The Future of Limited Service Restaurants: Let the consumer decide

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Introduction

At the end of the 20th century, the restaurant industry was generally considered to be divided into four segments: quick-service, casual/family restaurants, full service and fine dining. Operating in well delineated boundaries of pricing and target clientele, each segment's primary concern was competition from other firms within their own market. Innovation, specifically in the quick service and casual segments, was stagnant. As well, quick service restaurants (QSR) were embattled in a discounting war that had begun in 1989 with Taco Bell's introduction of the value menu.

In the midst of this status quo, a new movement was forming. Each starting with a brand consisting of less than 20 stores, unknown newcomers such as Panera and Chipotle were quietly increasing both their revenues and number of stores with concepts that could not be classified into the existing paradigm. With an emphasis on quality foods that were both more affordable and quicker to get in customers' hands than casual chains, this new hybrid of ideas was dubbed the "fast casual" segment by industry leaders. The rise of fast casual restaurants in the late 1990's and early to mid-2000's was also supported by the growing change in public opinion towards the foods they were enjoying. While a steady diet of hamburgers and French fries had satisfied the faster pace of life for a decade, the obesity epidemic that plagued many Americans became worrisome to many who desired a product that was just as convenient but perceived as "better for you".

The threat of losing market share to the up-and-coming segment was very real and reflected in the struggles of the established segments during the early years of the new century. QSRs in particular watched their sales slide and were forced to close some poor performing stores in the face of a customer base who were turning their backs on the drive-thru. For instance, Burger King experienced negative unit growth domestically from 2003-2007 and Kentucky Fried Chicken also experienced negative unit growth from 2004 until 2012 closing more than 850 stores (Restaurant Research LLC, 2013). How could the leaders in fast, cheap and available food respond to the exponentially growing fast casual phenomena? Could customer perception, built over the course of many years, be swayed into returning to the fast food chains? And, perhaps most importantly, could QSR's build a cohesive brand image that gave the customer something to affiliate with?

The State of the Restaurant Industry before Fast Casual

Prior to the arrival of the fast casual restaurant segment, the fast food industry's primary issue was stealing market share from one another. Gaining market share was not a matter of competing with the casual restaurants; the two segments were too dissimilar to have more than a moderately sized market segment in common to try and capture. The rise of increasingly sophisticated technology had facilitated a busier lifestyle than that of the 1960's or 1970's, and the fast food industry's core competencies of quick, tasty food for a relatively low price was an everyday fixture for many American families. Until the late 1980's, fast food chains main point of differentiation was the type of food served; assuming a baseline of quality and service. All of this changed in 1989, when Taco Bell rolled out its new value strategy. The low performing chain had taken the kitchen out of its restaurants and adopted an assembly line approach enabling never before seen menu item prices lowered to $0.49, $0.59 and $0.69 (Durnford, 1997). The move brought sales to unprecedented levels, but also opened the door for the industry as a whole to realize the potential of the value menu.

As chains such as McDonalds and Burger King introduced their own versions of discounted menus, the increasingly price sensitive customer base became spread out among the major players of the industry. Soon, the entire fast food segment was embattled in a pricing war in which most firms fought to "out-discount" their competitors, under the assumption that a lower price would bring in more customers and thus produce higher revenues despite the lowered per item profit (Muller, 1997). Underscoring this strategy for the fast food segment was the very low cost of these cheap-to-produce items making any small gain in revenue very profitable. And there was a lot to revenue to fight over: in 2002, it was reported that out of the average annual 206 meals purchased from a restaurant, 74% were from a fast food chain (Sloan, 2002).

It would be some time before parity was reached and QSRs turned to other concepts outside of price for separating individual restaurant firms. New menu items such as variations outside burgers or chicken sandwiches included pizza, spaghetti and other items that were not associated with the general expectation of fast food. These

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** Third Place Winning Case Study*

Table 1

Chipotle	2003	2004	2005
System-Wide Sales	$325,000	$477,000	$636,000
% Growth	43.20%	46.80%	33.30%
Total Units	305	409	489
% Growth	30.90%	34.10%	19.60%
Same-Store Sales	24.4%	13.3%	10.2%

(Source: Restaurant Research LLC. (2013))
**Totals based on domestic operations*
**Revenues in (000's)*

Table 2

Panera Bread Co.	2003	2004	2005
System-Wide Sales	$908,000	$1,241,000	$1,585,000
% Growth	32.00%	36.70%	27.70%
Total	602	741	877
% Growth	25.90%	23.10%	18.40%

(Source: Restaurant Research LLC. (2013))
**Totals based on domestic operations*
**Revenues in (000's)*

were attempts to expand into the market currently dominated by casual restaurants, but where one quick service chain found a novel approach that resonated with consumers; other firms were quick to copy. These efforts saw mixed results as the original concepts that had propelled the QSR industry into success became muddled with unclear brand identities. In turn, this ambiguity contributed to a lack of differentiation between chains as consumers were unable to identify a clear image with an individual chain. Customer loyalty became more difficult to secure due to the ever-changing array of menu items that were easily imitated; often for a comparable or lower price point.

The final factor that had gone relatively unnoticed by the QSRs was the increasing demand for healthier products. As America's obesity rate grew to 31% at the end of the 1990's, a worried population began to become disenfranchised with fast food (Chandon & Wansink, 2007). The concept of a family being able to dine at a fast food establishment on a regular basis was no longer favorable; the association with health risks and these types of foods made this prospect unpopular. "Healthy" menu items offered at the time included small, unappetizing salads and pitas which were met with very limited success. The association of fast food with fried products was too strong for the simple addition of new menu items to overcome; what was needed was a completely different strategy for the firms. Unfortunately, this went unrecognized until it was far too late to hedge out upcoming new concepts. With an increasing population of concerned consumers, there was a latent craving for a new alternative to what fast food had to offer. The time was ripe for a change in how Americans dined out.

The Rise of Fast Casual Restaurants

While quick service restaurants were pre-occupied with each other, a new type of restaurant was opening in multiple locations across the country. These pioneers offered something in between the traditional sit-down casual restaurant and the drive-thru driven quick service industry, by taking the best of what both segments had to offer. This new type of restaurant, dubbed "Fast Casual" or "Quick Casual", promised something unique: a higher quality product with the speed and convenience of a fast food product, but still featuring a relatively low price point between the existing industries. With a check average only a few dollars higher than that of quick service, the new menus were seen as very affordable; especially when the higher perceived food quality was taken into consideration.

Specifically, brands such as Panera and Chipotle saw incredible growth during this time period. In 2003, the fast-casual segment grossed $1.32 billion in sales domestically showing its emergence as a new market force (Restaurant Research LLC, 2013). Just two years later, (2005) the segment nearly doubled its revenues domestically with $2.44 billion in sales (Restaurant Research LLC, 2013). Success of the industry was apparent and substantial growth followed; the number of stores in the fast-casual segment grew domestically by 27% in 2003, 30% in 2004 and 21% in 2005 (Restaurant Research LLC, 2013). This rapid rise in popularity fueled by the right product and brand strategy caught the eye of the consumer and proved to be a recipe for success. This financial success was attributed to many factors; among them the novelty of a higher quality product served in a quick, efficient manner for a relatively low additional price. With a similar approach to quick service, an assembly line system featured in many of the popular chains led to easy distribution of products. This was coupled with a more transparent kitchen as a common feature in many restaurants was to produce, hold and serve the food in full view of the customer. This may have contributed to another factor attributed to the success of fast casual restaurants: the perception of a healthier product when compared to QSRs. A fresher, not-fried product such as a deli meat sandwich, gourmet salad or the use of organic meats were much more attractive than the maligned cheeseburger and fried side items that had formed the core of fast food menu offerings for decades (Garber, 2005).

Another theorized reason for the sudden growth of the fast casual segment was the changing demand of the American consumer. With the economic success of the 1990's into the next century, restaurant customers were becoming accustomed to a higher standard of living. This translated into food service as a desire for something more upscale than the standard burgers, chicken sandwiches and tacos that had been part of food culture for decades; people craved a more sub-

stantial menu with items that featured unique flavors.

Branding

Perhaps the most defining factor contributing to the success of fast casual restaurants lies not in the tangible factors such as price or food quality, or even in the changing nature of customer demand. As QSRs became undistinguishable from one another, their individuality was lost to the general perception of greasy, cheap food. This loss of brand image was even more profound when compared to the strong identities that the upcoming segment would provide. A successful restaurant would therefore lie in its ability to project an experience transcending the tangible features every restaurant offers (Muller, 1998). Of course the basic tenants of well-executed products and services are important, but these are assumed to be practiced by any successful firm. The customer's ability to form a connection on a level beyond that of a transaction of goods through brand image is the key to building a loyal base of fans; an idea that fast food firms failed to grasp during the early years of fast casual's rise.

Brand image is created through brand associations which are composed of attributes (tangibles), benefits (physical and psychological need fulfillment), and attitudes (beliefs about the brand). Sales levels are linked with brand image as well, with a strong association between how consumers view a firm and their expenditure at a restaurant (Kim & Kim, 2004). Compared to the confusion generated by similar value meals on fast food menus and the lack of differentiation between firms outside of a few core menu items, it is easy to see why fast casual firms were so effective in gaining customers. Their stores, service, products and overall experience were designed around a core concept that permeates through every level of the business.

Fast Casual Gets it Right

Brands such as Firehouse Subs and Chipotle realized the potential of the importance of brand image by featuring a unique presence through their novel menus and strong commitment to the ideals of the company. Chipotle in particular saw success with its attribution to sustainable practices which saw farm-raised, hormone-free meats bring a population of environmentally-conscious customers through their doors. By creating more than just quality food and friendly service, Chipotle has dedicated customers who identify with and believe in the message Chipotle is conveying. Innovative website design and a rich backstory also contribute to a unified brand image. Chipotle opened its first store in 1993 and expanded to 14 locations by the end of 1998 (Wong, 2013). This is when Chipotle caught the attention of many customers as well as investors in the industry. By 2003, the company had swelled to 305 locations and rapidly increased this number to 489 by the end of 2005 (Restaurant Research LLC, 2013). In addition to the growth in the number of locations, the same store sales for Chipotle averaged a 16% increase over the same time period reflecting a growing customer base (Restaurant Research LLC, 2013). The increase in same store sales is also evident in Chipotle's overall domestic revenues earning $325 million in 2003 and nearly doubling to $636 million by 2005 (Restaurant Research LLC, 2013). Growth and sales continued in the years to follow passing the $1 billion mark for the first time in 2007 (Restaurant Research LLC, 2013). This feat had made Chipotle one of the dominating players in the new fast-casual segment.

Representing the other powerhouse of the segment, Panera realized the need for a healthy alternative and embraced the perception of a freshly prepared product served in a timely manner; despite the reality that the nutritional content of its menu items is similar to those offered by QSRs. Where QSRs' attempts at offering salads and wraps had been met with skepticism and very limited positive feedback, the large portions and wide selection of ingredients in salads and sandwiches helped fuel Panera's menu. Positioning themselves as a "bakery café", the combination of a welcoming comfortable atmosphere with feel-good food served relatively quickly was irresistible

Table 3

	2003	2004	2005
Fast Casual Segment Sales	$1,328,000	$1,870,000	$2,441,000
QSR Segment Sales	$57,648,100	$61,790,700	$64,912,300
Total Sales	$58,976,100	$63,660,700	$67,353,300
Fast Casual Market Share	2.25%	2.94%	3.62%
QSR Market Share	97.75%	97.06%	96.38%
Fast Casual Unit Growth	27.70%	30.40%	21.80%
QSR Unit Growth	0.60%	0.40%	0.40%
Fast Casual Same Store Sales	6.20%	5.49%	8.47%
QSR Same Store Sales	3.58%	6.68%	3.19%

(Source: Restaurant Research LLC. (2013))
**Totals based on domestic operations*
**Revenues in (000's)*

Table 4

	2006	2007	2008	2009	2010	2011	2012
Fast Casual Segment Sales	$3,009,000	$3,692,900	$4,378,200	$4,746,300	$5,430,800	$6,206,000	$7,123,000
QSR Segment Sales	$68,019,600	$70,773,900	$74,216,755	$75,375,580	$76,289,268	$78,910,013	$82,350,804
Total Sales	$71,028,600	$74,466,800	$78,594,955	$80,121,880	$81,720,068	$85,116,013	$89,473,804
Fast Casual Market Share	4.24%	4.96%	5.57%	5.92%	6.65%	7.29%	7.96%
QSR Market Share	95.76%	95.04%	94.43%	94.08%	93.35%	92.71%	92.04%
Fast Casual Unit Growth	19.20%	20.90%	12.20%	8.80%	7.50%	9.50%	9.60%
QSR Unit Growth	0.20%	0.90%	0.80%	0.40%	0.30%	0.20%	0.20%
Fast Casual Same Store Sales	6.85%	4.42%	3.94%	1.77%	8.11%	6.49%	5.86%
QSR Same Store Sales	3.93%	2.86%	3.17%	-0.31%	0.68%	2.57%	3.79%

(Source: Restaurant Research LLC. (2013))
Totals based on domestic operations
Revenue's in (000's)

to consumers. As well, the bakery feature enabled subsidiary sales of baked goods and coffee products; allowing breakfast business to thrive along with meal periods outside of lunch and dinner. Panera can be regarded as one of the pioneers of the segment with the first Panera Bread concept established in 1981; considerably earlier than other fast casual firms. Much of its growth took place in the 1990's and in 2003 its sales were $908 million domestically making up approximately 68% of the fast-casual segment market share (Restaurant Research LLC, 2013). Similar to the segment growth during this time period, Panera's revenues were $1.58 billion in 2005, suggesting the emergent popularity of both the brand itself and the segment as a result.

Other chains such as Tijuana Flats and 4 Rivers (both based in Orlando, FL) took the approach of being a bit more edgy than their competitors; representing not only the selection of gourmet hot sauces offered in their stores but also a fun and slightly risqué atmosphere. The benefits from this type of approach are evident in many places outside of traditional advertising channels; fans of Tijuana Flats proudly identify themselves with the chain through bumper stickers and t-shirts featuring tongue-in-cheek phrases. 4 Rivers creates loyal customers by offering up tasty BBQ foods to a constantly moving line of hungry patrons, before letting them relax in a friendly setting of picnic tables. Their food has inspired a growing movement that actively asks for new locations to open.

As consumers lined up to take part in the fast casual movement, the quick service segment saw their share of total restaurant dollars begin to decline. Without a cohesive message, firms were left with the same features they had always had; cheap, quick food of a moderate quality. Compared to the new, trendy newcomers, QSR's were labeled as dinosaurs by some trade journals (Sloan, 2002). In order to return to prominence in the consumers' minds, the QSR industry had to completely remodel how they were perceived; beginning with how the individual firms identified themselves.

Quick Service Fights Back

To regain ground in the restaurant industry required not only an understanding of the successful strategies that other firms and segments were employing, but a fundamental shift in how the business was operated. For years, fast food chains had been entrenched in a fight amongst themselves; responding to each other through price wars and copying whatever menu item was enjoying a momentary rise in sales. Now, restaurants needed to tap into a broader picture of consumer demand. The country's change in appetite had not occurred overnight, and promised to become even more solidified behind the concepts of health concerns, a higher standard of quality and an expectation of identity between customers and the firm.

Faced with the possibility of declining sales and threats to market share, chains such as Burger King and Wendy's sought to reestablish themselves as the choice for tasty food in a hurry. The first goal was to alter the perception of value through a lessening of discounting and value meals. Marketing of value meals, limited time promotions and inexpensive single menu items made way for messages that barely featured the actual product the firm was selling. Instead, firms promoted experiences such as making time for family, spending time with friends, and appealed to children through images of playing with the toys offered in kids' meals. Burger King took a completely different approach, linking their brand to an unusual mascot who inspired off-beat humor and memorable quirks in advertisements.

Still other chains decided to open new affiliated concepts in an effort to support the differentiation of individual restaurants under the same corporate umbrella. In 2004, Jack in the Box opened JBX, a fast casual concept that was designed to maintain a distinct difference from the original fast food concept (Spector, 2004a). Featuring a more modern architecture and a considerably different menu, the concept struggled

to distance itself from its more famous predecessor and closed operations in 2006. The failure may be attributed to the strength of the pre-existing brand image of low quality foods that would not translate in consumers' minds to another segment.

Realizing that the expectations of Americans had shifted to a higher quality product, QSR's began to develop new items with an emphasis on premium ingredients, healthier options and a cleaner way of eating. The focus for promotions featured on television and radio advertising changed from highlighting low prices to descriptions of seemingly wholesome items such as Arby's Market Fresh sandwiches or McDonald's line of gourmet salads (Spector, 2004b). However, what customers failed to notice was the lack of actual change in the nutrition of some of these new menu items. In comparing a McDonald's Quarter Pounder with Cheese to a deli sandwich from Panera, the sandwich feature contained significantly higher calories and fat content (Parker-Pope, 2003). One additional consideration for QSRs was positioning. As restaurants had been previously split into the major segments of QSR, casual/family dining and fine dining, the introduction of a new segment offering a more enjoyable experience for a relatively low difference in cost infers that the gap separating fast food from a sit-down concept was even wider. To combat this from becoming a fixture in consumers' minds, conveying an ability to actively compete with fast casual was crucial.

Due to this need, the successful transition of QSR's involved much more than just a remodeling of the menu. The atmosphere of fast casual restaurants featured a very distinct difference from the brightly lit, sterile décor of many fast food chains. Instead, the interiors matched the new proposed brand image in a similar fashion to what many casual restaurants had done for years. Ideas like non-traditional seats, free specialty condiments, such as hot sauce were available in the dining area and a more modern, sophisticated look brought by wood paneling and stainless steel allowed for a distinction to easily be found by consumers (WD Partners, 2012). QSRs began to refurbish their faded stores into concepts that communicated a more engaging experience to consumers. McDonald's McCafe stores promised non-traditional menu items such as Italian pastas and paninis. Burger King released its Whopper Bar that invited customers to be involved in the creation process without an increase in cost. The fast food chain Hardee's opted to attempt to change operations through implementing partial table service. Customers still queued in line to place their order, but would then be seated and have their meal brought out to them by service staff. This effort coupled with new food descriptions such as "100% Black Angus" burgers, or "Hand-Breaded Chicken Tenders" tried to convey a fast casual atmosphere without altering the core menu or convenience of a drive-thru.

Due to their efforts, the dominant quick service industry remained the largest and most profitable segment of limited service restaurants. Chains such as McDonalds and Wendy's were still growing steadily and achieved domestic segment-wide sales between $55 and $65 billion over the 2003-2005 time frame; however both their growth and sales were outpaced by the fast-casual segment (Restaurant Research LLC, 2013). Fast-casual operations were able to gain 1.5% market share of this nearly $70 billion dollar industry within 3 years, suggesting that the evolving consumer trends show no sign of stopping (Restaurant Research LLC, 2013).

How the Fast Food and Fast Casual Segments are Classified Today

Since the emergence and rapid growth of the fast-casual industry between 2000 and 2005, the segment has continued to grow and expand. Overall, both the fast-casual and quick-service industries continue to grow but the market share has tipped percentage points into the fast-casual segment as the years have progressed. In 2012 the segment sales totaled $82 billion and $7 billion for the quick-service and fast-casual segments respectively (Restaurant Research LLC, 2013). The fast-casual food segment has increased its market share between the two industries from 2.25% in 2003 to approximately 8% in 2012 (Restaurant Research LLC, 2013). This growth is substantial considering the sales figures and the competitive environment for customer dollars. When analyzing the fast-casual industries same store sales, the average growth per year domestically from 2001 to 2012 was 5.9%; quick-service restaurants averaged only 2.7% over the same time frame (Restaurant Research LLC, 2013). Fast-casual has been able to capture more money from customers per visit as well, averaging $9.43 per check in 2012 (Restaurant Research LLC, 2013). In comparison, the quick-service average is only $6.73 (Restaurant Research LLC, 2013). These statistics reveal the change in the consumers' willingness to pay due to the changes in demand related to new perceptions of brand image. The number of fast-casual stores continues to grow domestically every year, averaging a 12.5% unit increase since 2006 (Restaurant Research LLC, 2013).

Where the fast food segment had been predicted by some trade journals to disappear within years due to the rise of fast casual chains, many firms have since re-claimed their prominence in the restaurant industry. Comparisons between segments now have to acknowledge the space occupied by fast casual; however they are no longer viewed as anything but another competitor for consumer market share. In general, executives of fast food chains had learned to invest more time into understanding national consumer trends in an effort to better predict how consumers would shift demand. As well, and perhaps more importantly, the stagnation of the "Burger Wars" had transitioned into a renewal of brand image that forced firms to take a good, hard look at their own businesses. What they found was the importance of a clear-cut brand image being communicated to the customer about who the firm was and how the public could identify with them.

Questions to Consider

As the fast casual restaurant segment continues to thrive, what are some strategies to remain innovative and distinct in the face of fast food restaurant competition? How can fast food chains remain a consideration in consumers' minds when choosing a restaurant? Finally, what are some recent technology advancements that can be used to improve market share and consumer awareness for firms in either segment?

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