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Fast Food Business Overview & Trends, 2012

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This [Fast Food Business industry summary is from First Research](#) which also sells a full version of this report.

The US restaurant industry includes about 550,000 restaurants with combined annual revenue of more than \$400 billion. Major companies include McDonald's; YUM! Brands (KFC, Pizza Hut, Taco Bell); and Darden Restaurants (Olive Garden, Red Lobster). The industry is **highly fragmented**: the 50 largest companies hold just 20 percent of the market.

The industry consists of fullservice restaurants (FSR) and limited service eating places, which include quickservice restaurants (QSR); cafeterias; buffets; snack bars; and nonalcoholic beverage bars.

COMPETITIVE LANDSCAPE

Demographics, consumer tastes, and personal income drive demand. The

profitability of individual companies can vary: while QSRs rely on efficient operations and high volume sales, FSRs rely on high-margin items and effective marketing. Large companies have advantages in purchasing, finance, and marketing. Small companies can offer superior food or service. The industry is labor-intensive: annual revenue per worker is less than \$50,000.

Restaurants compete with companies that serve meals or prepared foods, including grocery stores, warehouse clubs, delis, and convenience stores. In addition, restaurants compete with home cooking.

PRODUCTS, OPERATIONS & TECHNOLOGY

Products include appetizers, entrées/main dishes, desserts, and beverages. Companies may specialize in a certain type of **cuisine** (such as Italian, Chinese, or barbecue); **entrée** (sandwiches, steak, seafood); or other **food item** (pretzels, smoothies). Among FSRs, most establishments focus on Italian cuisine, steak, or seafood. Hamburger joints make up a majority of QSR locations, along with pizza parlors and sub sandwich shops. Industry revenue is roughly evenly ...

Below is our partial summary of fast food industry trends highlighted by IBISWorld in its [Fast Food Business market research report](#) (the full version of the report is available for purchase from IBISWorld).

- From 2007 to 2012, the combined forces of evolving consumer tastes, the recession, and slow economic recovery have produced slower growth in fast food business revenues. Most of the slowdown was felt during 2009 when revenues retreated by 4.3%, however, revenue growth returned in 2010 (1.8%) and 2011 (1.3%) and is forecast to rise 1.1% in 2012.
- With less money to spend during the recession, and continued caution during the slow recover, consumers are eating out less frequently. When they do eat out, they are more likely to choose lower cost solutions. In the past, this may have meant choosing fast food restaurants. More recently, food retailers are offering more appealing easy to prepare home dining solutions. General health concerns over fast food also are steering customers to healthier options and health-oriented quick service restaurants (QSRs).
- Market research supports this trend, showing the number of fast food restaurants fell by 0.3% since 2007 to 263,944 in 2012, while employment at QSRs has averaged annual declines of 0.6% over the same period, reaching an estimated 3.5 million

employees in 2012.

- Despite these headwinds, IBISWorld identifies several positive trends that should help boost fast food industry revenues by 2.2% in 2013. At the macroeconomic level, these trends include a slowly improving economy, gradual labor market improvement, and building consumer confidence leading to more spending on eating outside the home. IBISWorld predicts that consumer spending will increase by 3.3%, on average, over the next five years.
- Another positive trend forecast is for QSRs to creatively address the health concerns of their customers with alternative menu items, such as fresh salads, chicken burgers, and pasta. Some fast food operators also may open entirely businesses around these alternative menu concepts, but co-locate them with existing stores (like Yum Brands has done with Kentucky Fried Chicken and Taco Bell).
- IBISWorld also sees strong opportunities for fast food operators in the international market, with China of particular importance, however other Asian markets and the Middle East are seen as strong opportunities.
- Another positive source for revenue growth is in specializing menus. With existing operators, this can be similar to McDonald's foray into the specialty coffee market. Some of these new menu items can be low-cost, high-profit additions to a stable product mix that improves location profitability.
- There are also significant opportunities for fast food operators in new ethnic food segments. Mexican food is one commonly cited example, but the recent [popularity in Food Trucks](#) underscores the opportunity.
- Taken together with the general improvement in macroeconomic conditions, these positive trends should power an increase of 1.9% in fast food industry revenues, possibly reaching \$186.2 billion in five years, according to IBISWorld.

Quick Service Restaurant Customer Demographics

[FastCasual](#) reports that [The NPD Group](#) released a market research report on Fast Casual dining, which identified many fast food industry customer trends, including:

- **Retail competition will increase.** Convenience stores are capturing more dashboard-dining occasions, delivering the benefits of fast, on-the-go, one-stop shopping. Supermarkets, on the other hand, are making inroads with prepared foods being taken home to eat.
- **Work-related visits and lunch will experience a turn toward recovery.** Unemployment has hit the work-related lunch occasion most heavily, and

recent more positive economic indicators, such as reduced unemployment and increased consumer confidence, are encouraging. Some turn toward recovery of that meal occasion is anticipated in 2012, providing broad benefit to commercial and non-commercial operators.

- **Higher beef and chicken prices in 2012 will affect restaurant offerings and menu prices.** There will be a shift away from high-cost beef and chicken items and those items under less price pressure will be promoted, similar to what happened with chicken in 2011 when beef prices rose. Coffee is also anticipated to be under cost pressures in the near term.
- **Social media will continue to stimulate trial.** Social media is still evolving, but it's clear that leveraging the medium has the potential to benefit restaurants, especially in the full-service segment. Social media will be important in stimulating consumer trial and restaurants will use discounts, loyalty and other programs to convert these consumers into regular customers.
- **Beverages will continue to be a focus of quick-service restaurants.** Successful recent tactics to drive traffic and boost profits include beverage loyalty programs, promotions to build off-hour demand for specialty drinks, an influx of new and non-carbonated options, and offerings that appeal to the aging population. Finding new ways to promote beverages will continue to be a successful strategy for restaurants in 2012.

The NPD report also noted the following customer trends:

- ...rapid growth of Hispanic and Asian populations in the U.S., which will continue to drive demand for more ethnically diverse foods, including spicier flavors.
- ...large Millennials and Boomers demographics will influence restaurant foods. Based on NPD Crest information, the younger age group will provide a boost to juice/specialty drinks, and more brands will continue to shift their marketing dollars toward this demographic...
...foodservice operators are smart to offer greater menu variety to meet Millennials' interests.
"Millennials will overtake Baby Boomers as the most sought-after target for restaurateurs in the coming years," said Bonnie Riggs, NPD restaurant industry analyst. "This is the time to reach them to build their loyalty. It's important to understand that Millennials are not a one-size-fits-all

generation and their needs and wants are varied.” ...older Baby Boomer consumers are expected to contribute to the growing popularity of coffee, fish/seafood items and breakfast foods.

The following data on quick service restaurant customer demographics are from [Best Customers: Demographics of Consumer Demand](#), which provides detailed information on consumer demographics for many industries. This resource, and other demographics and marketing materials are available for purchase from [New Strategist](#).

- **\$14,131,848,180 Total household spending on breakfast and brunch at fast food restaurants** (including take-outs, deliveries, concession stands, buffets, and cafeterias (except employer and school)...busiest people are the biggest spenders on breakfast at fast-food restaurants—workers and parents. Householders of prime working age, 35 to 44, spend 39 percent more than average...Married couples with children at home spend 38 percent more than average...Hispanics spend 31 percent more than average on breakfast at fast-food restaurants...Households in the Northeast outspend the average by 26 percent...
- **\$42,853,554,670 Total household spending on lunch at fast-food restaurants**, including take-outs, deliveries, concession stands, buffets, and cafeterias (except employer and school)...Workers and parents are the best customers of fast-food lunches... those aged 25 to 44, spend 20 to 33 percent more than average...and account for 44 percent of the market. Married couples with children at home spend 55 percent more than average on lunches at fast-food restaurants...Asians spend 29 percent more than average...
- **\$42,383,459,840 Total household spending on dinner at fast-food restaurants**, including take-outs, deliveries, concession stands, buffets, and cafeterias (except employer and school)...Families with children are the biggest spenders on dinners at fast-food restaurants. Householders ranging in age from 25 to 54 spend 19 to 37 percent more than average...and account for 71 percent of the market. Married couples with children at home spend 67 percent more than average on dinner at fast-food restaurants...Single parents, whose spending approaches average on only a few items, spend 8 percent more than average on fast-food dinners...Asians spend 19 percent more than average on fast-food dinners.
- **\$13,317,339,400 Total household spending on snacks at fast-food**

restaurants, including take-outs, deliveries, concession stands, buffets, and cafeterias (except employer and school)...Parents are the best customers of snacks from fast-food restaurants. Householders aged 25 to 44, most with children, spend 27 to 47 percent more than the average household...Married couples with children at home spend 60 percent more than average...

This article about [QSR Demographics](#) includes data on fast food customer demographics from [Valassis](#).

Fast Food Business Startup Costs

- [Entrepreneur.com estimates the start-up costs for Fast Food Business](#) to be: \$334,950 - \$529,700.

Fast Food Business Business Plans

- [Fast Food Restaurant Business Plan](#)
- [Sandwich Shop Franchise Business Plan](#)

Fast Food Business Articles

- [Top 50 QSR Restaurants 2012](#)
- [Tips for Starting a Fast Food Business](#)
- [Things to Consider Before Opening a Fast Food Restaurant](#)
- [Fast food companies are selling company-owned units to franchisees](#)
- [Going Green Ideas for Fast Food Business](#)

Quick Service Restaurant Media Outlets

- [QSR Magazine - Quick-Service and Fast Food Industry News and Trends](#)
- [QSR Web - News and ideas on fast food business](#)
- [List of restaurant industry publications from National Restaurant Association](#)
- [Nation's Restaurant News](#)
- [QSR Insights](#) - blog-styled tips and trends about QSR and fast casual industry.

Fast Food Business Associations

Trade associations often are excellent sources of information on an industry. Here are some relevant industry associations:

- [National Retail Federation's Chain Restaurant Division](#) - trade association exclusively representing chain restaurant companies.
- [National Restaurant Association](#)

Fast Food Business Licensing Requirements

- [List of State Licensing Authorities](#)

Fast Food Business Online Marketing Tips

Here are excerpts of a [National Restaurant Association report on online marketing](#):

Online marketing can elevate a restaurant's brand and attract new customers

- Restaurants that use online marketing (emails from restaurants, emails from a daily deal provider, and websites) tend to be viewed by consumers as modern (67 percent emails, 59 percent daily deals, 65 percent websites) and popular (63 percent, 59 percent, 63 percent). Restaurant operators perceive websites (90 percent), TV ads (87 percent), social media (84 percent), restaurant emails (82 percent), and daily deals (77 percent) as effective in bringing in new customers.

Customized marketing messages that address a consumer's preferences result in more sales

- Consumers and operators agree on the importance of savings in customized messaging.
- 87 percent of consumers would go to or order from a restaurant if provided with a savings offer.

- 95 percent of operators perceive savings offers to be an effective marketing tool.
- Consumers would go to or order from a restaurant if they received customized marketing messages that referenced past restaurant patronage (68 percent), allowed them to make reservations (66 percent), and identified them by name (64 percent).

Restaurants understand what marketing tools work; they just need to implement them

- 84 percent of restaurant operators consider restaurant-specific marketing emails to be effective in increasing revenue for their restaurants, and 78 percent of consumers said an email from a restaurant would motivate them to go to that restaurant. In addition, 63 percent of restaurant operators say they plan to use such emails in the next year.
- 78 percent of restaurant operators consider daily deals to be effective in increasing revenue for their restaurants, and 69 percent of consumers said an email from a daily deal provider would motivate them to go to the restaurant featured in the daily deal. In addition, 40 percent of operators say they plan to work with a daily deal provider in the next year.

Consumers are very sensitive to social media and Internet advertising

- Consumers perceive the least effective efforts to entice them to go to a restaurant include online advertisements (58 percent), social media (56 percent), and radio ads (56 percent).

Fast Food Business Employment Trends

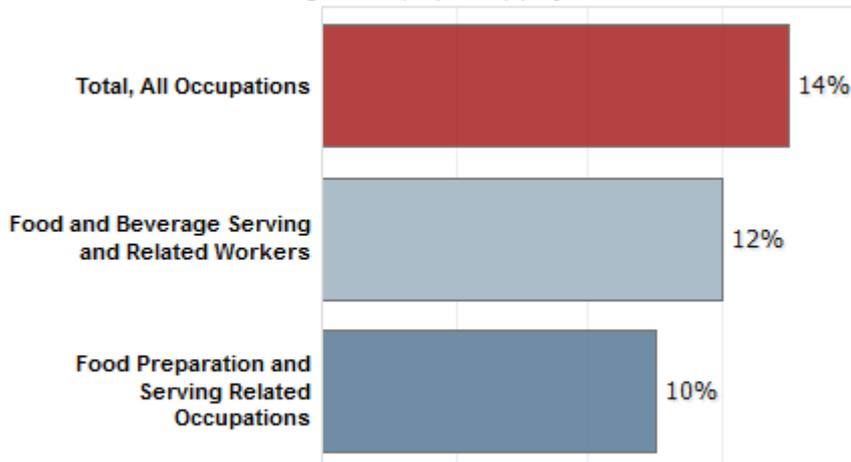
Here is a [Fast Food Business labor market summary from the Bureau of Labor Statistics](#).

Job Outlook

Overall employment of food and beverage serving and related workers is projected to grow 12 percent from 2010 to 2020, about as fast as the average for all occupations. Employment growth will vary by specialty.

Food and Beverage Serving and Related Workers

Percent change in employment, projected 2010-20



Note: All Occupations includes all occupations in the U.S. Economy.

Source: U.S. Bureau of Labor Statistics, Employment Projections program

Nonrestaurant servers, such as those who deliver food trays in hotels, hospitals, residential care facilities, and at catered events, are expected to have about as fast as average employment growth. Combined food preparation and serving workers, which includes fast-food workers, will also have about as fast as average employment growth. Because these workers are essential to the operation of a food-serving establishment, they will continue to be in demand.

Employment growth of dining room and cafeteria attendants, counter attendants, and hosts and hostesses is expected to be slower than the average. Despite slower than average employment growth, these workers will still be needed to perform important duties at food-serving establishments as a growing population continues to eat outside of the home.

Job Prospects

Job opportunities for food and beverage serving and related workers are expected to be excellent, because of the large number of workers who need to be replaced.

Workers with related work experience and excellent customer-service skills should have the best job opportunities at upscale restaurants. Still, those seeking positions at these establishments may face competition, as potential earnings

from tips are greatest, so the number of job applicants often exceeds the number of job openings

Here is an excerpt of employment market conditions from IBISWorld's [Fast Food Business market research report summary](#) (available for sale by IBISWorld):

...employment is projected to grow at an average annual rate of 0.7% to 3.7 million people by 2017. This number will be partly inflated by the increasing use of casual employees to meet peak customer service periods. IBISWorld projects that the average industry wage will increase from \$12,628 per worker in 2012 to \$13,169 in 2017. Despite the long-term trend of declining wages due to automation of food preparation, wages and employment are both forecast to increase over the next five years, partly because of the industry's recovery from depressed wages and unemployment resulting from the recession.

Sources

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