Why is Fast Casual Winning?

By Ekaterina Sorokina and Kevin Murphy

Introduction

The fast casual restaurant sector is booming, while other segments struggle to keep their sales stable. The quick expansion of the segment and impressive increase in sales has drawn attention to the fast casual restaurants and their strategies. Tice (2012) explained that fast casual restaurants hit "the sweet spot right now". So, why is fast casual experiencing continued rapid growth while other sectors of the restaurant industry grow slowly or even languish? In order to understand this phenomenon, development of the fast casual segment and the leading fast casual restaurant concepts are examined. Identified as the top five brands in the fast casual segment, according to sales, were Panera Bread, Chipotle Mexican Grill, Panda Express, Zaxby's, and Five Guys Burgers and Fries. These brands became the top five fast casual restaurant chains in 2011 (Forbes, 2011), and remained as the leaders of the segment through 2013 (Campbell, 2013).

Fast Casual

The term "fast casual" was introduced in the 1990s (The Wall Street Journal, 2014). The concept of fast casual restaurants grew out of the "home meal replacement" and "adult fast food" concept. The restaurants, which represented this segment, provided limited table service. Their prices were generally higher than the prices of other quick-service restaurants since they offered a more upscale ambience and atmosphere (Tristano, 2013).

The fast casual restaurants are commonly organized according to a limited-service or self-service format. The average check is usually higher than \$9 (Tristano, 2013), more specifically, the prices for a meal in fast casual restaurants range somewhere between \$8 and \$15 (The Wall Street Journal, 2014). The meals are made-to-order using fresh ingredients that are locally sourced by some of the chains. A number of the restaurants also utilize the open-kitchen concept, so customers can see how their orders are prepared. Since the fast casual concept combines the speed of fast food restaurants with the quality of casual dining restaurants, the prices of fast casual restaurants are set in between the prices offered by these two segments (The Wall Street Journal, 2014). According to Technomic, Inc., the food service research and consulting firm, the fast casual segment is represented by nine different sub-segments. These sub-segments are Mexican, bakery/café, sandwich, hamburger, chicken, pizza, Asian/noodle, salad, and specialty. Among which Mexican and bakery/café sub-segments were reported as the largest among top 100 chains (QSR Magazine, 2011).

The overall fast casual segment is increasingly gaining in popularity; it also outperforms other restaurant segments and shows a lot of potential for continued growth (Tice, 2012; The Wall Street Journal, 2014). The fast casual segment outperformed even the overall limited service sector and the quick-service segment in terms of sales and unit growth in 2010, see Table 1 (QSR Magazine, 2011). Furthermore, the segment proved to be resistant to the worsening economic conditions and continued to grow while other segments struggled with declining sales.

Currently, the segment is planning to increase investments in renovation of existing locations and construction of new units (The Wall Street Journal, 2014). Thus, the future market conditions seem to be favorable for the fast casual restaurant segment and this could be demonstrated by the success of the top five restaurant chains.

The Top Five

The top five chains in fast casual restaurant segment are Panera Bread, Chipotle Mexican Grill, Panda Express, Zaxby's, and Five Guys Burgers and Fries (Forbes, 2011; QSR Magazine, 2011). These chains recorded the highest revenue. Among the top five, Green (2011) named Panera Bread and Chipotle as the titans of the fast casual segment with more than 1,000 locations owned by each of the companies. Tice (2012) noted that other corner bakery concepts could only envy the ability of Panera Bread to turn a simple concept into a successful chain of restaurants.

Among the top chains, Five Guys Burgers and Fries had the highest percentage sales increase in 2011. The company recorded 32.8% increase in sales compared to the previous year. Chipotle Mexican Grill had the second highest percentage change in sales, 23.1%, and Panera Bread, Zaxby's, and Panda Express had 10.1%, 8.1%, and 6.8% increase in sales, respectively (Forbes, 2011). These sales numbers indicate that the chains are growing at a high rate, and so is the fast casual segment.

In 2013, the top five chains were still presented by Panera Bread, Chipotle Mexican Grill, Panda Express, Five Guys Burgers and Fries, and Zaxby's. The sales of these five major brands comprised 40% of sales among top 100 fast casual restaurants and were at \$7.56 billion (Campbell, 2013).

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Table 1

The Top 500 Limited-Service Chain Restaurants Sales Increase and Unit Growth in 2010

Restaurant segment	Sales increase	Unit growth
Limited-service (total)	2.6%	0.6%
Quick-service (other)	2.2%	0.3%
Fast casual	5.7%	3.4%

A Story Behind

Panera Bread

The company was established in 1981 by Louis Kane and Ron Shaich under the name of Au Bon Pain Co. Inc. The company expanded its operations throughout the east cost of the United States and it became the forerunner in bakery/café sub-segment of fast casual segment during 1980s and 1990s. Later in 1993, Au Bon Pain Co. Inc. purchased another company, Saint Louis Bread. This chain had 20 bakery/cafés that operated in St. Louis area, Missouri. Subsequently, the chain expanded and the name of the concept was changed to Panera Bread (Panera Bread, 2013).

In 1997, the company was aiming at becoming the major brand in the U.S. By 2006, the company received the title of the best performing chain within restaurant industry. One year later, the company purchased another existing brand Paradise Bakery & Café, which already had more than 70 properties in 10 different states (Panera Bread, 2013). In 2011, the company added new items to their menus: Thai chopped chicken salad, wild-berry smoothie, the steak and white cheddar Panini, turkey artichoke Panini, etc. (Reuters, 2011). Panera Bread owned 1,777 bakery/cafés in 45 states by the end of December of 2013 (Panera Bread, 2013). In 2011, 52% of the properties were owned by the franchisees.

Panera Bread is oriented on delivering fresh and authentic artisan bread to the customers who enjoy a warm environment created by the company's employees (Panera Bread, 2013). The company offers highly nutritious and healthy menus that include bakery products, customized sandwiches and homemade soups. The atmosphere of the cafés was created in such a way that customers would feel cozy and comfortable. In order to ensure high and consistent quality of the products, the company provides a special training to the bakers. These efforts were recognized as Panera Bread was named "Choice in Chains" by Restaurants and Institutions magazine, based on the quality of their products and also overall customers' satisfaction (Lee and Madanoglu, 2005).

Chipotle

The Chipotle Mexican Grill company is another successful fast casual brand that was founded by Steve Ells in 1993. The company's first restaurant opened in Denver, near the campus of the University of Denver. The operation of the first restaurant revealed some disadvantages in the initial design of the establishment. The design then was reworked and Chipotle offered open-kitchen concept, which according to the founder of the company, facilitated more interaction between customers and associates. Additionally, the new design gave more control to the customers over the food that they ordered (Funding Universe, 2004).

The restaurant offered a simple menu, which included fajita, taco, and burrito items with the filling of choice such as steak, chicken, carnitas, vegetarian, and other fillings. The restaurant also offered different toppings that customers can add themselves while they were moving along the serving counter with the food. The restaurants used high quality fresh ingredients, which were served with some culinary touches added by the founder (Funding Universe, 2004). After the success of the first restaurant, the second Chipotle restaurant was opened in 1995, and by 1997 the company owned 14 properties. Chipotle became the pioneer in two major trends during this period (i.e., wraps and fast casual). Unlike quick-service restaurants that targeted families, Chipotle's target market were adults between 18 and 49 years old. Interestingly, Chipotle achieved its success with little advertising, relying on a positive word-of-mouth to receive the recognition (Funding Universe, 2004).

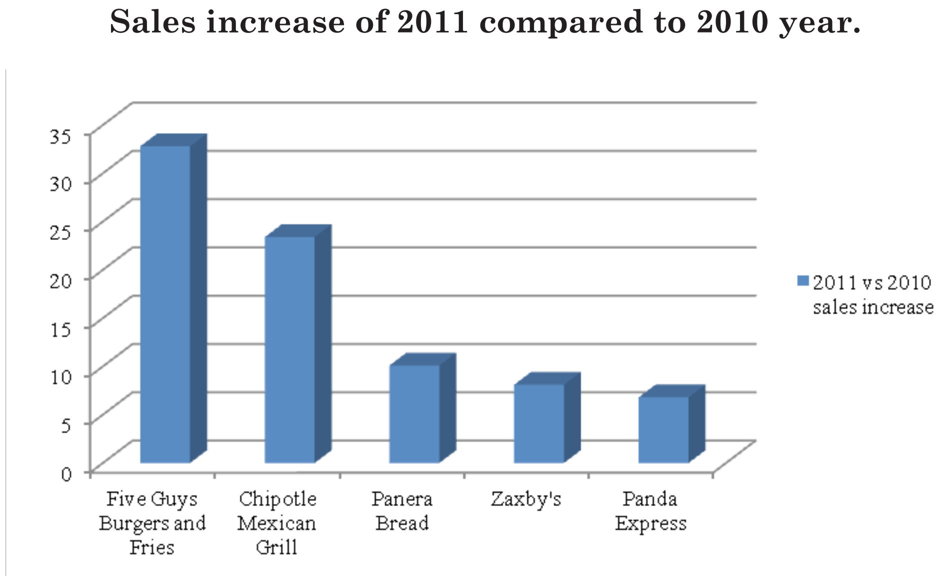
The company later started to look for the expansion opportunities and achieved it after the company partnered with McDonalds in the late 1990s. Chipotle was able to acquire the required investment capital from McDonald's. Additionally, partnership with McDonald's opened franchising opportunities and led to the achievement of higher efficiency of product distribution through McDonald's distribution systems (Funding Universe, 2004).

In the early 2000s, the company undertook several significant changes and removed the word "Grill" from the name of their restaurants to emphasize that their food offerings were much more than a common Mexican fare. The company also switched to some organic ingredients (e.g., free-range pork). In 2002, Chipotle was the fastest growing restaurant chain in the nation. In 2004, the company introduced additional changes to their menus (e.g., organic beans and organic chicken). In 2006, McDonald's divested Chipotle and the company went public on the New York Stock Exchange (Chipotle, 2014).

Panda Express

Panda Express was established by a Chinese couple, Cheng Zhengchang and Jiang Peiqi, and their first restaurant opened in California in 1983. The company started to expand rapidly and opened its

Figure 1



ninth store in 1985. By 1997, the company owned and operated 254 properties. In order to reach desired profitability, Jiang Peiqi developed a systematic management approach. Particularly, she developed software that offered a more efficient ordering and monitoring system. To ensure that experience, which customers received in Panda Express, was similar to their experience in American restaurants, Cheng hired non-Chinese executives and other staff members to work on the concept development (Want China Times, 2013).

Panda Express offered a simple menu; however, according to Cheng Zhengchang, while it was important to standardize their food, they also wanted to preserve some authentic features of the Chinese food. The company constantly updates the menu by adding two new items each month. Panda Express remains one of the most successful fast casual chains in the U.S. As to other markets, the company limited its expansion to Mexico and Japan (Want China Times, 2013).

Zaxby's

Zaxby's first restaurant was opened in 1990 by McLeroy. The restaurant was located close to Georgia Southern University in Statesboro, Georgia, and it offered fried chicken and fries. By 2013, the company became one of the fastest-growing chains nationwide. According to the founder, the success of his company lies in the perfect timing; that is, "we were in the right place at the right time with the right investment" (Maze, 2013). The CFO of the chain, Blake Bailey, explained that they found "the right fit for our culture".

Maze (2013), explained that initially the company was expanding only to other college towns; yet, later Zaxby's discovered its success in business districts as well. Realizing the potential of the company, Zaxby's opened its first franchise in 1993. In 2004, the restaurants upgraded their menu by adding premium salad to appeal more to female customers. According to Maze (2013), the brand was initially focused on male customers, and the salads sales contributed only 2% of the total company's sales. However, after the company introduced the line of the premium salads, the sales increased from 2% to 20%.

Five Guys Burgers and Fries

The last brand that was among the leading concepts is Five Guys Burgers and Fries. The first Five Guys restaurant opened in 1988 in Arlington, Virginia. In 2002-2003, the company opened franchises in different states, and by 2009, the Five Guys Burgers and Fries had 436 properties in 32 states. The company offers a simplistic menu and preserves its minimalistic style despite of the insistence of some franchisees to expand the menu. The company uses only fresh ingredients and imposes very strict controls over the quality of the food by sending secret shoppers to all of the locations twice a week (Herbert, 2009).

The recognition of the company grew immensely after the visits to its location in the D.C. area by the first lady Michelle Obama and then later by President Obama. However, the company had enjoyed an increasing recognition from their customers even before the visits were made by the first lady and the President (Herbert, 2009).

4 P's of Marketing

The positioning of the companies in the markets and their competitiveness depend on their ability to create an optimal marketing mix. The marketing mix includes four major components, namely product, place, price, and promotion (Kotler, 2011). The key to a competitive positioning of the company is to offer the right product, at the right price to the right customers by using the most effective methods of promotion.

Product

The 'product' component of the mix represents the goods and/or services. The companies need to decide under what brand name they are going to sell and what quality, features and options to offer in order to make their goods/services appealing to potential customers (Yang and Mattila, 2013; Ehmke, Fulton, and Lusk, n.d.). Some of the questions that the companies should answer before offering an end product/service (MindTools.com, n.d.) are:

- What might customers expect from products/services?
- What product/service features will meet customers' expectations?
- How products/services are different from competitors?
- How and where customers will be able to buy them?
- How to brand products/services?

Price

Next, the companies need to find an optimal 'price' for the goods/services. The companies could use multiple strategies to determine an optimal price. For example, value-based strategy allows formulating prices based on customers' perception of value instead of actual costs incurred by the companies. The overall perception of value may be contingent upon customers' perception towards the quality of offered goods/services, potential benefits, and reputation of the company (Bagozzi, 1975). Therefore, the companies need to answer the following questions (MindTools.com, n.d.):

- What substitutes value for customers?
- Are customers price sensitive?
- How will a small decrease/increase in the prices affect the company's market share?
- How the prices of the company compare to competitors?
- What discounts to offer depending on types of customers?

Place

Another important decision that needs to be made is where and how to offer products/services. Some companies can choose to distribute products/services directly to customers. Others, however, may prefer to work with intermediaries to deliver products/services to customers. Either method has its benefits and shortcomings. For example, the collaboration with an intermediary organization can reduce costs (Ehmke et al., n.d.); yet, the companies may have less control over the quality of their goods/services. The critical questions to be addressed (MindTools.com, n.d.) are:

- Where customers will look for the companies' goods/services?
- What area/district will be the most suitable?
- What are the right distribution channels?
- How do competitors deliver their goods/services and what the company can differentiate in order to stand out?

Promotion

The last component of the marketing mix is 'promotion' that involves advertising and selling of products/services. The companies need to inform customers about the products/services and their potential benefits using promotion tools that could reach the needed audience. For example, the companies may use radio, television, print, electronic, and world-of-mouth to advertise their products/services. Another promotional tool is public relations; in this case, the companies may increase awareness about their products/services through an active collaboration with local communities (Chandon, Wansink, and Laurent, 2000). In order to use the most appropriate and effective promotional tools, the companies need to answer (MindTools.com, n.d.):

- Where and when they should promote their products/services to customers?
- What advertising tool(s) will allow reaching the needed audience?
- What will be the best time to promote products/services?
- How do competitors promote their products/services?

Discussion

The fast casual concept is winning among other restaurant segments, and it significantly outpaces other restaurant segments (Tice, 2012; The Wall Street Journal, 2014). The review of the segment development showed that the future of fast casual restaurants is promising because the segment was able to position itself successfully in the market. In order to understand what strategies have led to the success of this segment, the case study additionally reviewed the top five fast casual concepts: Panera Bread, Chipotle Mexican Grill, Panda Express, Zaxby's, and Five Guys Burgers and Fries. Considering that competitiveness of the companies depends on their abilities to create an optimal marketing mix, address the following discussion questions:

- What factors contributed to the higher growth of fast casual segment compared to quick-service segments?
- Considering the 4 P's of marketing, what makes the fast casual segment so successful?
- Why fast casual segment continued to grow during the most recent economic downturn, while other restaurants segments struggled?
- What strategies have led to the success of the top five chains and allowed these companies to retain their leading positions from 2011 to 2013?