

Restaurant Cost Inflation & Price Increase Benchmark Survey

Simon-Kucher Study across 50+ leading US Restaurant Brands

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Inflation & Price Increase Benchmarks

About Simon-Kucher & Partners

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Executive summary

Price Increases

- 1.1 Restaurants attempted more price differentiation 2 years ago and planned for continued price differentiation. However, rather than differentiating prices, **brands have implemented more across-the-board price increases in the past year.** **There is room for improvement for many brands in identifying ways to differentiate price increases moving forward**
- 1.2 **The highest-growth restaurants implemented more frequent and higher magnitude price increases** in the past year than lower-growth restaurants (13.3% price increase magnitude vs. 8.3%)
- 1.3 Overall, restaurants' price increases in the past year averaged 11.3%, which **does not fully cover brands' overall cost increase**
- 1.4 **In the next year, most restaurants plan to increase prices less often but with a higher average magnitude** than the past year (avg. price increase frequency: 2.1 vs. 1.7; avg. price increase magnitude: 11.3% vs. 12.6%)

Cost Inflation

- 2.1 To react to increasing cost pressures, **brands have focused on cost-cutting measures in the last year**, while **they plan to focus on pricing actions in the next year.** As costs continue to increase, **brands should focus on aligning their menu prices with customers' WTP* and the value delivered, rather than only increasing prices to cover costs**
- 2.2 Overall, **costs have risen 11.7% for restaurants YOY**, with the highest increases coming from raw materials and labor
- 2.3 While different restaurant types have seen similar cost increases across expense types, **Fast Food restaurants have had a higher increase in labor costs**, while **Fine Dining restaurants have had a lower increase in raw materials**

*WTP = willingness-to-pay

Source: Simon-Kucher & Partners; March 2022 Restaurant Cost Inflation & Price Increase Benchmark Survey (n=54).

Simon-Kucher recently conducted a survey about cost inflation and price increases with 50+ leading brands across restaurant categories

15
Fast Food
brands

12
Fast Casual
brands

9
Casual Dining
brands

9
Fine Dining
brands

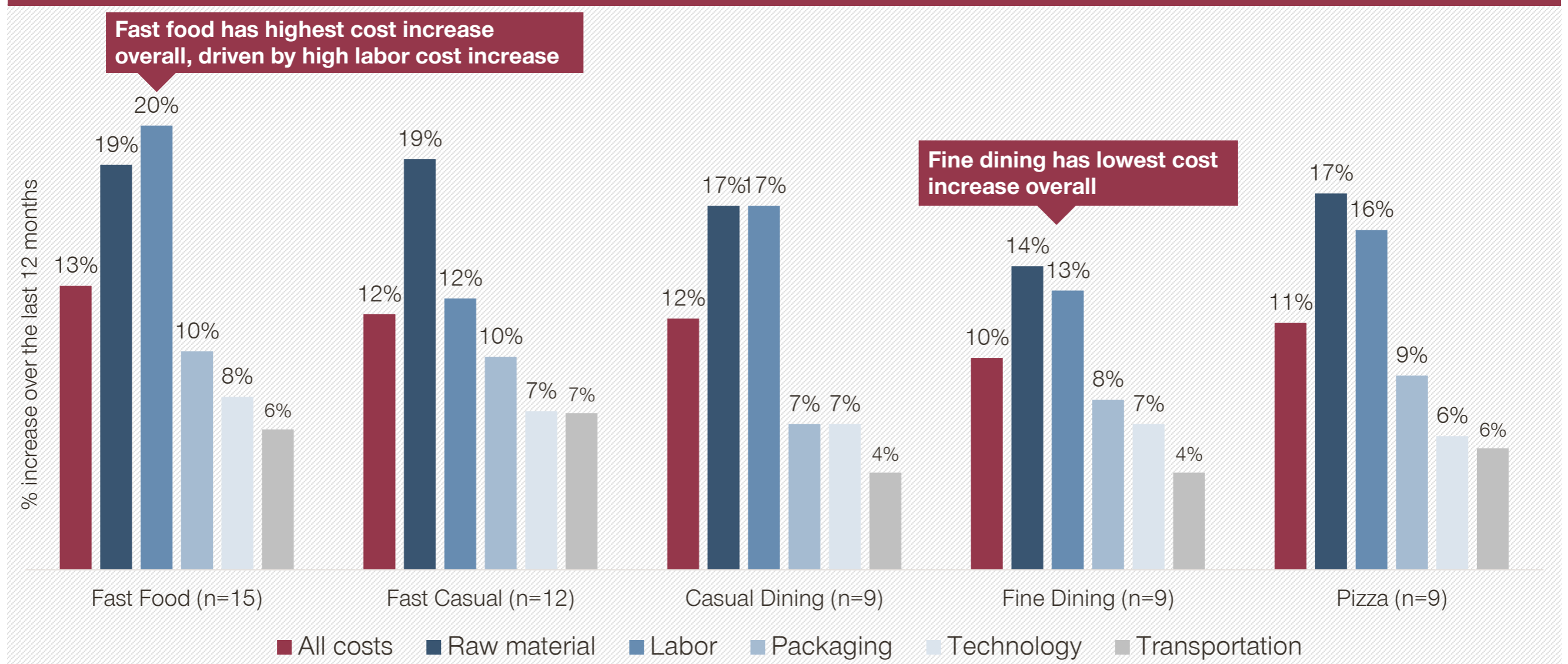
9
Pizza
brands

Participating brands included but are not limited to:

- Arby's
- Au Bon Pain
- Bartaco
- Brixx Wood Fired Pizza
- BurgerFi
- Checkers
- Cheddar's Scratch Kitchen
- Chevys Fresh Mex
- Chick-fil-A
- Extreme Pizza
- In-N-Out Burger
- Jack in the Box
- Jason's Deli
- Logan's Roadhouse
- Popeyes
- Portillo's
- QDOBA Mexican Eats
- Ruby Tuesday
- Shake Shack
- Smokey Bones
- Smoothie King
- Sonic Drive-In
- Taco Bueno
- The Capital Grille
- Which Wich
- ...

Costs have continued to rise over the last 12 months, with the highest cost increases in raw materials and labor

Restaurant cost increases over the last 12 months

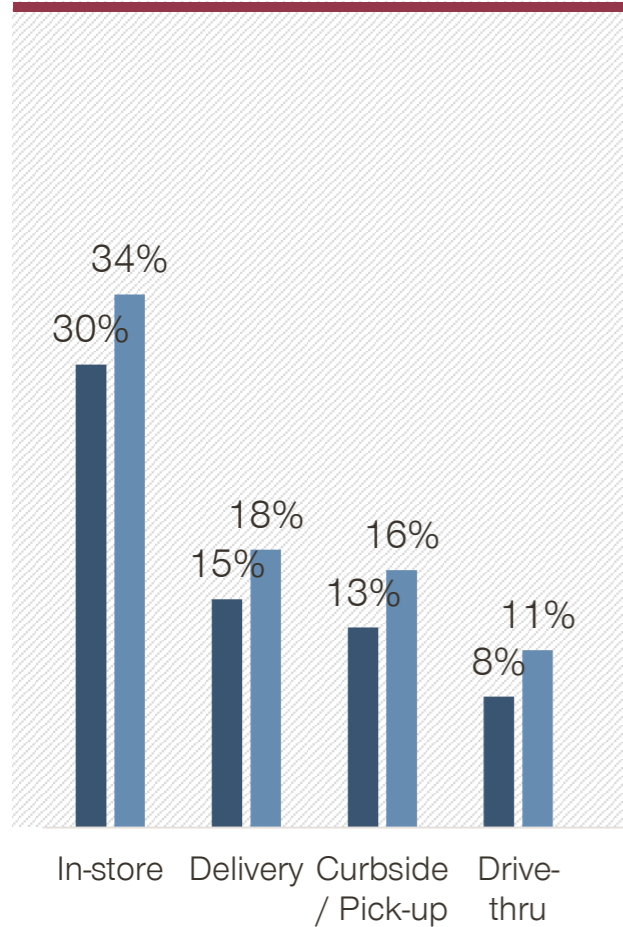


Source: Simon-Kucher & Partners; March 2022 Restaurant Cost Inflation & Price Increase Benchmark Survey (n=54). Full questions: What is your brand's current cost structure (e.g. what % of costs come from the following sources)? Approximately how much has your brand's costs increased over the last 12 months across the following expense types? Please answer the question based on the percentage increase and not the percentage point increase. For example, if packaging costs per item were \$1.00 on average and are now \$1.10 on average, that would be a 10% cost increase.

Despite increasing costs, brands have seen revenue growth in the past year across all channels and expect higher growth in the next year

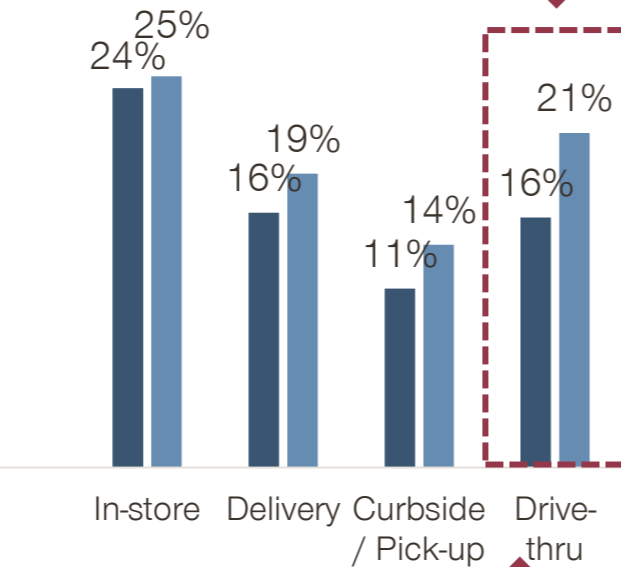
Change in channel mix in last 12 months and expected change over next 12 months

All restaurants (n=54)

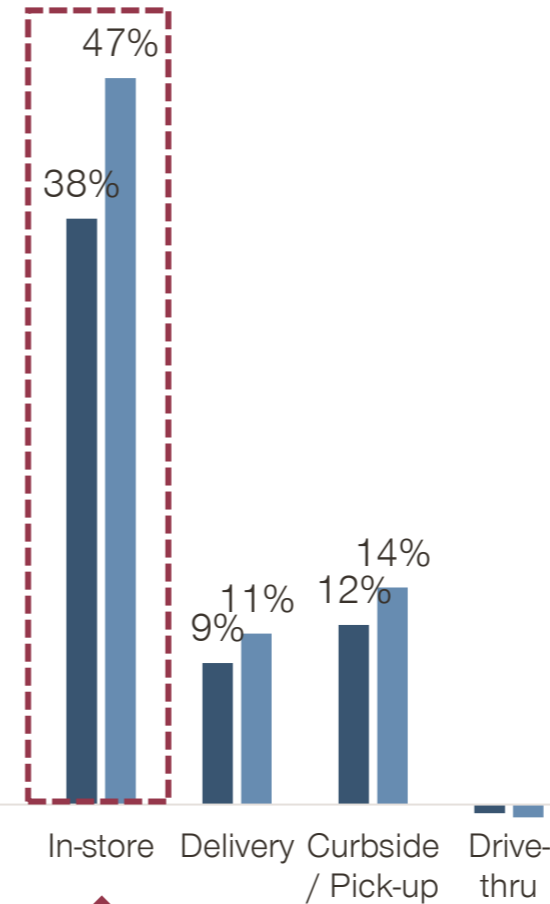


Fast Food and Fast Casual (n=27)

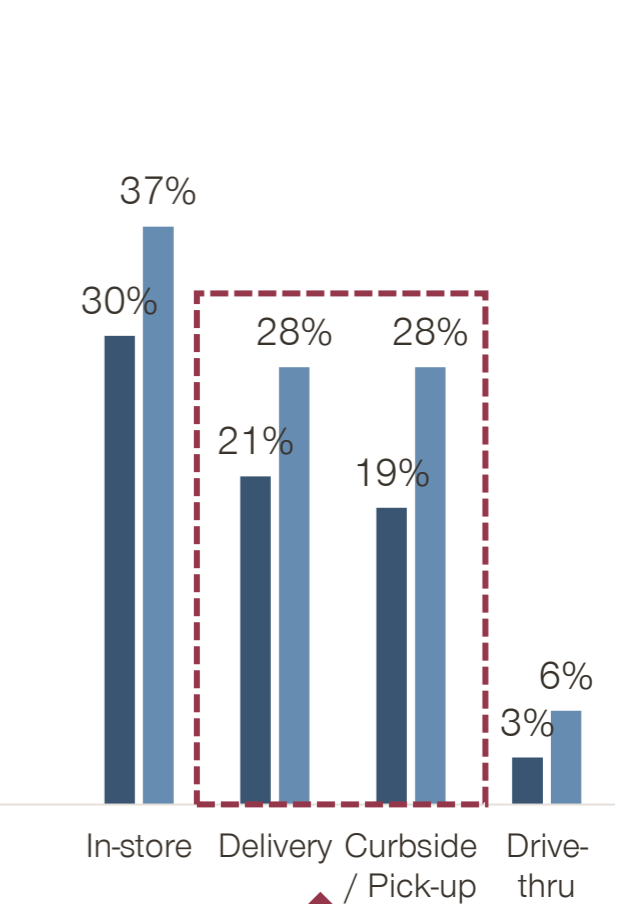
Reading example: Fast Food and Fast Casual brands had a 24% average increase in in-store sales last year and expect a 25% increase next year



Casual and Fine Dining (n=18)



Pizza (n=9)



Fast Food & Fast Casual had higher drive-thru growth, while Casual & Fine Dining had higher in-store growth

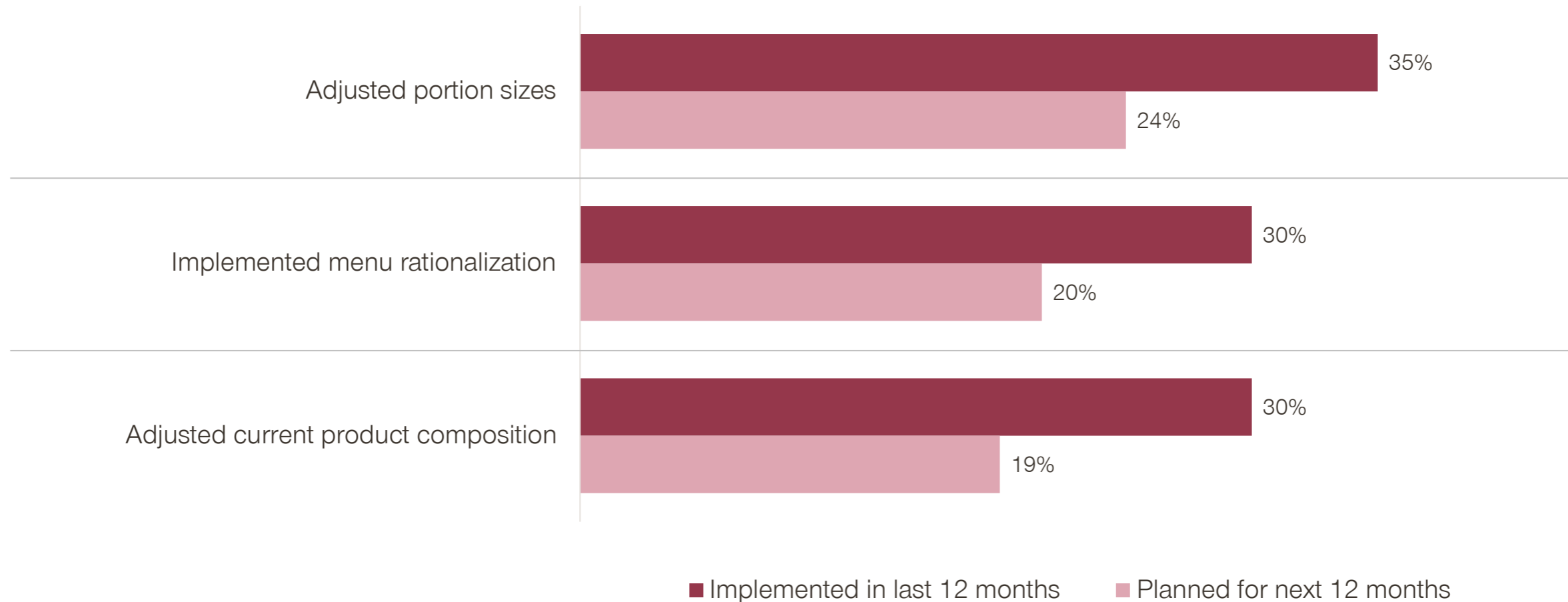
Pizza had higher delivery and pick-up growth

- % change over last 12 months
- Expected % change over next 12 months

Source: Simon-Kucher & Partners; March 2022 Restaurant Cost Inflation & Price Increase Benchmark Survey (n=54). Full questions: How has your company's channel mix changed over the last 12 months? What about over the next 12 months? Input your best estimates for each. Please answer the question based on the percentage increase and not the percentage point increase. For example, if your sales via delivery have doubled over the last 12 months, please input 100%.

To combat cost pressures, brands have focused on cost-cutting measures in the last year...

% of restaurants who implemented or plan to implement each operations action

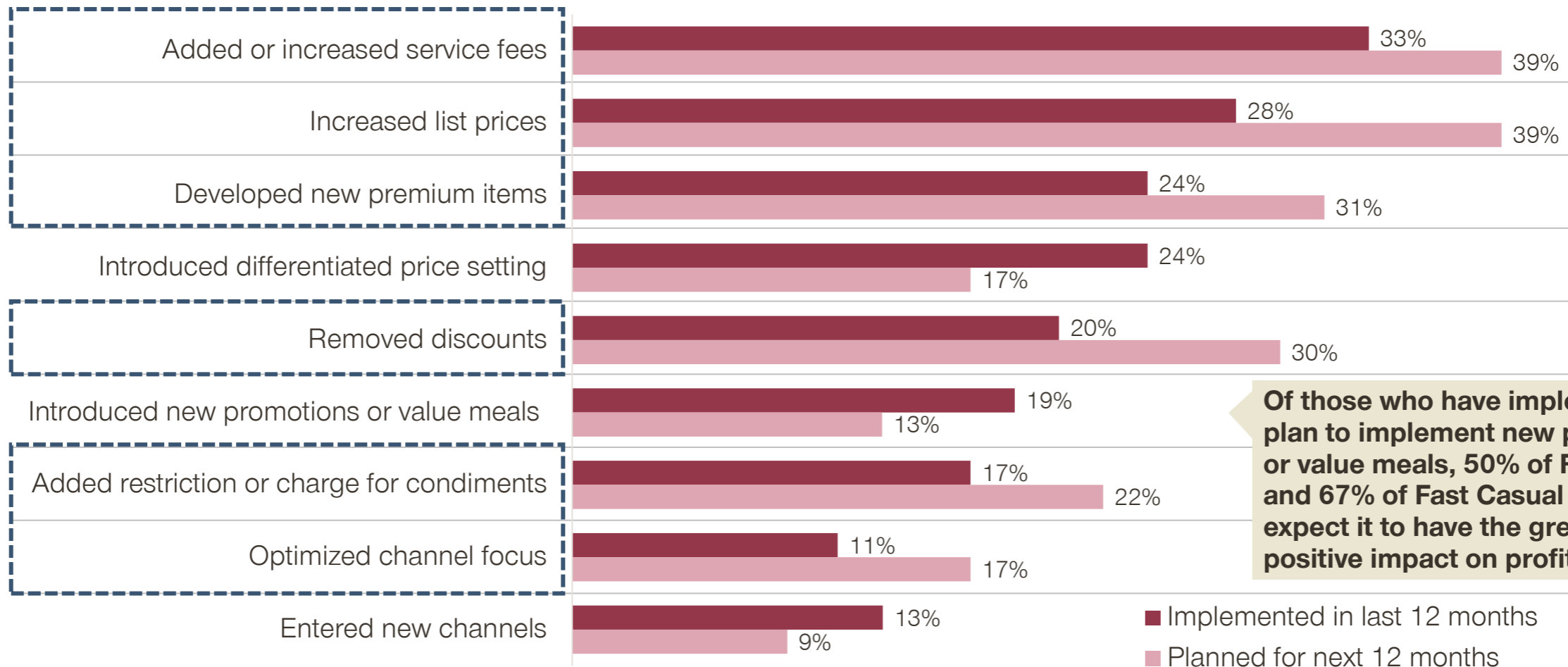


It is likely that fewer restaurants plan to focus on operations actions next year because their efforts to cut costs have already been exhausted

Source: Simon-Kucher & Partners; March 2022 Restaurant Cost Inflation & Price Increase Benchmark Survey (n=54). Full questions: When thinking about the cost pressures, which of the following actions has your brand used to react in the last 12 months? Are there any your brand is planning to implement over the next 12 months?

...but restaurants plan to implement more pricing-related actions in the year ahead

% of restaurants who implemented or plan to implement each pricing action

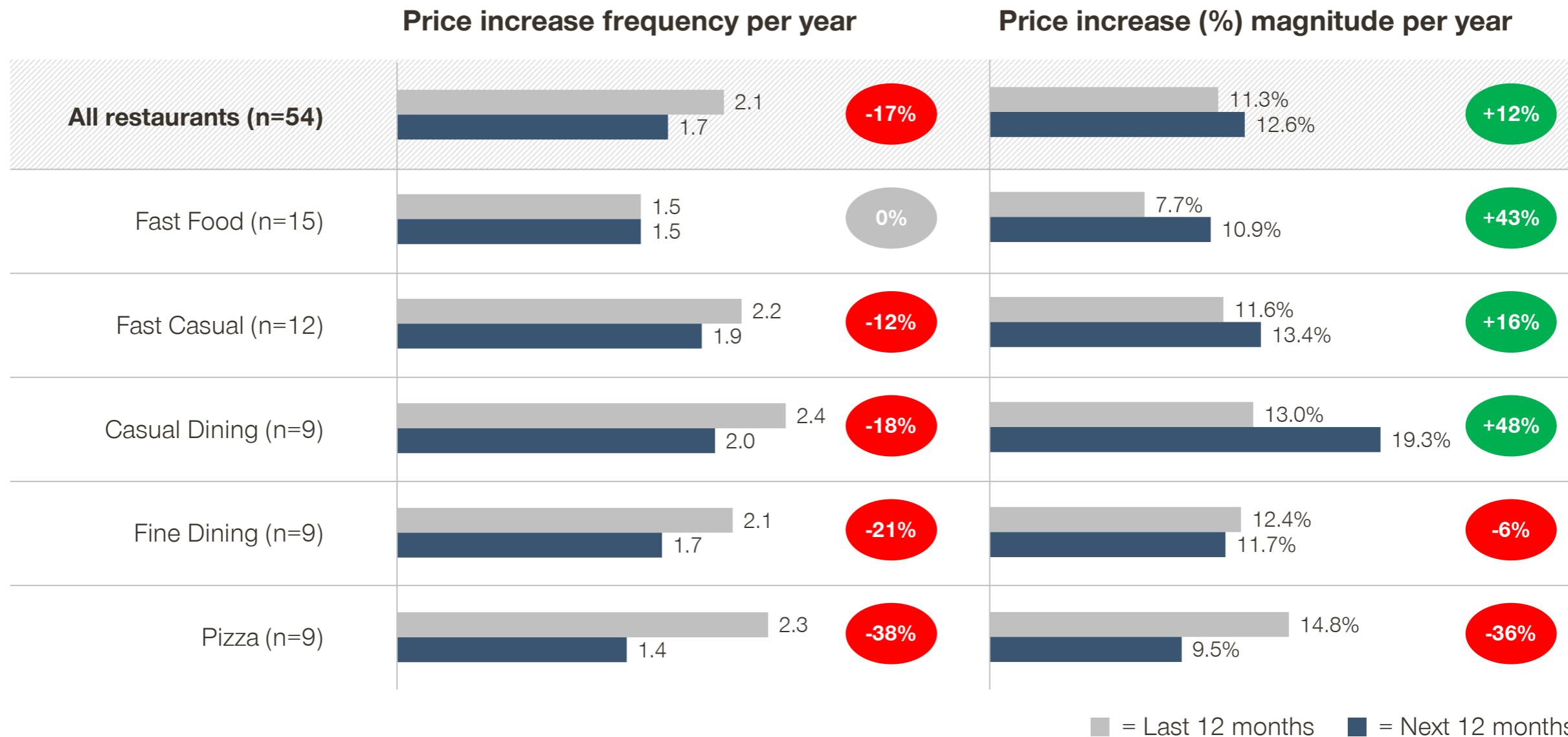


Of those who have implemented or plan to implement new promotions or value meals, 50% of Fast Food and 67% of Fast Casual brands expect it to have the greatest positive impact on profits

Outlined rows are pricing actions that brands plan to implement more next year than they have in the last year

Source: Simon-Kucher & Partners; March 2022 Restaurant Cost Inflation & Price Increase Benchmark Survey (n=54). Full questions: When thinking about the cost pressures, which of the following actions has your brand used to react in the last 12 months? Are there any your brand is planning to implement over the next 12 months?

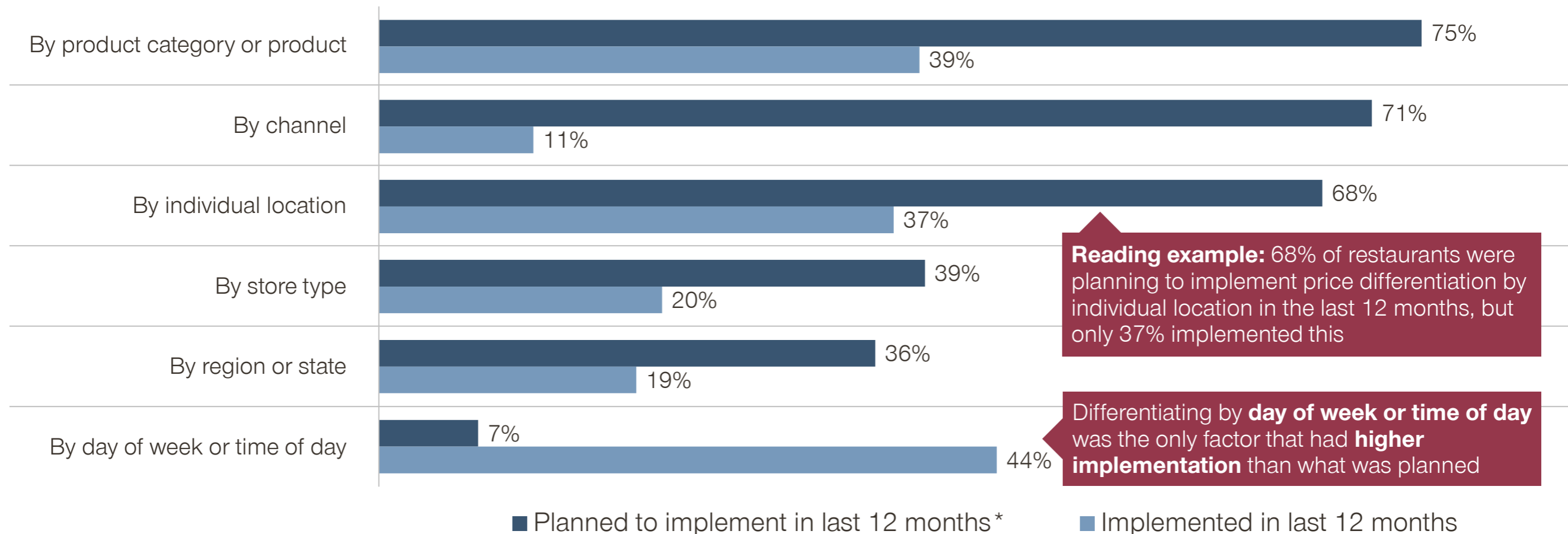
In the past year, brands have increased their prices 11.3% overall and plan for higher magnitude but less frequent price increases next year



Source: Source: Simon-Kucher & Partners; March 2022 Restaurant Cost Inflation & Price Increase Benchmark Survey (n=54). Full questions: Over the last 12 months, approximately how many times did your brand increase menu prices? What about over the next 12 months? For each individual price increase, approximately how much has your brand increased menu prices on average (i.e. average increase each time you increased prices), both over the last 12 months and over the next 12 months?

Restaurants planned for more price differentiation in the last 12 months than they followed through on

Price increase differentiation factors: % of restaurants who planned to implement last year vs. % who implemented last year



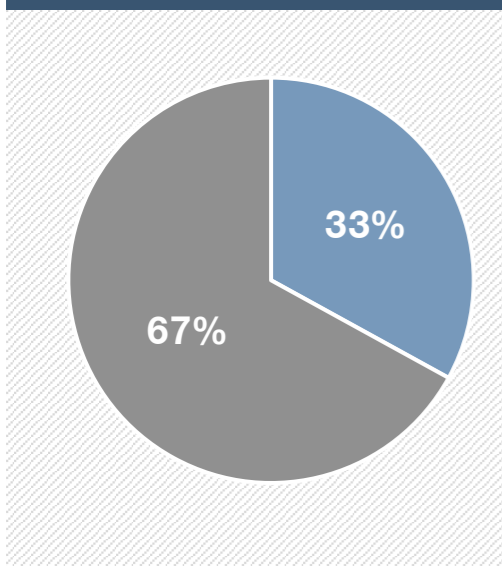
The restaurant industry appears to be regressing when it comes to pricing sophistication. There is room for improvement for many brands in identifying ways that they can differentiate price increases moving forward

*Source: Simon-Kucher & Partners July 2021 restaurant inflation and pricing benchmarking survey (n=28). Note: A different set of restaurants participated in the 2021 survey than the restaurants in the 2022 survey.
Source: Simon-Kucher & Partners; March 2022 Restaurant Cost Inflation & Price Increase Benchmark Survey (n=54). Full questions: When thinking about your price increases over the last 12 months, which of the following factors has your brand used to differentiate price increases (i.e. increase prices differently)? Which are factors your brand plans to use to difference price increases over the next 12 months?

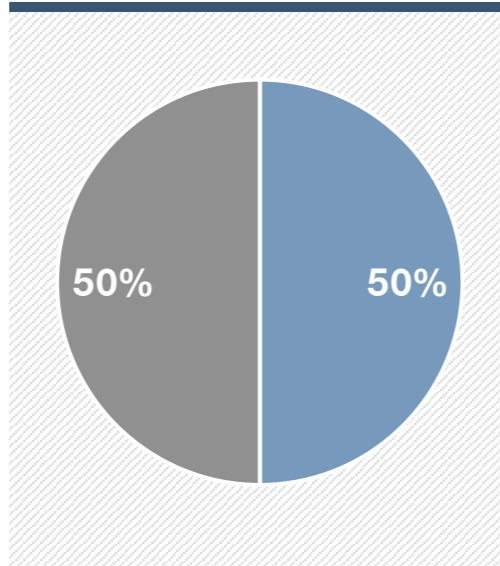
Most restaurants do not currently differentiate or plan to differentiate prices by channel

% of restaurants who implemented or plan to implement price differentiation by channel

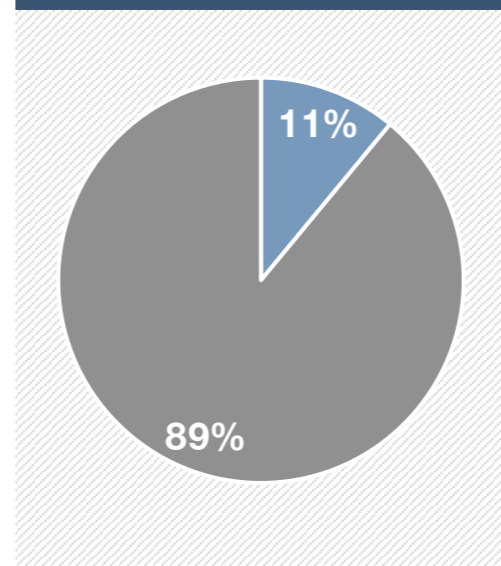
Fast Food (n=15)



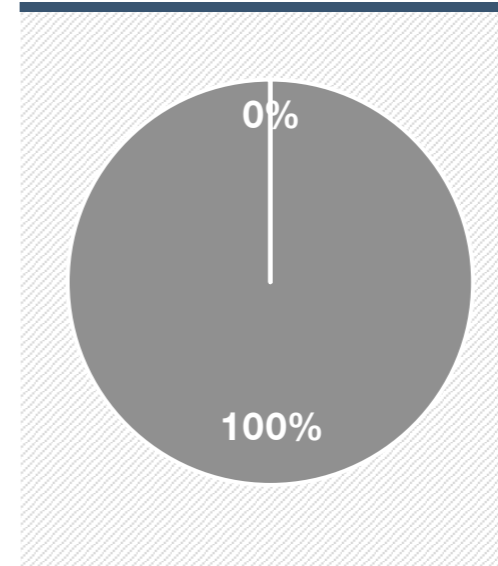
Fast Casual (n=12)



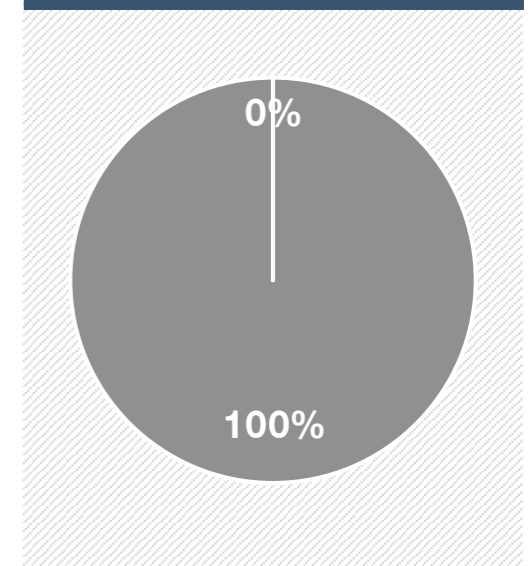
Casual Dining (n=9)



Fine Dining (n=9)



Pizza (n=9)



- Implemented or plan to implement price differentiation by channel
- Did not implement or plan to implement price differentiation by channel

For those who plan to differentiate by channel, average menu price inflation in delivery is 11%

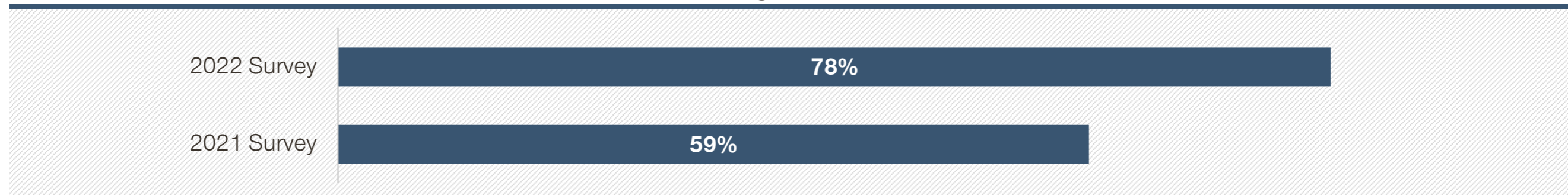
Past Simon-Kucher & Partners market research has shown that consumers have a higher WTP* for the additional value provided via delivery channels, so restaurants' prices should reflect this by differentiating prices by channel

*WTP = willingness-to-pay

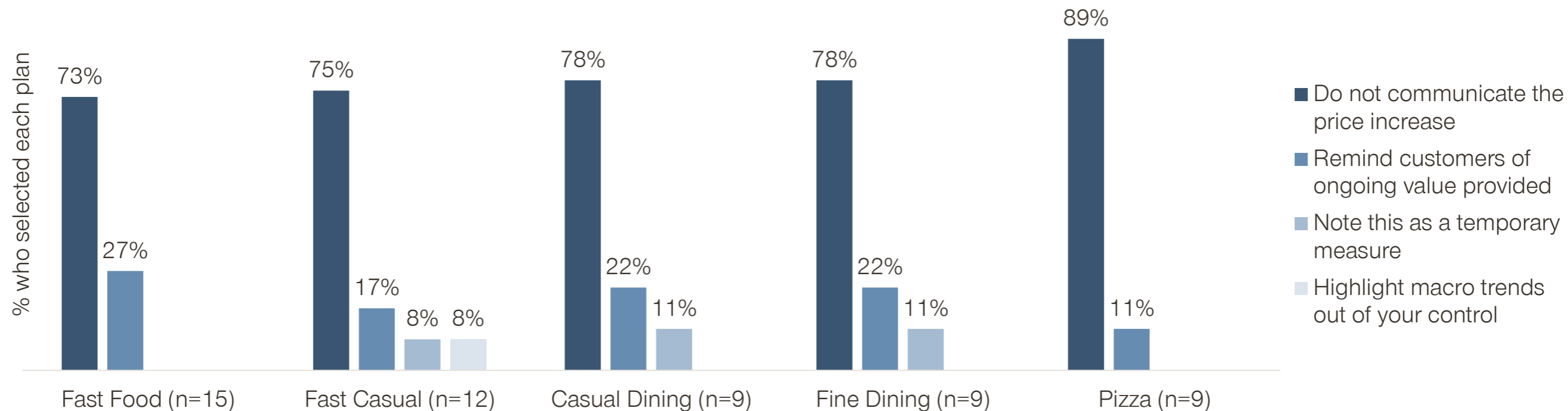
Source: Simon-Kucher & Partners; March 2022 Restaurant Cost Inflation & Price Increase Benchmark Survey (n=54). Full questions: When thinking about your price increases over the last 12 months, which of the following factors has your brand used to differentiate price increases (i.e. increase prices differently)? Which are factors your brand plans to use to difference price increases over the next 12 months? You indicated you plan to differentiate price increases by channel in the next 12 months. Approximately how much more do you expect your brands' menu prices on delivery platforms to be compared to menu prices in stores?

The vast majority of brands do not plan on communicating their price increases to customers, which is a shift from last year's survey

% of restaurants who said they do not plan on communicating price increases over the next 12 months



Restaurants' plan for communicating price increases over the next 12 months



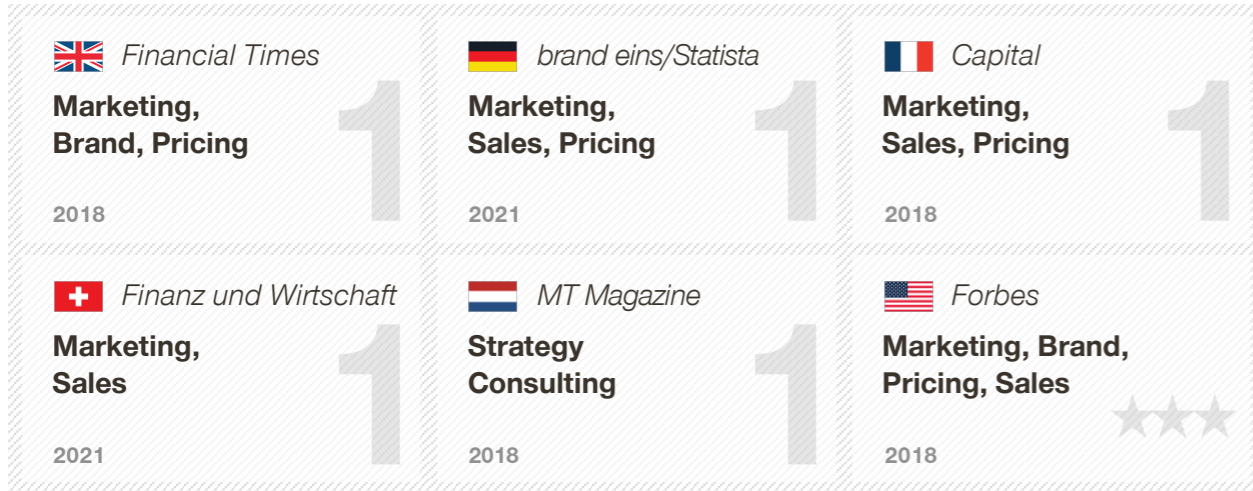
Source: Simon-Kucher & Partners; March 2022 Restaurant Cost Inflation & Price Increase Benchmark Survey (n=54); July 2021 survey (n=28). Full questions: When implementing price increases over the next 12 months, how do you plan to communicate price increases to customers?

Inflation & Price Increase Benchmarks

About Simon-Kucher & Partners

Simon-Kucher & Partners at a glance

Globally renowned consultancy for top-line improvement



What others say about us

No one knows more about pricing than Simon-Kucher.

Philip Kotler, marketing guru

Simon-Kucher is a down-to-earth consultancy, highly committed and trustworthy. They deliver what they promise.

Member of the executive board,
Bank Julius Baer & Co. Ltd.

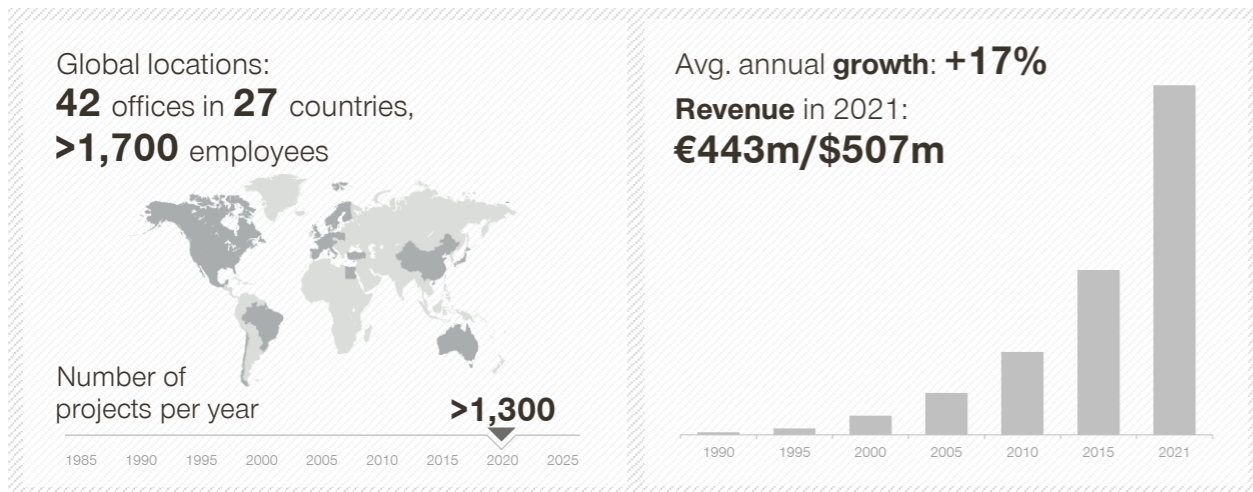
Simon-Kucher was a great partner during our research phase. We appreciated their support, expertise, and partnership throughout the process of developing Uber Rewards.

Barney Harford, former COO, Uber

Pricing strategy specialists.

The Wall Street Journal

Facts and figures



Simon-Kucher profile

TopLine Power®

This is what Simon-Kucher is all about. We boost our clients' revenue and profits by optimizing their pricing, sales, marketing, and strategy.

Simon-Kucher Digital

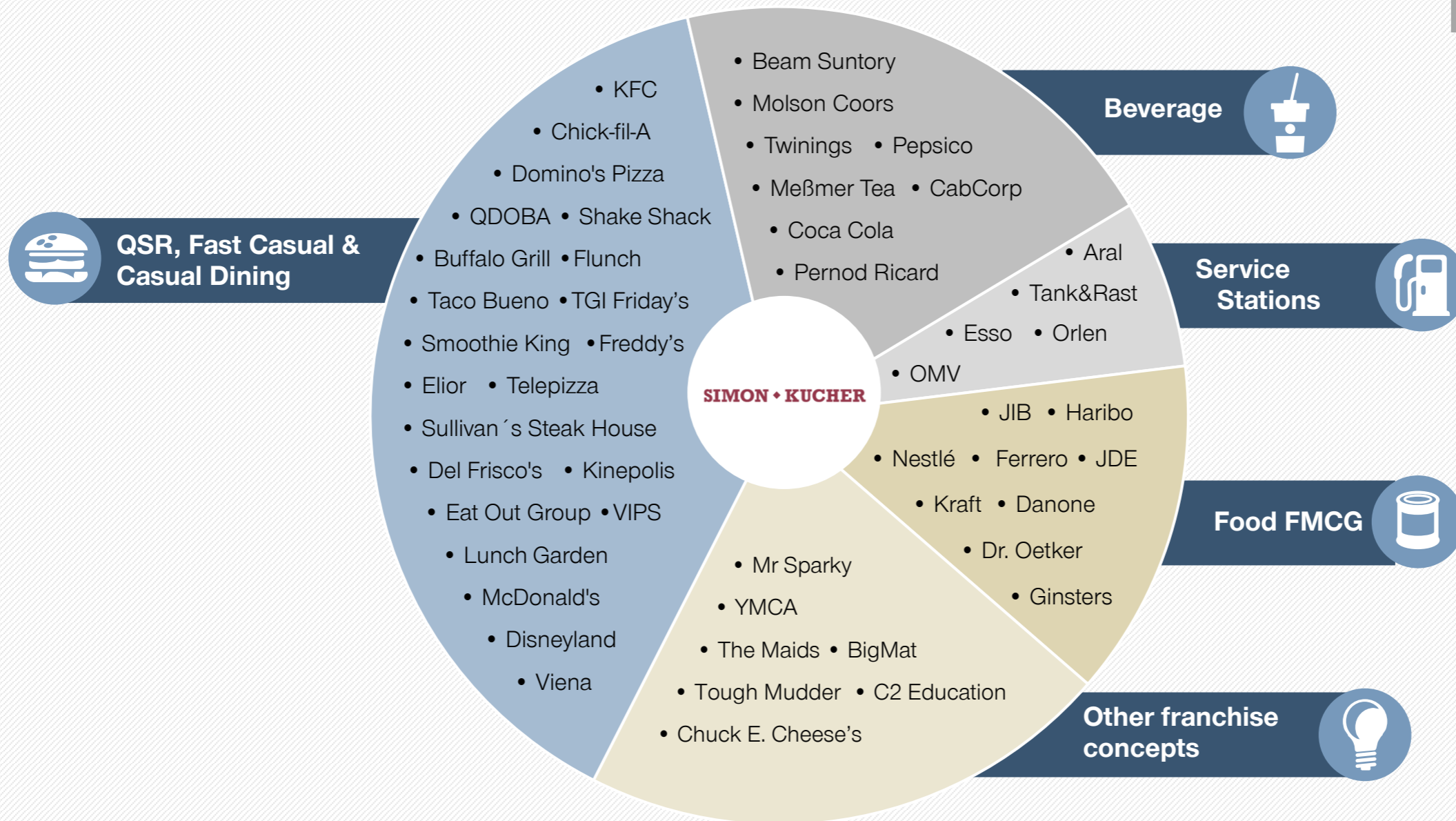
We advise clients on how to improve their top lines with digital technologies, from big data analytics, machine learning, and artificial intelligence to tailor-made pricing and sales tools.

THE unicorn advisors

We have worked for over 30 unicorns, such as Asana, Stripe, and Uber.

We have extensive experience in the restaurant space and related industries including other franchise concepts

Selection of clients



Typical projects for our restaurant clients focus on menu board architecture, channel pricing and digital growth strategies

1 Price positioning

- Identify value drivers and competitive advantages by segment and channel
- Define optimal price positioning based on willingness-to-pay and competitive landscape by segment



2 Category & product roles

- Define priorities on category and product level
- Adjust assortment structure and price architecture



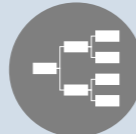
3 Menu board SKU rationalization

- Sort out low-performing products to reduce complexity
- Consider cross-/up-selling effects



4 Customer-centric new product development

- Identify key value drivers and budget thresholds
- Use customer insights to fill gaps



5 Menu price setting

- Identify current & target price-value relationship
- Develop pricing scenarios for menu board
- Use conjoint results for financial impact modelling



6 Store price differentiation

- Identify key criteria to cluster stores
- Define price differences between tiers



7 Delivery & alternative channel pricing

- Identify key value drivers, consumer psychology and willingness to pay
- Align delivery pricing with financial and strategic objectives



8 Price increase process

- Define pricing roadmap for price increases
- Establish continuous pricing process and responsibilities



9 Promotion strategy

- Analyze effects of promotions on KPIs using data and customer research
- Develop guidelines on how and when to use promotions



10 Loyalty program design

- Define program structure based on business objectives, who to target and actions we want consumer segments to take
- Identify benefits most aligned with segment needs and behaviors and ROI



11 LTO/Special offer design & pricing

- Clarify internal role and customer perception
- Use to address specific customer segments



12 Pricing organization, process & tools

- Define pricing capabilities and anchor pricing responsibilities
- Establish processes and build supporting tools



Authors of this study



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Philip is Managing Partner of Simon-Kucher in Houston and head of Simon-Kucher's Restaurants practice group in the US. He has 17 years of price consulting experience in QSR, casual dining, food & non-food FMCG, beverages, retail and other industries. He conducted more than 100 pricing & grown strategy projects and helped companies create over \$5bn in enterprise value. Philip has a M.Sc. from WHU, MBA from IE Business School.

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Thank you!

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