Press Release – Restaurant Study 2022

The Simon-Kucher 2022 Restaurant Study finds restaurants are finding short-term profitability fixes but will need a long-term solution to manage the effects of inflation.

Boston, June 7, 2022 – Increasing inflation over the past year has proven challenging for restaurant brands, resulting in rising food and labor costs. In the recent 2022 Restaurant Study Simon-Kucher & Partners the firm surveyed more than 50 leading US restaurant brands, ranging from fast food to fine dining, on inflation and price increases. The study found that restaurants that saw growth and profitability implemented specific pricing strategies. So, what does this mean for the future? While inflation costs are posing a threat to restaurant brands, balancing price increases and cost structuring will prove which brands will remain viable in the future.

Restaurants implemented more across-the-board price increases in the past year

The Simon-Kucher Restaurant Study found that the brands that saw the most growth over the past year implemented prices increases at a higher and more frequent rate, at 13.3 percent. However, the average rate remains 11.3 percent, which does not cover the overall cost increases. This implies that margins in the industry are getting even tighter, and we expect the trend of market consolidation to continue.

The areas where restaurant brands focused their price increases were service fees (33 percent), list prices (28 percent) and the development of new premium items (24 percent). Restaurants also indicated these will be their primary areas of focus for price increases moving into next year, along with removing discounts.

Differentiating pricing was another strategy restaurant brands used to offset increasing costs. Last year, 39 percent of brands utilized price differentiation in the product or product category, although 75 percent had considered this tactic. And 37 percent utilized this strategy through individual location, while 71 percent had only considered price differentiation.

Philip Daus, Partner, Simon-Kucher, commented:

> “Differentiating price increases will be important for brands to stay profitable as they navigate upstream cost inflation while simultaneously supporting consumers who are increasingly concerned about their spending”

Restaurants plan to implement more pricing-related actions this year

How brands develop their strategic blueprint for their restaurant will determine the future longevity and profitability of their business. In the next year, most restaurants plan to increase prices less often, but on a higher average magnitude. On average, restaurant brands plan 1.7 price increases in the next year, as compared to the 2.1 implemented last year. Brands plan for an average total price increase of 12.6 percent in the next year, versus last year’s 11.3 percent. Additionally, brands indicated they plan to introduce more premium items and reduce discounting options.

Philip Daus, Partner, Simon-Kucher, commented:

> “Restaurant brands cannot rely solely on one pricing strategy and undifferentiated price increases. Instead, they must develop a profitability blueprint based on cost management, differentiated price increases, menu optimization and smart channel strategies.”

Brands have focused on cost-cutting measures in the last year instead of focusing on topline growth

The Restaurant Study also revealed brands have focused on cost-cutting measures, rather than price increases, to stave off the 11.7 percent cost increase from inflation. As a reaction to the rising costs, 35 percent of restaurant brands adjusted portion size, while 24 percent plan to do so in the next year. And, 30 percent of restaurant brands adjusted their current product composition, with 19 percent planning this adjustment next year.

David Clement, Partner, Simon-Kucher, commented:

> "Combatting cost inflation with cost-cutting measures is like bringing a knife to a gun fight. Successful restaurants should be able to pass cost increases through to their customers, either through smart pricing strategies or menu engineering."

Costs continued to rise over the last 12 months, the highest being raw materials and labor

Restaurant brands are facing imposing cost increase levels across the board, with raw material and labor costs rising higher than 11.7 percent. Some other cost increases include:

Fast Food:
- Raw Material: 19 percent
- Labor: 20 percent

Fast Casual:
- Raw Material: 19 percent
- Labor: 12 percent

Casual Dining:
- Raw Material: 17 percent
- Labor: 17 percent

Fine Dining:
- Raw Material: 19 percent
- Labor: 20 percent

Pizza:
- Raw Material: 17 percent
- Labor: 16 percent

This trend is expected to continue while these inflation costs are posing a threat to restaurant brands. Laying a foundation of balance between price increases and cost structuring will prove what brands will be viable in the future.

***About the study**: The Restaurant Cost Inflation & Price Increase Benchmark Survey was conducted by Simon-Kucher & Partners in the US in May 2022. More than 50 restaurant brands were surveyed.*

***Simon-Kucher & Partners, strategy & marketing consultants:** Simon-Kucher & Partners is a global consulting firm with more than 1,700 professionals in 42 offices worldwide focusing on TopLine Power®. Founded in 1985, the company has over 35 years of experience providing strategy and marketing consulting and is regarded as the world's leading pricing advisor.*

For more information, please contact:
Niki Irby
Tel: 404-388-6598
Email: niki.irby@simon-kucher.com

www.simon-kucher.com