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The Fast Casual Restaurant Revolution

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Fast Food or Fast Casual?

Every day, Receivers are challenged to become industry experts as they are called upon to operate and preserve the assets in a vast range of business categories. As a mature industry now, the restaurant segment faces it's own challenges and changes.

The Fast Food restaurant, also commonly known today as "QSR" for "quick serve restaurant," has been around since the early 1900's, with growth exploding in the franchise arena around the mid 1900's.

The public's changing tastes, attitudes and schedules, however, generated the creation of the Fast Casual restaurant in the early 1990's, becoming mainstream around 2010.

In general, Fast Casual can be described as a mid-point between fast food and full table service restaurants, wherein the quality of food is similar to full table service restaurants, but the service offered is similar to fast food.

Comparatively, Fast Casual generally uses fewer processed ingredients than QSR and many have no freezers in their restaurants. Fast Casual food is generally prepared after it is ordered, versus fast food that is generally cooked in bulk where it is started/staged or, in certain cases, completed prior to ordering.

Trends

Fast Casual restaurants have expanded rapidly over the last decade as consumers demand healthier and better tasting food with fresh ingredients, at prices lower than the cost of full service dining. With the pressure of labor costs pushing menu prices upward, and the added cost of tips, many customers found the Fast Casual choice a better option for them.

With the focus on competing with the Fast Casual sector, Fast Food brands have begun funneling large capital investments toward customer experience in order to make their facilities feel more comfortable and upscale than previous generations.

The menu is another area in which QSR brands are starting to compete with Fast Casual. Product quality is starting to blur the line between fast food and casual brands, with one QSR brand actually coining the phrase "QSR-Plus" – and others have followed suit.

The QSR-Plus brands continue to strive for speed and convenience while offering some menu items that are perceived by guests as rivaling the quality and freshness of the Fast Casual restaurants.

In addition to the perception and quality differences, the menu price points generally fall between the two as well. QSR-Plus is generally 10-15% above QSR and 10-15% less than Fast Casual restaurants.

Quality and Cleanliness

The quality and freshness of food has generally improved in both Fast Food and Fast Casual restaurants as well. With the exception of a few budget driven brands, most continue to up their game with fresh cheese vs. imitation, fresh products vs. frozen, and less fillers and chemicals. Some are also successfully adding organic, farm raised, natural, free range or no hormone type proteins to their menus.

The speed of information flow on sites like Yelp! may make it seem like sanitation and cleanliness issues are running rampant in restaurants, but the public may be surprised to hear that, in general, cleanliness and sanitation in restaurants is at an all time high.

Franchise restaurant brands, more than independent restaurants, recognize the importance of a clean operation for customers – just one unfortunate incident can affect the entire chain. Franchisors are working harder than ever to ensure their restaurants meet and exceed health, sanitation and cleanliness guidelines to protect their brand name and their customers.

Franchisee Demand

Owning QSR restaurants still top the food chain of franchisee interest; however the Fast Casual segment is growing at a quicker pace, due to factors such as ROI, more available properties and overall less risk.

QSRs thrive on corner locations at major thoroughfares. These locations are expensive to acquire, develop and maintain and are generally long term real estate commitments. If a franchisee opens a QSR location and discovers it is not meeting the sales thresholds necessary for profitability, it is an expensive and difficult process to exit.

In contrast, many Fast Casual restaurants are in strip centers where the shell is built and the tenant improvements are much less expensive than that of a freestanding location. Lower build out and occupancy costs allow for the sales necessary to turn a profit to be considerably lower. In the worst case scenario, leases in strip centers call for relatively short terms, making an exit or relocation palatable to the franchisee.

Franchisor

Cyclical changes within individual brands adapt over time as management teams work to optimize the balance between smaller franchisees and large multi-unit franchisees. The franchise model, built on the premise that small operators keeping a close eye on day-to-day profitability, cleanliness and efficiency, would help a franchisor grow quickly. Franchisors may lean towards large, multi-unit franchisees at times, as it is easier to communicate with a single 200 unit franchisee than 50-4 unit franchisees. Over time, franchisors find some large franchisees prove to be no more nimble or hands on than if they were company-owned units, leading to a shift back to the original franchise model of hands on smaller operators, especially in smaller or remote markets.

In some cases these larger franchisees may become over-extended, as in the case of former 70 unit Jack in the Box franchisee, Kobra Associates Inc., et al., which in 2009 lost focus of its restaurant operations and whose bankruptcy filing ultimately lead to the sale of all its units through a very public auction under the direction of Trustee **Beverly McFarland.**

Along with this change comes new blood, energy and investment capital to improve the overall operations and customer satisfaction.

Challenges

Both QSR and Fast Casual restaurant chains are facing challenges in rising labor costs, regulatory pressures, and the ever present need to remain relevant. Chain restaurants have become more complex in both equipment and recipes, and as a result, the skills required to operate these restaurants are more demanding each year. Restaurant chains are now facing one of the elements of a mature industry; the necessity to reinvest in modernizing facilities.

Contingency plans have become increasingly important with the pressure on labor costs. Previously fast food restaurant positions were filled largely by second-job holders or students, whereas current trends skew toward career-employees. The pressures to adapt to a living wage is markedly increasing overall labor costs, leading some restaurants to replace order takers with iPads or order kiosks, and kitchen automation features are being reviewed and considered in record numbers.

On a larger scale, consumer internet shopping habits are rapidly changing the face of retail center tenants. With fewer “non food retail outlets” fighting for real estate, it is easier than ever to find spots for restaurants – especially the Fast Casual type. This overbuilding of restaurants is likely to create a situation of too many seats and not enough customers. Nation's Restaurant News[1] recently reported that though overall restaurant and bar sales rose 6.1 percent, individual restaurant traffic has decreased by 1.9 percent.

As in any free market environment, those restaurant brands that adjust to overcome these challenges will prosper and, those that do not may head toward bankruptcies, receiverships, ABC’s etc.

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[1] Jonathan Maze. "At MUFSO, concern about the industry's future."
Nation's Restaurant News. October 26, 2016.