The Future of Limited Service Restaurants: Let the Customer Decide

The case outlines a modern history of the quick service and fast casual segments of the restaurant industry from the end of the 1980's to present day. Highlighting the convoluted state of fast food that resulted from the discount wars, the changing demand of consumers is discussed in an attempt to conceptualize the success of fast casual restaurants. The purpose is to examine the concept of brand image from the perspective of a new segment disrupting the pre-existing structure of an industry.

Rather than individual firms, the fast casual segment as a whole is discussed as an example of successful implementation of creating unified brand attributes for a changing market of consumers to grasp on to. Brand image is presented as the primary reason for the rapid gain in both revenues and market share; in comparison to some of the other factors that have been attributed to the growth of the segment such as consumer demand and health concerns.

Teaching Objectives

The intended objectives revolve around discussion of adapting to new competitors based on a significant change in operations and the introduction of some of the key factors that are involved. In the specific context of the Hospitality and Tourism field, recognition of the relevant attributes which contributed to the popularity of fast casual and how the fast food industry was able to rebuild are relevant concepts from which future industry leaders can develop. Below are some of the objectives for this case study:

- To highlight the importance of creating, maintaining and adapting a firm's brand image; in order to show how a cohesive and relatable image influences consumer behavior.
- To feature the recent history of the restaurant industry to an undergraduate audience so as to understand the trends that are ongoing today.
- To discuss the need for a firm to research not only the strategies employed by direct competition, but also to understand potential new entrants to a given market.
- To develop a strategic plan in the face of changing market demand in order to retain both market share and sustained revenues.

Brand Image

The chief theoretical instruction intended to be passed on to students concerns a firm's brand image. To this end, instructors are encouraged to foster discussion concerning the components of brand image. These brand associations represent how consumers discern a firm's brand image from a competitor. Brand associations are classified into three categories:

1) Attributes: Brand attributes represent the tangible properties that consumer associate with a firm, such as products, physical environment and the type of service offered (Keller, 1993). This category also represents pricing and the customer's perception of the type of person who patronizes a firm based on the brand image. McDonald's has recently targeted a more youthful, energetic generation in their advertising, evoking a sense of how "cool" it is to maintain a busy lifestyle and share their food with friends.

2) Benefits: Brand benefits manifest as how a firm is perceived to meet a physical or psychological need in the consumer (Keller, 1993). Marketing products as healthy, such as the aggressive campaign launched by Subway in the early 2000's, appeals to this concept. It can also appeal to consumers based on how they associate themselves with an ideal or way of life. For example, Five Guys uses a simple relaxed, family appeal to portray simple quality food that is enjoyable to wait for.

3) Attitudes: The highest level of brand association; attitudes form the strongest predictor of patronage intention (Wilkie, 1986). Brand attitudes are comprised of an individual's beliefs on how a firm operates and for what purpose. This can be a more general concept that could be very difficult to measure, however is comprised of multiple dimensions reflecting the various aspect of consumer psychology.

Target Audience and Suggested Lessons

The teaching unit is designed for an undergraduate classroom environment in marketing or food and beverage management. It may also be utilized in undergraduate entrepreneurship, facilities design or cost control courses with a higher emphasis on the relevant application to brand management. Prior to implementation of the case study, teachers should review relevant branding concepts such as positioning, value and consumer perception. Students should also be familiar with conducting SWOT analysis techniques. Trade articles mentioned in the additional reading section of this note will give students background information regarding the restaurant QSR and Fast-Casual dynamics discussed in this case study.

As an in-class activity, students can be divided into teams representing various fast-casual and quick service restaurant branding situations. Each team will receive a scenario (example below) highlighting the situations of all groups with each team receiving one specific segment. Given the SWOT analysis of their competitor, teams will develop a SWOT analysis for their given restaurant situation. Teams will also receive expenditure-related information (See Appendix 1) to determine business decisions from a given list of categories that will best help their firm succeed. After preparation of the business solution, students will present their ideas to their peers. This will allow for all students to be aware of possible situations, allow creative ideas to be presented and create an engaging teaching environment. A short paper should also be assigned to each participant to ensure that individual students are fully understanding the concepts being conveyed.

Case 1:

John is the manager of a franchised fast food chain that has been open in the same location without renovations for the past 20 years. The store is located on the corner of a busy intersection and enjoys high visibility and traffic patterns. The business is both popular and successful and is similar to McDonald's in that the restaurant features burgers as their main menu items. The property can accommodate both dine-in and drive-thru customers. In a recent customer survey, typical patrons were found to cover a wide age range: between 25-50 years old. These customers had indicated that the quality of food could be improved and service levels had declined in recent years. John is well aware that the food quality of his competitors may be better, considering his food costs are substantially lower when compared to other establishments he has worked in. As well, the unemployment rate has climbed in recent years, decreasing consumers' discretionary incomes.

Last week, John was informed by the owner of the store that a competing burger restaurant would be opening just blocks away from their location as a fast casual concept. The owner is concerned about the competition and did a review of this restaurant in terms of a SWOT analysis. He has given John the report and asked him to prepare a SWOT analysis for their own restaurant. He has also asked for recommendations to improve their own SWOT analysis to stay competitive. John has come to you for help knowing your knowledge of hospitality. He has asked you to help in the development of his restaurants' SWOT analysis. In addition, he has been told that he has $100,000 to implement any recommendations. The $100,000 can be used for advertisements, remodeling, menu changes, staff hires or any other creative ideas approved by the owner. What are your suggestions for John?

Assignment

Based on the case information provided, Chipotle and Panera were the two major players in the emergence of the fast casual segment. Using the sales, market share, and unit growth data answer the following questions:

Based on total revenues, what percentage of market share did Panera Bread and Chipotle, separately, capture for 2003, 2004, and 2005 of the fast casual segment? Of the combined fast casual and quick service segments?

Calculate the market share change from 2003-2004, and 2004-2005 for Panera and Chipotle, separately, as a total of the fast casual segment. What is the market share change for the combined fast casual and quick service segments?

What is the average sales per unit for Chipotle and Panera Bread (separately)? What is the percentage change of average unit sales for Chipotle and Panera Bread 2003-2004, and 2004-2005?

What is the change in revenue over the ten years for 2003-2012 for Quick Service, Fast Casual and Total Sales for the two segments? What does this tell you about the industry overall?

Notice the effects of the recession in 2008 on the restaurant industry; which segment has recovered the quickest post depression? Support your answer with reasons why this segment may have performed better than the other.

Based on the financial analysis above and information from the case study: if you were a potential investor, which restaurant firm would you invest your money in? Why?

Further Reading

Multiple sources of information can be used to highlight the information and implications of the case study. Industry trends are generally highlighted in trade publications such as QSR Magazine (www.qsrmagazine.com) or Nation's Restaurant News (www.nrn.com). News items concerning brief financials, expansion of chains and innovations are both frequent and current. Also, the following are examples of related works that highlight the concepts of this case study:

Inside: Chipotle. [Documentary]. (2013). United States: Bloomberg.

Muller, C. C. (1997). Redefining Value: The Hamburger Price War. Cornell Hotel and Restaurant Administration Quarterly, 38(3), 62-73.

Spector, A. (2004a). Jack in the Box pops out fast-casual JBX concept. Nation's Restaurant News, 38(14), 4-57.

As advertising is one of the most visible elements that form consumers perception of brand image (Meenaghan, 1995), a valuable resource to include would be research provided by Nielsen on the most liked restaurant ads. Elements that influence brand image like tangible product attributes and benefits are often portrayed in commercial advertising. An example of restaurant ad comparisons can be found at:

Nielsen (2013). Eat it up: Top US restaurant ads-Q12013. Accessed on June 11, 2014 from http://www.nielsen.com/us/en/newswire/2013/eat-it-up--top-u-s--restaurant-ads--q1-2013.html.

Appendix

Table 6

Competing Fast Casual Restaurant SWOT Analysis

Strengths	Weaknesses
Fresher ingredients	Slightly more expensive
More fact to face interaction	Not a well-known brand
Innovation: Burger bar in view of customers that allows guests to create their own burger	No history of vendor relations
New establishment	Higher menu costs
Orders can be placed online	
Cleanliness	

Opportunities	Threats
New concept with burger bar and online orders	New business entering an established market
Younger generation market	Surrounding businesses offering same food items
Demand for healthy products	High unemployment rate
Higher pay rate	

Table 7

of Fast Casual & Quick Service Restaurant Firms

Fast Casual	Fast Food / Quick Service
Panera	McDonald's
Chipotle	Burger King
Panda Express	Wendy's
Tijuana Flats	Taco Bell
Fazoli's	Hardee's
Qdoba	Arby's
Five Guys	KFC

Table 8

Answers to Case Study Assignment

Share of Fast Casual	***2003***	***2004***	***2005***
Chipotle	24.47%	25.51%	26.05%
Panera Bread	68.37%	66.36%	64.93%
Other	7.15%	8.13%	9.01%
Change of Share in Fast Casual			
Chipotle		1.04%	0.55%
Panera Bread		-2.01%	-1.43%
Share of QSR and Fast Casual			
Chipotle	0.55%	0.75%	0.94%
Panera Bread	1.54%	1.95%	2.35%
Change of Share in QSR and Fast Casual			
Chipotle		0.20%	0.19%
Panera Bread		0.41%	0.40%
Average Sales Per Unit			
Chipotle	$1,065,573.77	$1,166,259.17	$1,300,613.50
Panera Bread	$1,508,305.65	$1,674,763.83	$1,807,297.61
Change in Average Sales Per Unit			
Chipotle		9.45%	11.52%
Panera Bread		11.04%	7.91%
Change in Revenue			
Fast Casual			5,795,000
QSR			24,702,704
Total			30,497,704
Both industries are strong and have been consistently growing over the last ten years			
The Fast Casual Segments same store sales has increased above pre recession levels in comparison to quick service which has taken more time to reach pre recession levels. Unit growth has continued to increase from 2010-2012 for fast casual but quick service unit growth is still in decline over the same time frame.			