Can Full-Service Restaurants Survive The Fast-Casual Craze?

To stay alive, restaurants will be rethinking their staff, menus and efficiency.

James Medefind

The old fashioned, full-service concept in the restaurant industry is fading as the lifestyle and priorities are changing for the average American. Today, people are looking for efficiency and quality when it comes to dining. Examining the trends, very few customers no longer appear interested in a two-hour dining experience.

Millennials today have an intense focus on time and crave the ability to do more with less. As a result, the country's budding restaurant industry has provided a plethora of options that supply customers with better quality food offerings and serve it faster than ever before.

Speed, quality, and unique tastes being offered by today's fast growing fast-causal concepts are beginning to put the national full-service restaurant chains out of business. Unless these full-service chains adapt their business plan and embrace this new trend, full-service restaurants can easily become the next Blockbuster Video of the food service industry.

OPPORTUNITIES AHEAD

In this hectic and competitive world, most patrons can't spare the time to dine out anymore, and the fast-casual concept is on the rise. This budding tenant profile has created significant change in the design and execution of retail properties throughout the United States.

Success in this sector has allowed fast-casual concepts to become one of the highest paying tenants in the retail industry. As a result, we expect a plethora of new opportunities for owners and developers to add significant value to their existing portfolios. One of the most profound changes expected is the repurposing of larger retail boxes — taking advantage of the vacant H.H. Gregg, Best Buy, Sears, Kmarts and other vacant boxes in primary and secondary markets throughout the United States.

Considering their typical high parking ratio and strong location, these boxes can be reduced to a smaller footprint and divided into smaller spaces to accommodate multiple new restaurant concepts or national tenants. Despite the smaller leasable area, gross rent will be higher, and the value of the real estate is improved dramatically.

Tenants will benefit from this trend as well. Locations in dense, infill markets with high barriers to entry will create opportunity that did not exist previously. Expect to see new concepts emerge and buildings repurposed in major markets near you.

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GROWING COSTS AMPLIFY TREND

Since fast-casual concepts have smaller real estate requirements, employ fewer people, and require lower startup costs, they have been less susceptible to rapidly rising costs when compared to full-service concepts. As a result, their net earnings per foot and financial performance have drastically outpaced that of their struggling full-service predecessors.

Restaurants and businesses throughout the country have been hit by a dramatic hike in the minimum wage. In the beginning of 2017, 19 states raised their rates. Massachusetts and Washington boast the highest in the country at $11 per hour, while New York City plans to raise its minimum wage to $15 per hour by the end of 2019 for all employers (most large employers will see it rise to $15 by the end of 2018).

In addition to rising labor costs, many restaurant goers have become more educated in the idea of going green and using organic and sustainable foods. The full-service restaurants are having trouble adapting to the new type of demand with only a small fraction of the national restaurant chains offering locally sourced menus and more health-conscious options.

In order for the national full-service chains to succeed, they will need to think outside the box and reinvent themselves. If they are not willing to change, their ability to compete with the fast-casual industry on quality, service and experience will be an unwinnable war. Time will tell whether full-service restaurants can find the right balance between cost and quality to win back the American consumer.

TECHNOLOGY OFFERS OPPORTUNITIES

It is a blessing for restauranteurs that we live in a growing digital age because technology can aid them in cutting their budgets and enhancing what they offer consumers.

Beverage machines that dispense more than 100 different drinks and mobile ordering options are a couple of ways that restaurants are trying to maintain a competitive advantage over the competition. It's been said that in five years, half of all orders will be made digitally off premises. It's a nice feature for customers to tap a few buttons on their smartphone and have their dinner delivered in the time it takes them to commute home from work.

Additionally, as consumers place less emphasis on human contact, some restaurant concepts have started to pare down the workforce by employing futuristic touch-screen kiosks, where customers can order their meals. One of the most well-known adaptations in recent years was made by McDonald's.

McDonald's sales were down over previous years, so it began to look for ways to implement more technology while reducing labors costs. Touch screen monitors were added to lobbies throughout the world where guests ordered meals without the need for human interaction.

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Not only was McDonald's successful in reducing its operating costs, implementing technology helped McDonald's access customers who had migrated away from the hamburger chain in search of fresh options available elsewhere. Once millennials were on the "hook," McDonald's has continued to roll out new, exciting offerings that are fresh, healthy and flavorful in order to keep customers coming back for more.

While McDonald's is beginning to take the appropriate steps to compete with the new age in the restaurant industry, consumers will have to wait and see how the full-service giants are going to reinvent themselves to cope with new competition, rapidly growing costs, and seize opportunities to position themselves for success. **SCB**

James Medefind is first vice president of investments and director of the national retail group at Marcus & Millichap.