

Independent Restaurants Are Winning the Hearts of Consumers: Implications for Industry Suppliers

Recently, Independent restaurant traffic and revenue growth has outperformed chains. This dynamic represents an important shift from historical patterns when chains were driving industry growth fueled by unit expansion, menu innovation, daypart expansion, aggressive price discounting, financial wherewithal and the utilization of technology such as take out, consumer-direct marketing, and POS systems (to improve operating performance). **This shift to independents has significant implications for manufacturers, sales agencies and distributors**, as Pentalllect projects that Independents will continue to outperform chains for the balance of the decade.

Projected Nominal Annual Revenue Growth % 2017 - 2020	
Independents	+4% - 5%
Chains	+2% - 3%

Source: Pentalllect projections

What is Driving this Shift?

In collaboration with our research partner Critical Mix, Pentalllect conducted in-depth research to better understand consumer attitudes regarding Independent versus chain restaurants on critical performance attributes. The research explored consumers' perspectives regarding both restaurant operational metrics (food quality, service, value for the money, menu variety, etc.) as well as their emotional connections to restaurants (community orientation, décor/ atmosphere, shared values, etc.).

The findings clearly identify why Independents are "winning". The research results were telling in that **consumers rated Independent restaurants superior to chains in 12 of the 15 studied attributes across both operational and emotional metrics.** In most attributes, the perceived Independent performance advantage is very wide.

Consumer Rating: % Rated Excellent / Good			
Attribute	Independents	Chains	Gap
Community Oriented	82%	53%	+29 pp
Is Special	80%	52%	28
Personalized Service	83%	57%	26
Shares My Values	78%	52%	26
Food Quality	87%	71%	16
Good Service	87%	71%	16
Innovative Menus	77%	61%	16
Décor / Atmosphere	80%	67%	13
Consistent Quality	84%	73%	11
Value for Money	76%	67%	9
Menu Variety	82%	74%	8
Delivery Services	59%	58%	1
Use of Technology	52%	72%	-20
Social Media Use	50%	61%	-11
Convenient Location	77%	78%	-1

Independents' Advantages

Chains' Advantages

Source: Pentalllect and Critical Mix consumer research, 2017

While it is not surprising that Independent restaurants are viewed as being superior on some of the more emotional attributes, **independents are also outperforming chains on many of the key operational metrics including food quality, service, value and menu innovation.** Based on the research findings, chain restaurants are only truly outperforming Independents with their use of technology and social media. This combined set of favorable attributes represents a significant advantage for well-managed Independents, and overcoming the perceived gap represents a major challenge for chains.

What is the Chain Restaurant Response?

Chain restaurant organizations are recognizing the growth challenges they are experiencing, and many are taking actions to either improve their financial performance or are pursuing exit strategies. In our view, **the result will be a continuation of much needed consolidation within the restaurant sector, and increased focus on performance improvements versus unit growth.** Recently, we've seen:

- Panera Bread being sold to investment firm JAB. Long an industry success story, the Panera sale suggests that the company sees itself evolving from a growth trajectory to a more mature financial / operational management phase, where it can sell at a high point and leverage the greater purchasing power and support service efficiencies within the broader JAB portfolio.
- Investment firm 3G's purchase Popeye's, which it clearly views as an opportunity to improve already solid margins within 3G's Restaurant Brands International business unit.
- Bob Evan's Farms decision to sell the restaurant business to private equity firm Golden Gate Capital, where the focus will be on increasing margins and improving operating performance.
- Darden's acquisition of Cheddar's to drive growth, operating efficiencies and potentially leverage Cheddar's "scratch" positioning to address consumers' food quality perceptions of chains.

What are the Implications?

While restaurant growth fundamentals have evolved, with Independent operators seizing sustainable momentum, most manufacturer and sales agency go-to-market models and financial resources remain constructed to overly support chains and contract accounts at the expense of Independents. **How to effectively reach the thriving independent market, especially Local Leverage Operators (LLOs), remains a critical structural and strategic issue that must be addressed.** For distributors, the profitable Independent segment represents an opportunity to bolster margins while driving growth. Distributors are recognizing this opportunity after years of prioritizing chain / contracted business to drive top-line growth, and are utilizing internal data and strategic incentives to focus greater resources (direct and sales agencies) against key Independents.

Certainly, chain restaurants, which account for well over one-half of all restaurant sales, require continued support, yet **the issue is one of balance, as the consumer fundamentals driving Independent restaurant growth are likely to continue and even possibly accelerate over the next several years.**

The imperative is to assess how to balance resources and build processes to effectively identify and align with leading Independents. **This entails a thorough review of go-to-market strategy, analytical capabilities, planning processes and resource allocation.**