which is why employment numbers are not expected to go up in 2019 despite the fact revenue is inching in that direction.<sup>26</sup>

### Top RFO franchises at the close of 2018:<sup>27</sup>

- #1. 7-Eleven Inc.**
- #2. Edible Arrangements**
- #3. GNC Franchising**

24. [https://www.franchise.org/sites/default/files/Franchise\\_Business\\_Outlook\\_Jan\\_2018.pdf](https://www.franchise.org/sites/default/files/Franchise_Business_Outlook_Jan_2018.pdf)

25. <https://www.foodbusinessnews.net/articles/12689-food-service-trends-at-convenience-stores>

26. [https://www.franchise.org/sites/default/files/Franchise\\_Business\\_Outlook\\_Jan\\_2018.pdf](https://www.franchise.org/sites/default/files/Franchise_Business_Outlook_Jan_2018.pdf)

27. <https://www.entrepreneur.com/franchises/category/ffrt>

# The Customers of Today and Tomorrow

In 2019 (as in 2018), Millennials represent the single biggest consumer growth opportunity for food-service franchises.

Not only do they outspend Baby Boomers at restaurants despite having 20% less take-home income, they also spend 53% of their weekly food budget (\$65) away from home,<sup>28</sup> and are expected to become the largest US demographic in 2019.<sup>29</sup>

## What Millennials look for

More than anything else—more than speed and more than value—Millennials look for quality, and they're willing to pay for it.

Food & beverage franchises that can alter their menus to offer foods made from natural, healthy, and unprocessed ingredients will have an easier time appealing to Millennial clientele.

The same is true of “socially conscious” restaurants that embrace sustainable food sourcing and humanely-raised animal products (like Chipotle).<sup>30</sup>

Millennials also prefer franchises that actively engage customers online. As generation raised with social media, Millennials want to see eateries with a strong Internet presence, which is why QSRs, FSRs, and RFOs will all need to pour additional resources into social media 2019.<sup>31</sup>

28. <https://www.bls.gov/cex/2017/combined/age.pdf>

29. <http://www.pewresearch.org/fact-tank/2018/03/01/millennials-overtake-baby-boomers/>

30. <https://www.qsrmagazine.com/promotions/generation-now>

31. <https://www.qsrmagazine.com/promotions/generation-now>

# Catering to Diverse Appetites Is Still Important

Another thing to consider?—44% of Millennials identify with an ethnic or minority group, so restaurant franchises would be wise to begin offering non-traditional or ethnically-inspired dining options to improve their popularity with this key demographic.<sup>32</sup>

## The Asian influence

Asians are the fastest growing ethnicity in the US, up 72% since 2000.<sup>33</sup>

Though no single country-of-origin group dominates growth, Bhutanese, Nepalese and Burmese are currently leading the migration to America. This influx has made eateries with an Asian influence, the fastest-growing ethnic restaurant sector in the US.<sup>34</sup>

While Panda Express is the only ethnic Asian franchise currently inside the top 50 chain restaurants,<sup>35</sup> more Asian-inspired restaurants will crack the list in the years to come.

Moreover, “crossover foods” (Asian foods in non-Asian restaurants) will increasingly appear on menus as this variety of ethnic cuisine gains popularity.<sup>36</sup>



32. <https://www.franchiseopportunities.com/industry-profile/food-industry>

33. <http://www.pewresearch.org/fact-tank/2017/09/08/key-facts-about-asian-americans/>

34. <https://learningenglish.voanews.com/a/asian-cuisine-fastest-growing-in-u-s-/4480072.html>

35. <https://www.restaurantbusinessonline.com/top-500-chains?year=2018&page=0#data-table>

36. <https://learningenglish.voanews.com/a/asian-cuisine-fastest-growing-in-u-s-/4480072.html>

## The Hispanic influence

As the second-largest ethnic group in America, Hispanics and Hispanic-influence should be factored into the growth strategy of every restaurant franchise—this is especially true in southern border states such as California, Texas and New Mexico, and the states with the fastest growing Hispanic populations such as Rhode Island, Utah and Oregon.<sup>37</sup>

Americans of Hispanic origin will account for more than 30% of the total US population (approximately 130 million people) by 2060.<sup>38</sup>

More importantly, they're a demographic that spends a greater share of its household income on "eating out" than any other in the United States.<sup>39</sup>



37. <https://www.usnews.com/news/best-states/slideshows/12-states-with-recent-hispanic-population-growth?onepage>

38. <https://www.restaurant.org/Manage-My-Restaurant/Marketing-Sales/Specialty-Promotions/US-Hispanics-Know-your-audience>

39. <https://www.bls.gov/opub/btn/volume-6/pdf/hispanic-household-spending-in-2015.pdf>

# Clean Eating

Another restaurant trend that will continue to dominate headlines is clean eating.

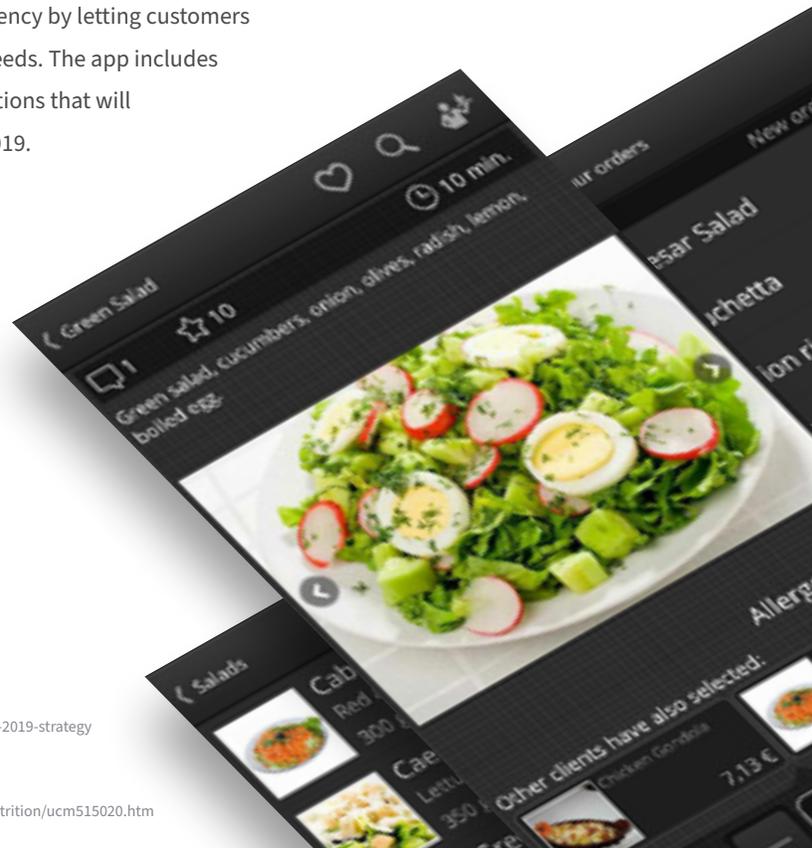
People want healthier food, plain and simple. In fact, 70% of restaurant-goers say they're looking for healthy restaurant options.<sup>40</sup> This means less fried food and processed ingredients and more organic food, locally-sourced ingredients, and plant-based dishes on menus in 2019.

Superfoods, such as salmon, blueberries and chia seeds, are increasingly popular. Fast-casual restaurants (which are the most likely to feature superfoods) are seeing triple-digit growth in superfood penetration. FSRs show low penetration but the highest growth among segments.<sup>41</sup>

## Better access to information

One key factor driving the clean eating revolution is better access to health information. As of May 2018, every restaurant and retail food location with 20+ stores was required by law to share nutritional information on menus and in stores.<sup>42</sup>

Additionally, apps such as MyMenu are increasing transparency by letting customers build restaurant meals in real time based on their health needs. The app includes 250+ restaurant chains and is just one of many tech innovations that will continue to transform the food and beverage industry in 2019.



40. <https://restolabs.com/blog/social-media-and-trends/restaurant-industry-trends-help-you-kickstart-your-2019-strategy>

41. <https://www.qsr magazine.com/health-wellness/where-restaurant-industry-stands-health>

42. <https://www.fda.gov/Food/GuidanceRegulation/GuidanceDocumentsRegulatoryInformation/LabelingNutrition/ucm515020.htm>

# Technology Flourishes

Food technology is transforming the restaurant experience. From digital menu boards to touchscreen kiosks to text-based notifications, technology is impacting every aspect of the restaurant business, and will continue to change how consumers cook, order and pay for food in 2019.

## Consider these stats:

- **95% of restaurateurs say tech improves their business efficiency.**
- **73% of diners agree it improves their guest experience.<sup>43</sup>**

## Automation

With the minimum wage rising and a dwindling low-skill labor pool, look for more QSRs to increase their operational efficiency by introducing automation (robot cooks and self-service kiosks) with increasing ferocity throughout 2019.

This trend will also impact longstanding at-home food delivery methods, as large food and beverage franchises like Dominos and Pizza Hut continue to test self-driving delivery vehicles, and mobile kitchens with no cooking staff save for the driver the truck.

43. [https://pos.toasttab.com/blog/restaurant-management-statistics?site\\_content=con\\_blog-carousel](https://pos.toasttab.com/blog/restaurant-management-statistics?site_content=con_blog-carousel)

# The Continued Adoption of Online Ordering

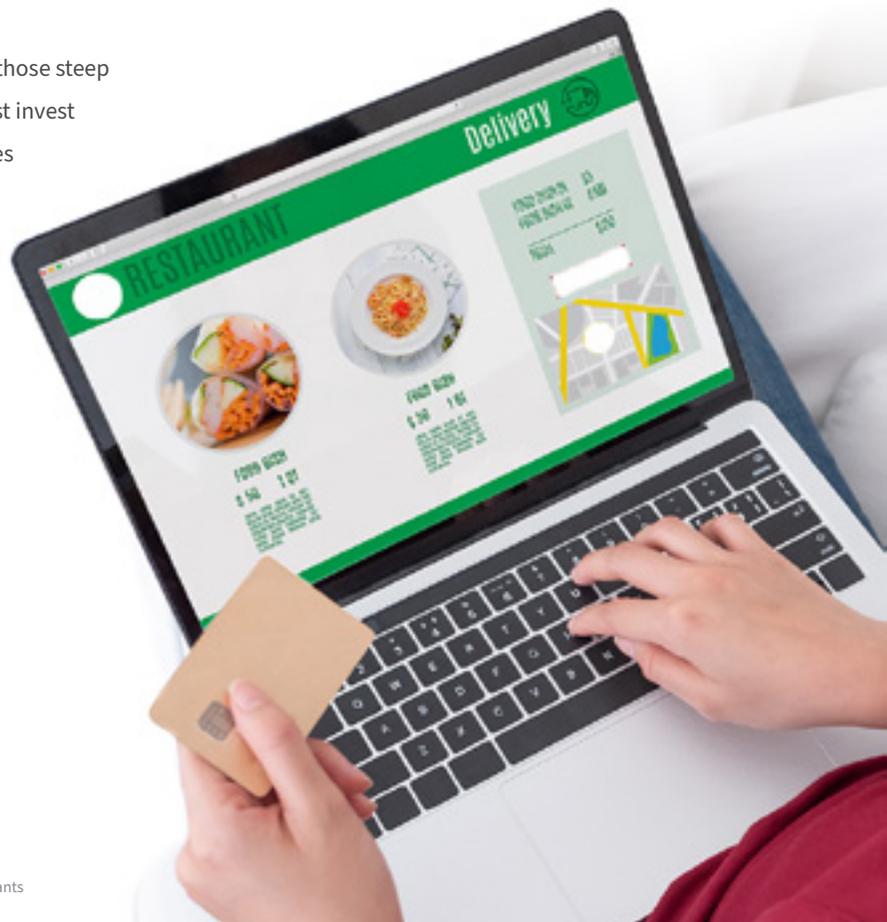
**One technology making waves is online ordering** (a double-edged sword for food franchises).

The market is booming thanks to Millennials, Generation Z, and the rise of mobile technology (in the next four years, US revenue from online ordering is expected to reach \$25 billion, with an annual compound growth rate of 7.5% over that time period)<sup>44</sup>.

That's good news for franchisers who want to increase order volume and reach new customers.

However, it comes with a catch—food-delivery aggregators such as GrubHub charge restaurants commissions (some as high as 30%) that pinch profits and make it harder for restaurants to stay in business.<sup>45</sup>

To ensure order volumes are high enough to offset those steep aggregator commissions, restaurant franchises must invest heavily in marketing to properly position themselves to an increasingly digital-first culture, and keep customers flocking to their online menus.



44. <https://www.statista.com/outlook/374/109/online-food-delivery/united-states>

45. <https://www.newyorker.com/culture/annals-of-gastronomy/are-delivery-apps-killing-restaurants>

# Challenges in 2019

Despite positive sales trends, growing opportunities presented by technology, and a new generation of diners, food franchises still face significant obstacles in the years ahead.

Rising costs will seriously affect bottom line development in 2019—facing the worst US drought in four years,<sup>46</sup> restaurants will struggle with rising food prices, as well as increasing electricity costs, interest rates, salaries, transport and maintenance costs.<sup>47</sup>

Finding help will be difficult too. The National Restaurant Association reports 37% of its members say labor recruitment will be their top challenge, up 15% from two years ago.<sup>48</sup>

And as with 2018, Government regulation will continue to be the single greatest obstacle to the growth of the franchise-based food service industry. Minimum wage laws, overtime standards and changes in immigration law all have a direct effect on the growth of the food franchises.



46. <https://www.usatoday.com/story/weather/2018/02/02/u-s-drought-worst-level-nearly-4-years/300850002/>

47. <https://www.fin24.com/Finweek/Entrepreneurs/six-challenges-facing-the-franchising-sector-20160211>

48. <https://www.nytimes.com/2018/04/05/dining/labor-shortage-restaurants-employment.html>

# How to Drive More Growth in 2019

Many franchisors and franchisees are relatively new to digital marketing, giving those with strong online skills an advantage.

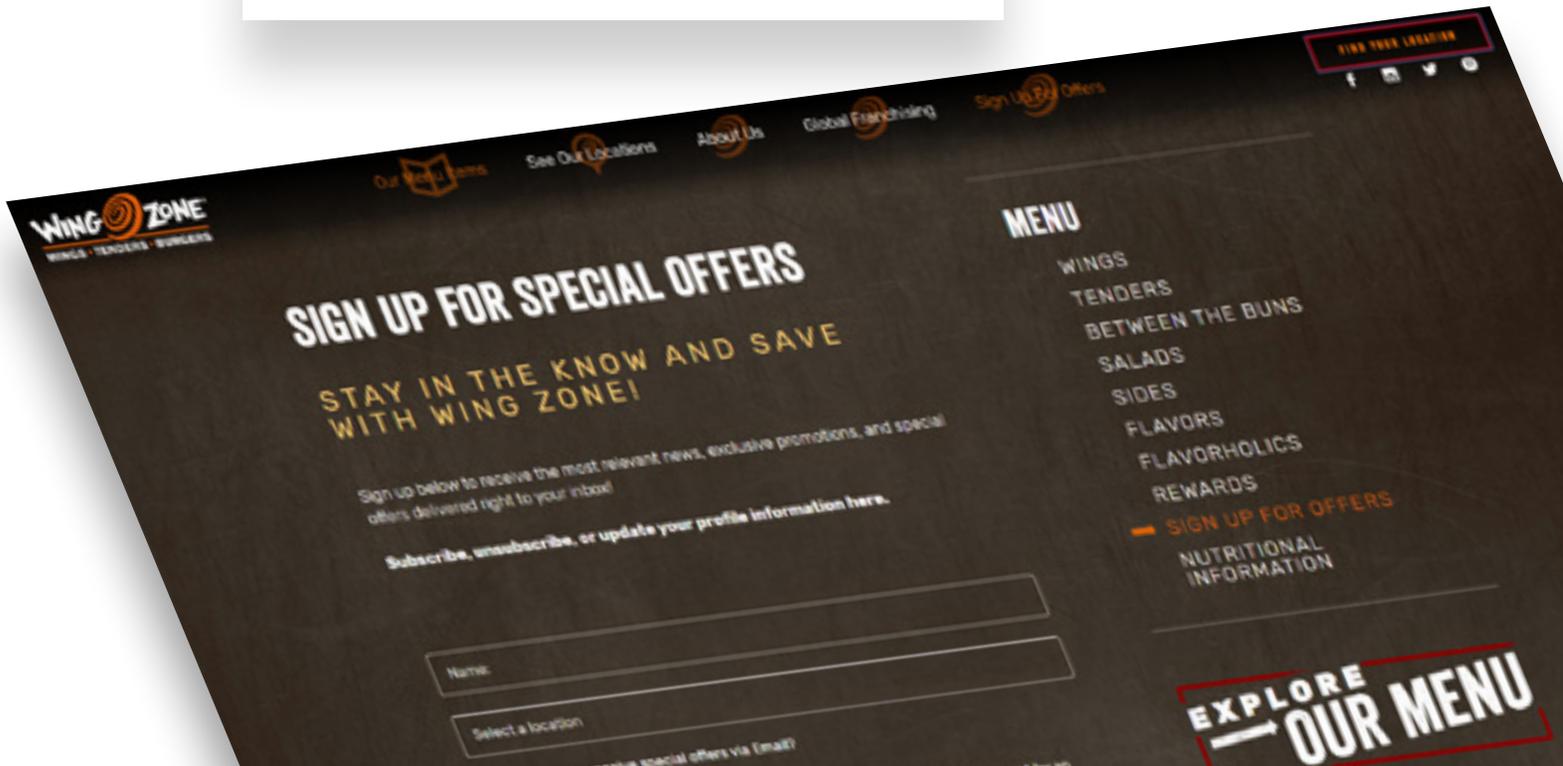
## Localize websites

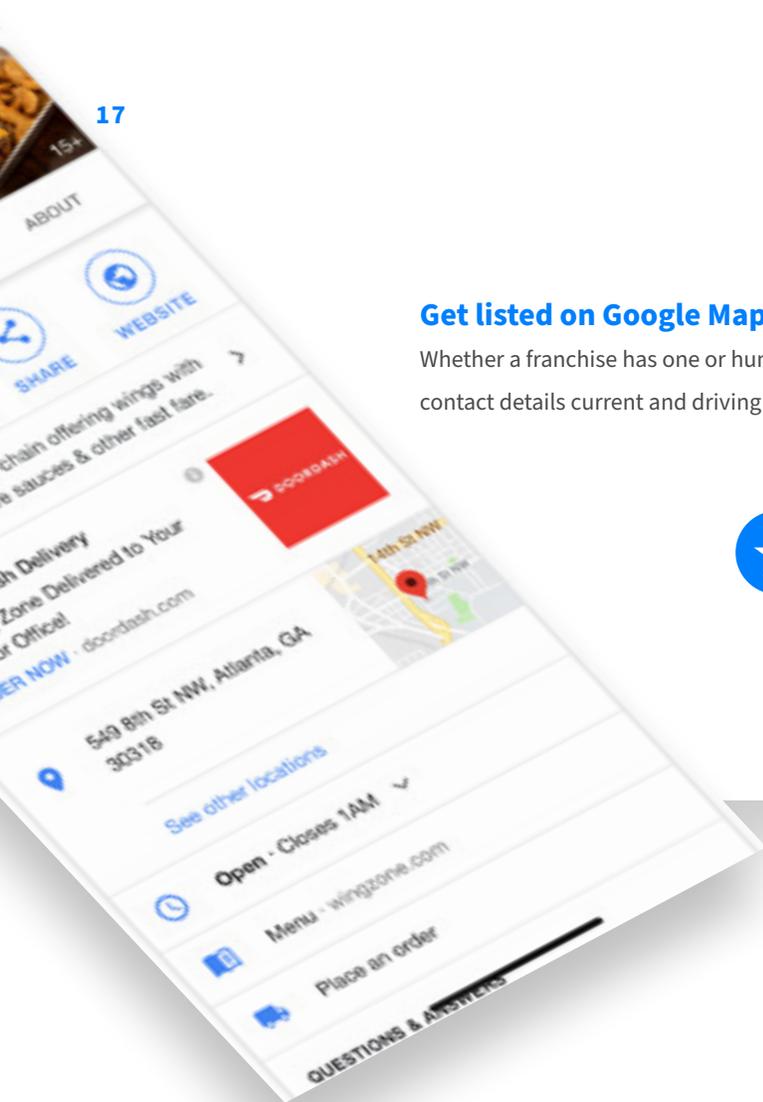
Having a location-focused website structure helps franchise marketers easily localize websites, enabling customers to find relevant information quickly. When franchises optimize their websites with location-specific terms, customers go straight to local pages instead of a corporate website when searching Google.



### Pro tip?

Content management systems make localization easy.





## Get listed on Google Maps

Whether a franchise has one or hundreds of franchisees, gaining centralized control is necessary to keeping contact details current and driving mobile searchers to the store closest to them.



### Pro tip?

**Make sure current and accurate storefront information is listed for each franchise location in Google Maps.**

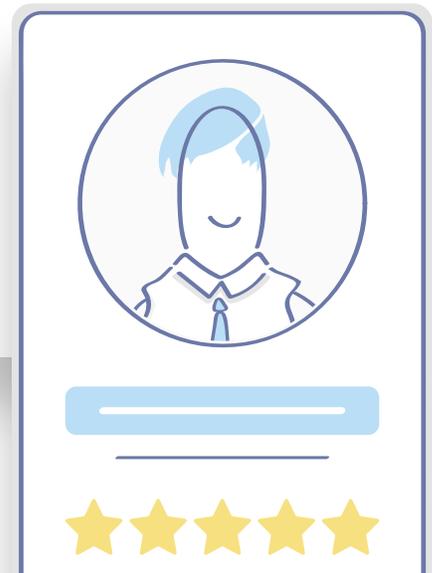
## Listen to what people are saying

84% of people trust online reviews as much as their friends, which is why better online ratings mean more business.<sup>49</sup> Therefore, the ability to track online reviews across all franchisee locations is critical.



### Pro tip?

**Online reputation monitoring tools enable franchise marketers to identify and fix issues before they become a problem.**



49. <https://www.inc.com/craig-bloem/84-percent-of-people-trust-online-reviews-as-much-.html>

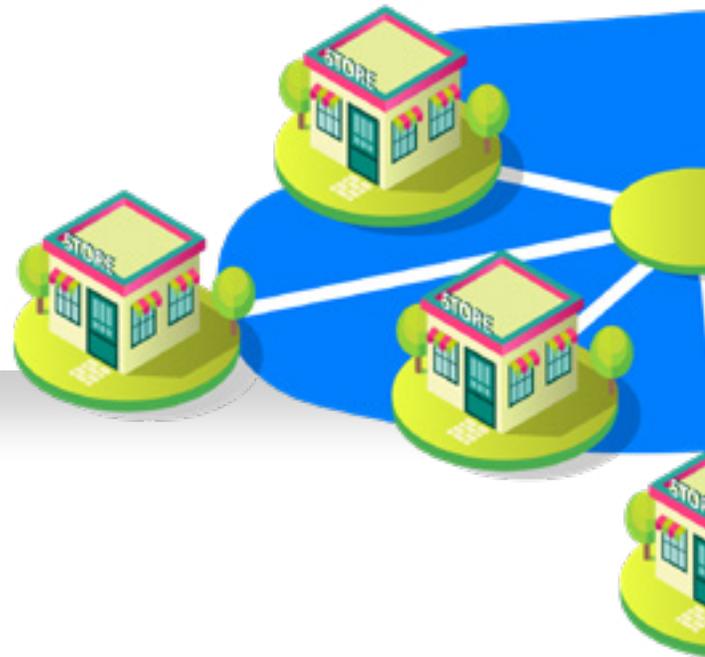
### Customize campaigns

Today’s consumers expect highly-personalized communications. Digital campaigns enable franchisers to segment and target customer groups to deliver relevant offers to individuals based on their interests and location.



#### Pro tip?

**Test and scale the best campaigns across all stores and stop wasting money on traditional campaigns that can’t be tracked.**



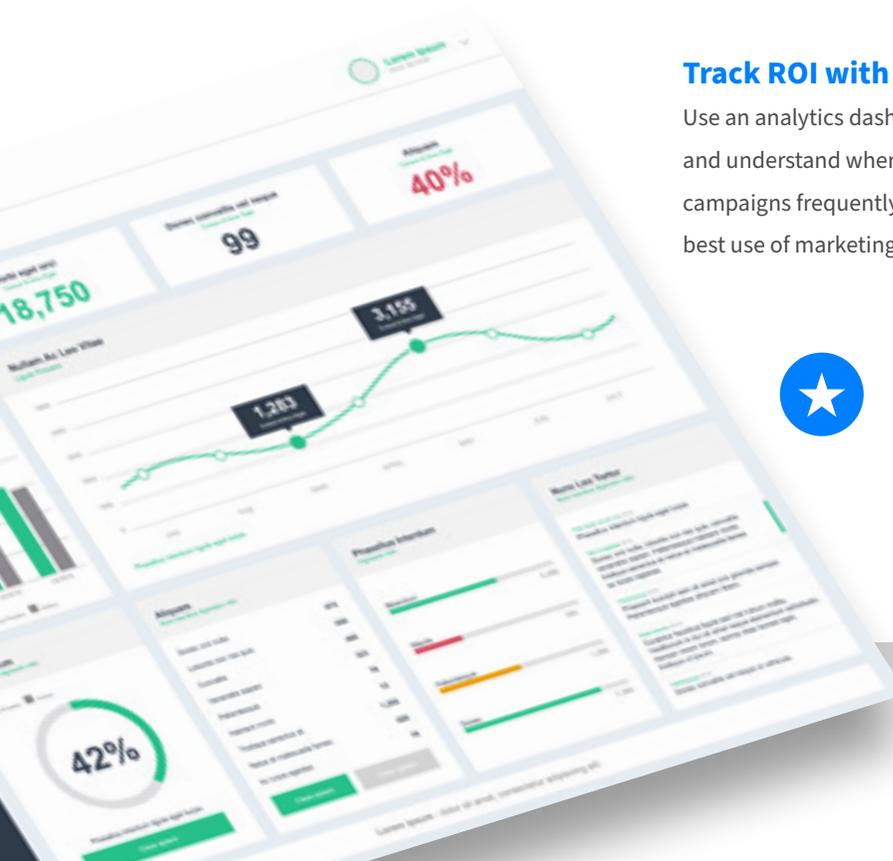
### Track ROI with data-driven marketing dashboards

Use an analytics dashboard to provide transparency and clarity to your marketing, and understand where digital marketing dollars are being spent. Monitor ROI for campaigns frequently and reallocate funds to the top performers to ensure the best use of marketing dollars.



#### Pro tip?

**Having a single platform for digital advertising and analytics is often cheaper, easier, and more effective than having multiple systems.**



# Closing Remarks

Consumer spending surged in 2018, driving a banner year for the US economy—2019 should see the continued growth for the Food & Beverage industry, as franchises ride the current wave of pro-business policies.

Expect the number of food franchise establishments to continue growing in the year ahead, particularly in the southern and western United States (regions with high levels of domestic migration).

Also, look for greener, more diverse menus as a new generation of diners prioritize healthy eating while simultaneously increasing spending on food away from home.

## About Scorpion

Scorpion is ranked the #1 Franchise Marketing Company in the United States by Entrepreneur Magazine. Talk to one of our franchise marketing experts today if you want to make 2019 your most profitable year.

Call Scorpion at **866.622.5648** or visit **ScorpionFranchise.com**

