What's on the menu?

Artificial intelligence as a tool to enhance performance in foodservice

Foodservice update Q1 2024

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Market outlook

Despite higher sales, margins remain under pressure

US

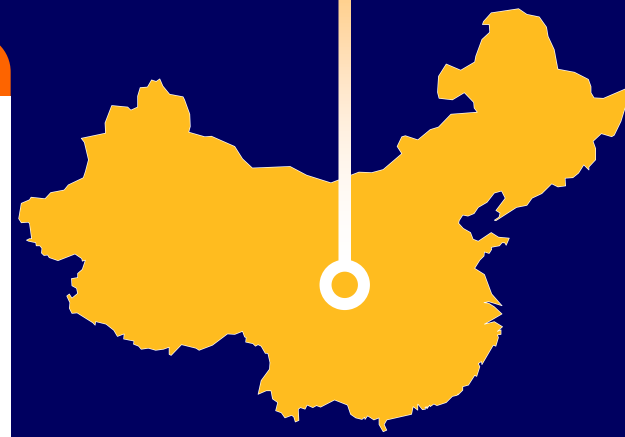
- Restaurant sales growth has slowed. Consumer behavior has shifted toward a greater focus on value, driven by economic pressures and inflation concerns.
- Restaurants have adjusted well and margins have improved after a challenging few years of high cost of goods sold (COGS) inflation.
- Looking ahead, demand will remain subdued as US consumers keep tightening their purse strings. Restaurants will focus on value-based options, digital investments, and operational efficiency improvements.

Europe

- Modest improvements in disposable income limit the downside risk for industry revenues. However, lackluster economic growth will result in stagnant traffic and limited room for price increases.
- Costs aren't coming down. Food prices are stabilizing, but other inputs such as labor are becoming more expensive. And simple efficiency gains have already been implemented in 2022/23.
- What next? Operators are focusing on improving profitability. In the current environment, this means either increasing market share, which requires investments, or eliminating underperforming assets.

China

- Foodservice demand remained strong during the Chinese New Year festive season. However, it is unclear how demand will evolve post-festival, given a weak macro environment. A slowdown in growth in Q1 2024 is quite likely as the low base effect diminishes.
- Leading QSR players accelerated network expansion to gain market share, intensifying competition. Lower-tier cities are the main battlefields.
- Digital and supply chain investments to enhance efficiency will be critical to stay defensive in the face of competition, with resilience in both revenues and profits.



Source: *Rabobank 2023*

Executive summary

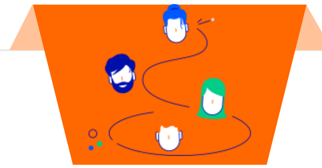
Artificial intelligence (AI) is software that can perform tasks that traditionally require human intelligence. It is fueled by vast amounts of data and computing capacity.

AI is expanding in the foodservice industry. It is facilitated by the vast offer of software-as-a-service (SaaS) providers and the increased availability of useful data.

AI is far from perfect and may be going through a hype period. However, its applications are expanding and improving rapidly. Foodservice operators can't turn their backs on it if they want to remain competitive.

Many of the AI applications currently in use in foodservice are aimed at improving the efficiency in foodservice operations.

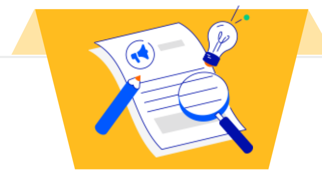
For instance, in Human Resources (HR) AI simplifies the hiring process and other administrative tasks. Additionally, AI can be incorporated into equipment, such as waste management systems or cooking devices. Furthermore, it can assist with product and ingredient selection and identifying best opportunities for new openings.



Other applications focus on improving customer experience and marketing strategies.

Highly performing chatbots and telephone assistance software can improve customer experience and increase efficiency.

Additionally, AI software can be used to improve text and images, personalize customer interaction, understand brand perception, and implement more focused pricing strategies.



AI also has its drawbacks: First and foremost, it's not for free. Costs and potential benefits need to be evaluated.

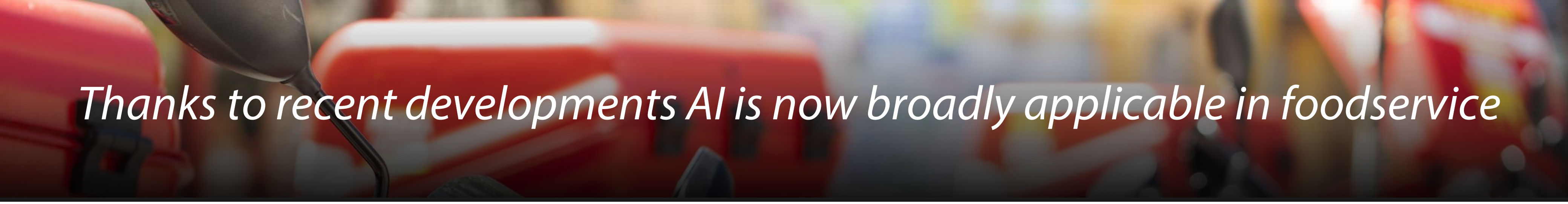
There are also risks to consider, including customer alienation and technology-related issues.

Finally, there's the need for regulatory compliance – the European AI Act is likely to come into force soon, adding to existing regulations that AI users and providers can't ignore.

The incorporation of AI in foodservice business models can have a net positive impact on sustainability, despite its high energy consumption.

The two most relevant applications already in place are waste reduction technologies and equipment efficiency improvements. Additionally, when considering delivery, the use of AI to optimize routes also contributes to transport-related sustainability improvement.

If you are interested in what AI means for processed foods beyond foodservice, please see our recent report [AI appetite: Exploring new horizons in consumer foods](#).



Thanks to recent developments AI is now broadly applicable in foodservice

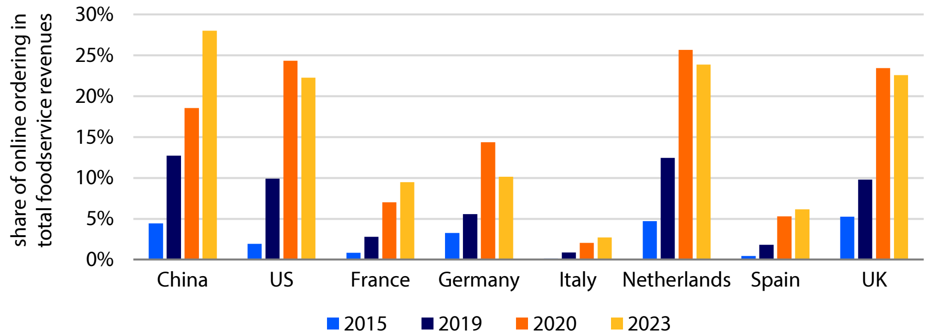
Thanks to the increasing number of SaaS providers and the wealth of information about restaurants, bars and the like available online, in addition to large multinationals, smaller foodservices operators can now also reap the benefits of AI.

Increased AI accessibility for foodservice operators

AI technology has been used in foodservice for some time, but only a few very large operators have had access to it. However, the accessibility of this technology to foodservice operators has increased significantly in recent times. This is due to a combination of two factors:

- First, the number of companies offering SaaS as a system has increased exponentially, making the technology available to companies that wouldn't be able to develop it in-house.
- Second, relevant data has become widely available. Data is the essential raw material for AI, but until recently, the foodservice industry lagged behind other sectors in terms of digitalization. However, since 2020 consumers have increasingly turned to digital channels for information and transactions. Companies that have digitalized their contact with consumers through kiosks and loyalty apps – such as many QSR operators – now possess proprietary data, as do delivery platforms. External sources such as Google and social media also provide a wealth of actionable information that can be captured and analyzed to the benefit of players that still have a limited history of internal data.

Data availability in foodservice boosted by online ordering growth



Source: *Euromonitor, Rabobank 2024*

What exactly is artificial intelligence?

Artificial intelligence (AI) technology has been around for many years, but recently, generative AI (GenAI) has captured everyone's interest and imagination, and has become an inevitable topic also in strategic discussions.

Simply put, AI is software that can perform tasks that traditionally require human intelligence. It concerns technology that can process vast amounts of data at high speed and perform multiple functions. Traditional or analytical AI can solve tasks based on structured rules and data, such as classifying, predicting, clustering, and presenting structured data.

Generative AI in turn is AI based on foundation models that can generate new unstructured content such as text, images, and audio. It can interact with people and generate content that appears human, such as written text, conversations, software programming, or images.

The two cornerstones of AI (without which there is no relevant outcome) are data and computing power. The more data we have, the longer it takes for AI to learn and understand the patterns. This requires better computers so that data can be processed and analyzed more quickly.

AI applications can be classified into four broad groups:

Computer vision: Processing of Images	**Natural language: Processing text**	**Machine learning: Data**	**Generative AI: Prompt**
Facial identification, autonomous driving technology	Understand user queries and provide relevant response	Content/route recommendation based on user data	New content

Most current AI applications in the foodservice industry fall outside the category of generative AI. Some of them will be discussed in the following pages.

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Most common uses of AI in foodservice today: Improving efficiency

AI is a technology that enables its users to do what they need to do faster, cheaper, and more accurately. Current AI applications in foodservice are focused on improving efficiency, enhancing customer experience, or both. The number and quality of AI applications is developing rapidly, and foodservice operators can't turn their backs on it if they want to remain competitive.

AI allows foodservice operators to use information they couldn't before, combining multiple sources of structured and unstructured data to take actions that result in more efficient operations, a superior customer experience, or both. Many of the applications are made available by SaaS providers or embedded in purchased equipment. Scale is an advantage, not only because large players tend to have in-house proprietary data – digital loyalty programs are proliferating – but also because they have greater investment capacity and are better positioned to close deals with technology giants.

Reducing HR workload

Staff turnover is high in the hospitality industry, and recruiting can be time-consuming. McDonald's and Areas, among others, are using AI-based technology provided by Unique.ai to speed up the process of publishing vacancies and matching candidates with job profiles. For candidates, the application process is simpler and better supported than traditional procedures. AI is also being used for staff management and training, making both processes more consistent and efficient.

Reducing waste and energy consumption

AI-driven technology, such as that provided by Winnow and used by Compass Group and Accor, combines image recognition and waste measurement to accurately track food waste. This has a positive impact on costs and sustainability parameters, as it leads to greater awareness and actionable data to reduce waste. Kitchen equipment manufacturers are using AI technology, too. For example, in cooking appliances that identify product and weight and optimize cooking intensity and time. Combined with other technologies, new equipment allows different items to be cooked at the same time. This makes kitchen work easier, reduces energy consumption, limits errors, improves the final quality of the product, and allows kitchen staff to make better use of time.

Freeing up staff for quality customer interaction

The accuracy of chatbots, voice-ordering, and phone-answering software is rapidly improving, as is the amount of information that they can provide to customers and their flexibility in combining human and machine service. Most large QSR groups have already incorporated some kind of voice AI technology, often partnering with specialists (like Domino's with ConverseNow, or White Castle with SoundHound). The technology frees up staff for other tasks and can improve accuracy.

Other uses of AI: Enabling more efficient innovation and investment decisions

Existing AI tools can help innovate and optimize menus, pricing strategies, and can even determine ideal locations for new openings. Much of this can be achieved through AI's ability to analyze extensive online data, including content from social media, reservation and delivery platforms, and any other sources where users share opinions, reviews, and geospatial information.

New locations. Dashmote uses AI to identify suitable sites, incorporating data on existing offer and consumption patterns in the area, in addition to the usual parameters.

New menu items. AI helps identify trending products or ingredients and best-selling items offered elsewhere, even in distant markets.

Alternative ingredients. AI can also help identify and replace allergens, although human testing of alternative recipes will still be needed.

Most common uses of AI in foodservice today: Customer interaction, customer experience and marketing

More personalized customer interactions, more targeted marketing strategies, and better pricing strategies supported by AI analytics can lead to higher customer satisfaction and improved financial returns. Additionally, features like intelligent chatbots free up staff capacity, increase efficiency, and make processes faster and easier for customers, enhancing customer experience. But AI's potential extends beyond these benefits…

Managing reputation

AI enables the collection of information from multiple sources and in multiple formats, including unstructured data such as social media. It can identify consumer sentiment by analyzing online reviews, ratings, comments, and images. It can also compare customers' perception of a site or brand with those of peers and over a period of time. Solution providers such as Chatmeter are making reputation management tools available to smaller operators, with companies such as A&W Restaurants or Glacier Restaurant Group as clients.

Enhancing images and descriptions

GenAI can help improve images and text to attract customers online. Furthermore, AI can assist in improving menu texts, bringing certain menu items to the top based on a user's search queries. However, human review is still required to ensure that the content reflects the brand's unique identity and does not offer misleading or generic content.

Improving relevance and personalizing customer interaction

AI can support more targeted and relevant customer interactions. It can help select relevant content based on the customer's profile, location, and context. Imagine you're walking past your favorite coffee shop on a scorching hot day. AI could recognize this context and offer you a special deal on iced coffee. Dunkin' is partnering with marketing tech HubKonnect that provides detailed communication strategies and actions based on local data, including timing (when to send offers).

Optimizing pricing strategies

The use of AI for pricing strategies in foodservice has been in the news recently in connection with McDonald's or Wendy's. AI can facilitate pricing strategies that go beyond dynamic pricing, which is common practice in hotels, taxi services, and airlines, but more controversial in restaurants. AI can facilitate price adjustments, including targeted promotions based on local competition and customer behavior in the relevant catchment area. While this approach is not new (it's already used in retail), AI brings significant advantages in terms of speed, flexibility and focus.

Restaurant partners are using AI

Delivery platforms and reservation systems are making extensive use of AI tools to optimize their businesses. Restaurant operators need to be aware of these developments in order to optimize their positioning within the relevant delivery and reservation systems or risk being relegated to lower, less profitable positions.

However, these platforms also rely on the cooperation of their associated restaurants to achieve their goals. Providing partner restaurants with customer feedback, peer benchmarking or best practice suggestions can help to increase customer satisfaction for both platforms and restaurants.

Delivery platforms

- Route optimization.
- Rider allocation.
- Personalized search results, ranking positioning.
- Screening of potential restaurant partners.
- Evaluation of partner restaurants (benchmarking).

Reservation systems

- Personalized customer interaction.
- Content related to visited sites or alternatives with positive reviews from customers with similar profiles.
- Timing: Before specific dates or times of day, after period of inactivity.

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Drawbacks to consider: Cost and risks

Yet AI's relentless advancement ensures its inexorable integration as a tool

AI technology is a work in progress and is improving every day. The number of applications in foodservice and the ease of use are also increasing. Therefore, turning away from AI would increase the risk of losing competitiveness. At the same time, there are negative aspects and risks that have to be properly evaluated.

Absolute costs versus return

AI is just another tool. It is important to clearly define the purpose of incorporating it and subsequent actions. Otherwise, it may just add to the overall cost, as both in-house developed applications and SaaS solutions are expensive. The computing power required to process vast amounts of data is energy intensive. In addition, it may be necessary to hire management skills to incorporate AI in the operations if these aren't already in place. As extra costs are unavoidable, it is crucial to conduct a thorough evaluation of the absolute cost and how the cost compares to the expected improvement before taking any action.

Lack of relevant data

Any result based on insufficient or not sufficiently relevant data loses value. Digitalization in foodservice is still lagging behind when compared to other industries, and some operators may not have enough relevant data to obtain valuable, actionable solutions from AI.

Quality of customer experience

AI-supported chatbots and telephone assistants, can backfire if the quality of their service is poor. This can frustrate customers, who might decide to give up and seek help elsewhere. Unwanted attention (such as excessive notifications or irrelevant messages) can irritate costumers. It is crucial to evaluate thoroughly how well technology aligns with the core customer base. What works for the urban Gen-Z may not be suitable for older clients or non-native speakers.

Reliability and responsible use of results

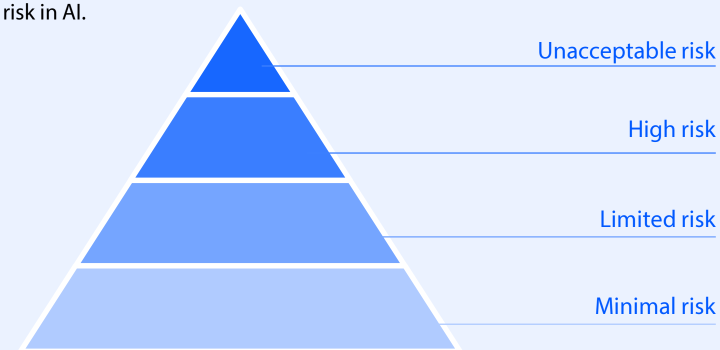
Anecdotes of GenAI backfiring abound, making it clear that it's not yet advisable to base critical decisions on AI-generated outcomes. For many applications, human oversight is still preferable to fully automated processes. For example, AI-optimized images or text still need to faithfully represent reality; if they mislead customers, there is a risk of being sued. The use of AI for HR-related support must be carefully controlled for bias, among other risks.

Technology-related risks

A technology malfunction can severely disrupt business if, for example, the reservation system doesn't work properly. Moreover, because AI is based on data, any security breach involving customer data or any other sensitive information could have serious consequences.

Regulation is a key factor: The European AI Act and other regulations

The European AI Act is the world's first legal framework on AI, and it covers all types of AI. The European AI Act aims to provide clear requirements and obligations for specific uses of AI, based on the potential risks and level of impact. It therefore follows a risk-based approach and defines four levels of risk in AI.



Most AI applications currently used by foodservice operators fall into the lower-risk categories, with a few clear exceptions: The use of AI in employment selection, such as resume-sorting software for hiring processes, falls into the high-risk category and is therefore subject to very strict regulations. Another high-risk area is the use of biometric identification systems. Facial recognition payments have become common place in China, but are less likely to gain the same traction in Europe. Some other AI systems used in foodservice, such as chatbots, will be subject to transparency obligations: Users should be aware that they are interacting with a machine, so they can make an informed decision about whether to continue or back out.

The use of AI is also subject to all other applicable regulations, including content ownership, copyright, transparency, and privacy laws in each relevant jurisdiction

Conclusions: Implications of the advancement of AI in foodservice

AI applications in foodservice are on the rise, and more will follow. Size and proprietary data are an advantage when incorporating AI technologies, but availability and accessibility have improved for smaller players as well, thanks to SaaS providers and AI-powered equipment.

All operators need to understand and evaluate the possibilities that AI brings. It can help enhance efficiency and reduce costs, improve brand image and increase customer satisfaction. Even if foodservice operators don't incorporate it into their business models, their delivery or reservation partners are likely to be using AI. Failure to understand the dynamics of AI can put operators at a competitive disadvantage.

AI implementation comes at a cost, either in terms of R&D investment or service fees. It may also require additional management skills to ensure that the investment in AI is properly monetarized and the risks are controlled. The decision to implement AI (or not) has financial consequences that must be evaluated.

AI decisions by foodservice operators impact suppliers, especially technology providers and real estate development partners. Furthermore, AI-driven insights and strategies, such as waste management or identified trends in ingredients, influence their food inputs purchazing choices. As operators adjust their strategies based on new parameters, their needs evolve and suppliers must be flexible and adapt to meet these changing requirements.

Regional analysis

An update on the state of the commercial foodservice industry

Europe: Seeking for profitability in a lackluster environment

Improving profitability is a key challenge for many operators as costs remain elevated and overall industry growth is moderate. Customers will remain selective, favoring certain concepts, and players will accelerate competition to gain market share.

Rebuilding profitability, a key goal for 2024

Despite a recovery in revenues, margins and profitability remain below historical levels for most industry players, undermined by cost increases. As we enter 2024, operators face operating conditions that, while stabilizing in both terms of demand and costs, are very different from those of 2019. With no drastic changes to the current status quo expected, they must figure out how to be profitable in this new business environment.

Aggregate demand is likely to remain stable

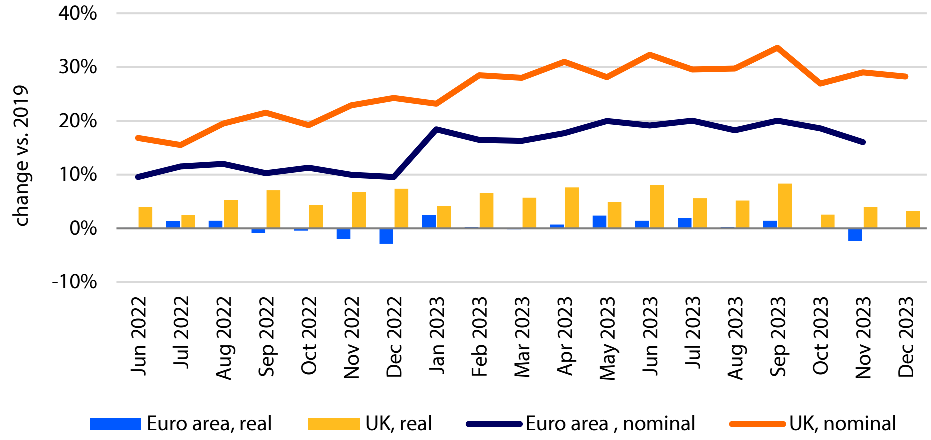
Bad weather and social unrest, in addition to the usual post-holiday slow-down, are likely to have affected trade in January. Going forward, we would expect consumption patterns in the coming months to follow the same pattern as in the last months of 2023 in terms of traffic and volume. At the industry level, this implies stability and limited downside, but significant growth is unlikely. In addition, as consumers remain cautious and selective in their spending, new price increases will need to be carefully assessed to avoid losing clients. As in 2023, we expect to see significant differences in performance between individual operators.

Costs show no sign of abating

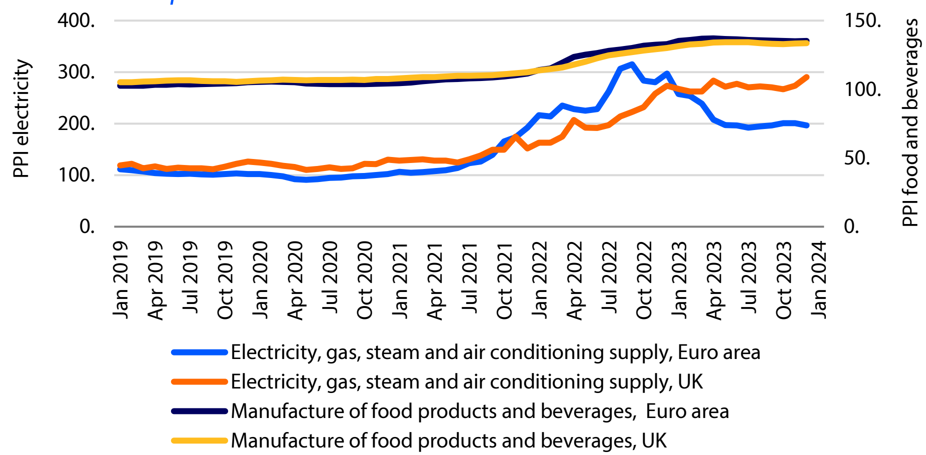
Food prices, although no longer rising, remain high and are unlikely to return to 2020 levels. Labor costs are expected to increase in 2024 due to regulatory changes, indexation and competition for workers. Indexation also contributes to increased costs, affecting areas such as occupancy expenses. In addition, both the UK and Germany face rising taxes in the foodservice sector: medium and large operators in the UK are impacted by business rates and operators in Germany experience higher VAT. Regulations related to sustainability and waste reduction also result in additional costs (such as for packaging) or investments.

In the recent past, including 2023, operators have made significant adjustments to their cost structures, including menu and portion reformulation, and energy-saving strategies. However, for operating profits to improve further, additional structural changes may be necessary.

Index of turnover, food and beverages serving activities



Foodservice input costs stabilize at elevated levels



Source: Eurostat, ONS, Rabobank 2024

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Europe: Strategies for 2024 and beyond

There are two strategic approaches to improve returns: Operators need to assess their ability to gain market share. Alternatively, they may need to improve their returns through selective portfolio reduction. In the longer term, sustainability is a key strategic driver.

Gaining market share in a stagnant market: Improving same-store sales or adding new sites

Market share winners and losers were already evident along the 2023 line. Success hinges on delivering a unique and valuable experience for consumers. There are two key demand drivers for foodservice: Convenience and indulgence. Depending on the occasion, the key differentiator element may be value for money, efficiency and speed, service quality or ambiance. And, of course, meeting expectations in terms of food taste and quality is essential. To excel, operators may need to invest in site renovation and upgrades, technology or staff.

Local and international chains are adding new sites in Europe as an evolving market presents new opportunities. For the same reason, European groups are expanding outside their core markets. In both cases, they often use franchising and partnership structures, with local experts and private equity still playing a key role. With some existing franchisees are facing poor returns and narrowing profits, we would expect investors to prioritize returns over top-line growth.

Having the financial capacity to fund new locations and upgrade existing sites is a key enabling factor.

Exiting underperforming sites to improve returns

A significant share of site closures in 2022 and 2023 were due to post-Covid adjustments, independent businesses were more affected than chained sites. Bankruptcies continue to occur, and it is important to note that the industry has a structurally high turnover rate – in some markets, only one out of every two sites survives beyond five years.

Going forward, we expect continued closures, with chained sites also affected when individual sites drag down the overall group performance. There are many reasons why sites may underperform: Too rapid and indiscriminate expansion, structural changes in demographics and consumer behavior, or simply a business model that's not compatible with the current cost structure.

Sustainability is also a strategic factor

Beyond regulation, voluntary sustainability efforts are becoming firmly established.

Sustainability is a key strategic element for foodservice operators, and there are several aspects to consider. Regulatory requirements are only increasing. In addition to the ban on single-use packaging for food and beverages consumed on-site, restaurants in Spain are required to provide free recyclable packaging for customers to take home leftovers. As part of the value chain, these restaurants are also subject to the European Regulation on deforestation-free products, which requires full traceability of certain inputs.

Additionally, many companies make company-specific pledges. Worldwide, around 40 foodservice entities have joined the SBTi and in the UK, 47 companies have joined the Zero Carbon Forum (some are members of both initiatives). Many companies take additional initiatives ranging from animal welfare commitments to supporting local communities.

How are companies doing?

While some companies are on track to meet their targets, others are moving in the wrong direction. In some cases, this is due to poorly formulated targets (absolute rather than relative targets may be impossible to meet due to expansion). With NGOs and public opinion watching closely, failing to meet voluntary efforts may result in reputational damage and accusations of "green washing".

One of the areas where foodservice operators have improved in recent times is waste management. This is a win-win for operators as it reduces costs, it is driven by legislation and facilitated by technology. In Spain, for example, waste in foodservice declined by 11.3% in 2022, despite a 6% increase in out-of-home consumption.

What about the consumer?

Consumer awareness is high, particularly regarding issues such as negative publicity, plastic usage, local produce, or waste. However, sustainability doesn't seem to be driving consumers' actual foodservice choices. In fact, interestingly, vegan and vegetarian restaurants are struggling in many countries and some have closed down in recent months, be it in Germany, the UK or the Netherlands.

China: Leading players continue to invest with long-term vision despite short-term growth slowdown

Network expansion and infrastructure investment is key to long-term growth

Foodservice demand held up well during the Chinese New Year festive season. However, post-festival sales visibility remains low and a slowdown in growth in Q1 2024 is quite likely as the low base effect fades. Leading QSR players are ambitious in network expansion for market share gain, intensifying competition. Digital and supply chain investments are key to ensuring business resilience.

Demand held up well, but longer-term visibility remains low

According to NBS statistics, foodservice sales saw 30% YOY growth in December 2023, but this growth was based on a low comparable base, as the previous year's sales were relatively low. As a result, the market grew 20.4% YOY in the full year of 2023. However, as the low-base effect diminishes, we expect the growth to slow down in Q1 2024. That said, foodservice demand during the Chinese New Year festive season remained strong, driven by festive get-togethers, rising consumption in lower-tier cities and county-level cities, and a strong recovery in tourism. According to the Ministry of Commerce, large and well-established restaurant chains saw a 17% YOY sales growth during the eight-day holiday. Apart from the strong seasonality, some food options, such as QSRs, remain thanks to the convenience and value-for-money positioning they offer customers (especially during economic downturns).

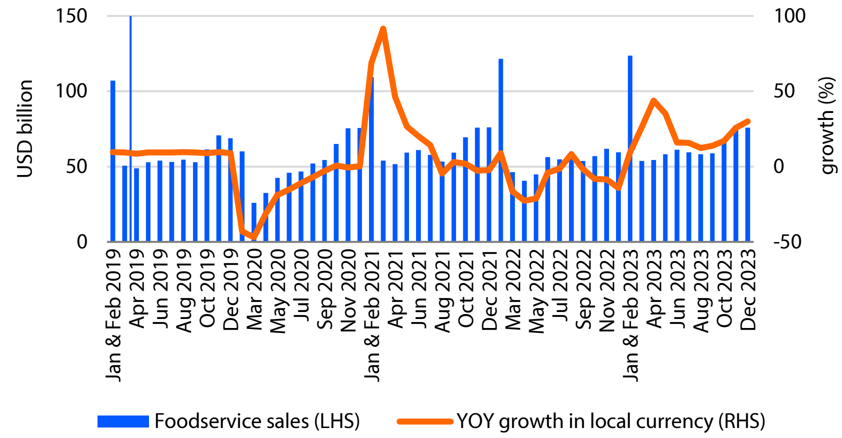
Leading QSR players stay ambitious in their expansion despite economic downturn

Leading players have been expanding networks in recent years, focusing on lower-tier cities, which have lower store density compared to tier-1 and tier-2 cities. In addition, innovation in store format and business model (e.g., franchise models implemented in special channels such as gas stations, campuses, transportation hubs) have been witnessed. Yum China plans to expand by 1,500 to 1,700 stores in 2024 (compared to 1,697 in 2023) and expects to reach a total number of 20,000 stores by 2026. MacDonald's aims to open 1,000 stores in 2024 (compared to 925 in 2023), with a total of 10,000 stores by 2028. However, when international brands tap into lower-tier cities, they face price competition from domestic names that have established a strong presence in lower-tier cities and/or manage to grow rapidly on the back of strong local expertise. The domestic brand Tastien, for instance, opened 3,100+ stores in 2023, outpacing all of its peers.

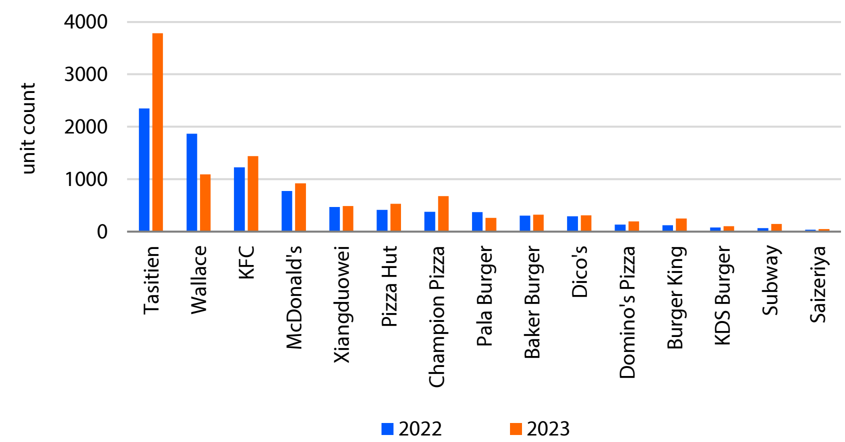
Infrastructure investment to enhance business resilience

Given the fierce competition in the market, leading restaurant operators are proactively investing in back-end infrastructure to ensure long-term business resilience. Investments in automation, digitalization, and supply chain can help in a several ways, including expanding revenue streams (e.g., delivery), improving labor productivity, and ensuring a stable supply of ingredients at optimized prices.

Foodservice sales and YOY growth



Leading QSR players' store opening, 2022 and 2023



Source: *Eurostat, ONS, Rabobank 2024*

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United States: Industry resilient despite softening demand

Restaurants have done an excellent job navigating a tricky market as consumer spending softens

US restaurant demand has slowed as high prices and rising credit card debt are putting pressure on consumers' spending capacity. However, restaurants have weathered the storm with profits improving because of falling food ingredient costs.

Demand growth rate slows as inflation eases

US foodservice sales growth has continued to lose momentum, growing 6% in January after averaging 12% growth through 2023. This is partly the result of easing inflation. According to the US Census Bureau, foodservice inflation in January was 5% YOY, the lowest level since October 2021. Transactions show an even more challenging market. Volumes have been declining since Q2 2023 and continued to deteriorate throughout the year, reaching nearly -4% in Q4. This softening demand is due to higher menu prices, high general inflation, record high US credit card debt (over USD 1 trillion!), and high interest rates, all of which continued to weigh on consumer spending capacity and confidence late last year and early this year. The good news is that consumer confidence is improving, the bad news is that consumers may remain frugal in their spending for months to come.

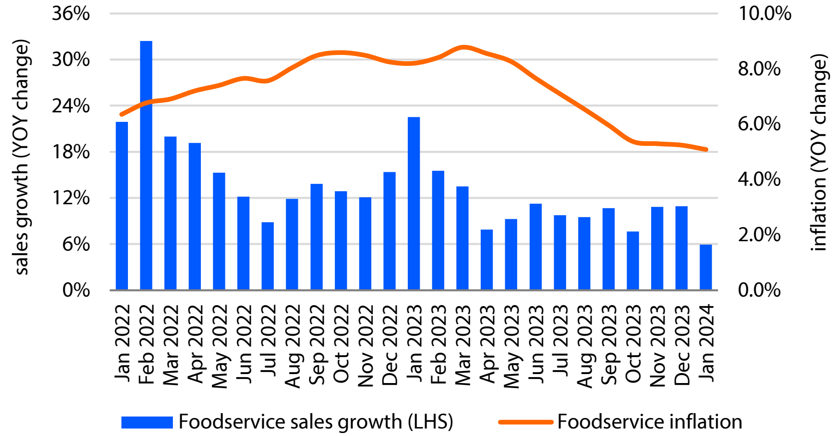
Different restaurant segments have performed similarly, with casual dining experiencing the most significant decline. Transactions are down 5% in the quarter compared to last year. This decline in transactions is likely the result of consumers trading down to less expensive options when dining out. But clearly, that trade down has not been enough to offset falling demand in both QSR and fast casual.

Restaurant sales growth is mixed, but there's margin improvement across formats

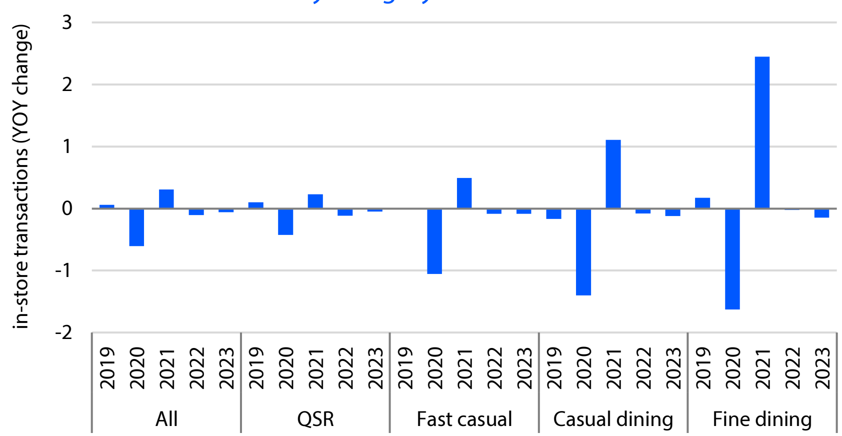
Financially, the industry has shown resilience, with various formats reporting strong revenue growth and margin expansion. We have also seen strategic expansion plans, both domestically and internationally. There is a particular focus on opening new restaurants and entering untapped markets, as well as a significant focus on digitalizing operations and the consumer experience. Fast casual restaurants saw improvements, Chipotle witnessed same-store sales revenues (SSS) growth of 8% and its EBITDA margin increased by 2.4 points to 19.4%. As for Dine Brands, although SSS grew just 0.6%, they managed to increase EBITDA by 3.4 points to 27%. Meanwhile, QSRs also saw improvements also. Yum! Brands saw SSS growth of 6% in 2023 and EBITDA margin increase by 2.4 points to 35.9%, while McDonald's achieved SSS revenues growth of 9% and its EBITDA margin increased from 52.7% to 53.7%.

Margins were helped by subdued commodity prices, which kept the cost of goods lower. In January, the food price index of the Food and Agriculture Organization of the United Nations was down 10% YOY. Rabobank expects core food costs to remain under pressure through 2024, particularly for grain related products, helping restaurant margins. However, revenue growth may be elusive as consumers choose to dine out less often and save their money for splurge occasions.

Foodservice sales growth and inflation



Foodservice transactions by category



Source: *US Census Bureau, Earnest Analytics, Rabobank 2024*

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Appendix

Industry indicators and corporate activity

Consumer indicators: Confidence stable despite low growth

Despite sluggish economic growth, employment remains robust, revenues are increasing, and inflation is slowing. All these changes are modest but positive, and consumers are aware.

Consumer confidence indicators point to stable sentiment

The macroeconomic landscape is lackluster, but the indicators most directly related to consumers are painting a somewhat better picture: Unemployment remains low even in countries that are barely avoiding recession, wages are improving, and inflation is moderating.

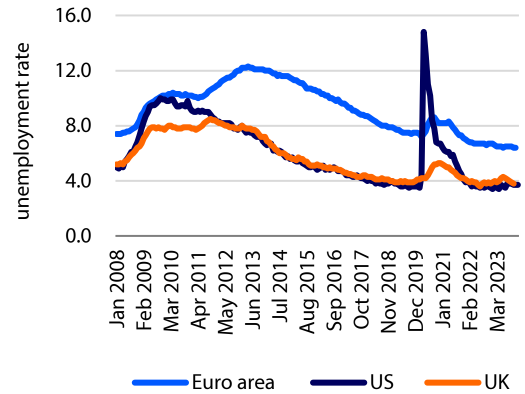
Consumers are aware of that. Confidence indicators, which focus on consumers' expectations about their own household situation, are stable and far from the bottom reached when inflation accelerated. There are also some significant differences between countries. While for most, the confidence indicator about the future household situation is currently similar to levels observed in January 2019 or 2020, it is still lower in some countries, in particular in Germany.

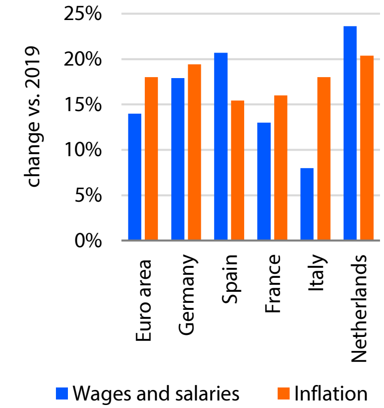
Predicting consumer spending patterns remains challenging

With neither consumer sentiment nor disposable income expected to improve dramatically in the near future, consumers are likely to remain selective in their spending, making choices that are difficult to predict. In addition to the general demand drivers, there a few factors worth considering:

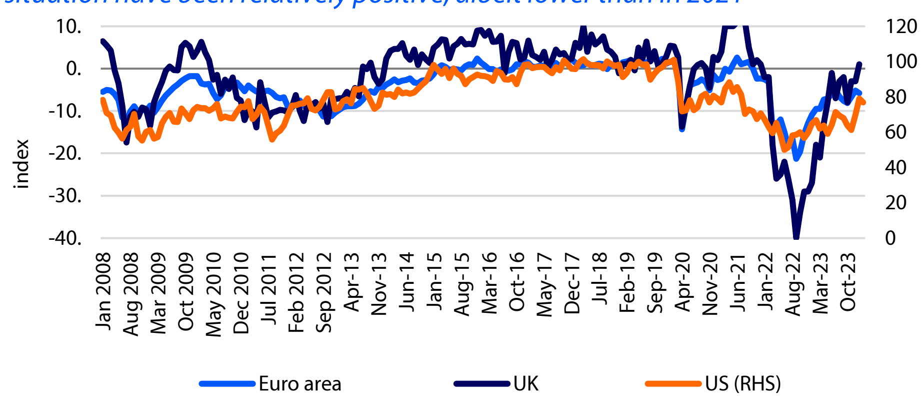
- Working from home impact. Some people are returning to the office two or three days a week due to employer pressure. This shift is already leading to an increase in breakfast and coffee-related trade.
- Holiday spending priorities. Booking indicators suggest that spending on holidays remains a high priority. However, consumers may choose to spend less while away from home.
- Challenges for lowest-income households. These continue to face financial pressure and are avoiding foodservice as they have been hardest hit by the cost-of-living crisis. Menu price increases at the most affordable foodservice options (QSRs) have priced them out of the market.
- Geopolitical disruptions. In an increasingly polarized society, geopolitical factors and politics are influencing consumer choices. This is becoming an additional criterion when consumers decide where to spend their money.

Unemployment expected to remain low, and wages are catching up with inflation





Since the summer, consumer confidence indicators for the future household situation have been relatively positive, albeit lower than in 2021



Source: OECD, Eurostat, ONS, Rabobank 2024

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Corporate activity: Signs of reactivation

Corporate activity is regaining momentum. In the initial weeks of the year, we've already witnessed some strategic deals and private equity transactions. Additionally, if the current announcements materialize, we anticipate IPO activity in 2024.

Higher interest rates, low earnings visibility, and significant valuation gaps between sellers and buyers resulted in a slow deal flow in 2023, both in terms of IPOs and M&A. Activity appears to be picking up in 2024, with deals already closed or announced.

Strategic deals driven by business improvement opportunities

There are some recent examples from around the world: In January, RBI acquired Carrols Restaurant Group, which operates more than 1000 Burger King and 60 Popeyes restaurants in the US. The brand owner plans to invest in site upgrades and technology to accelerate sales growth and increase franchisee profitability. Travel food outlet operator SSP has acquired Airport Retail Enterprise (ARE) in Australia, boosting its activity in the country. And in the UK, contract caterer Compass Group PLC announced in February that it had reached an agreement for the acquisition of UK catering operator CH&Co.

Momentum is picking up among private equity houses

CVC Capital Partners recently announced the acquisition of Italian restaurant chain La Piadineria. Meanwhile, according to the local press, H.I.G. Capital is exploring the sale of its majority stake in Quick Restaurants France. Additionally, following its acquisition spree in 2023, German McWin has now added sushi restaurant group Sticks'n'Sushi to its portfolio in 2024.

We expect more IPOs in 2024

In the US, Panera Brands' IPO is in the making, Roark Capital is considering taking Inspire Brands public, and Twin Peaks could also come to the market in 2024. In Asia, QSR owners are considering IPOs as the market improves, with Wendy's and Conti's Bakeshop as potential candidates in the Philippines and delivery platform Swiggy in India.

Insolvencies continue to provide investment opportunities

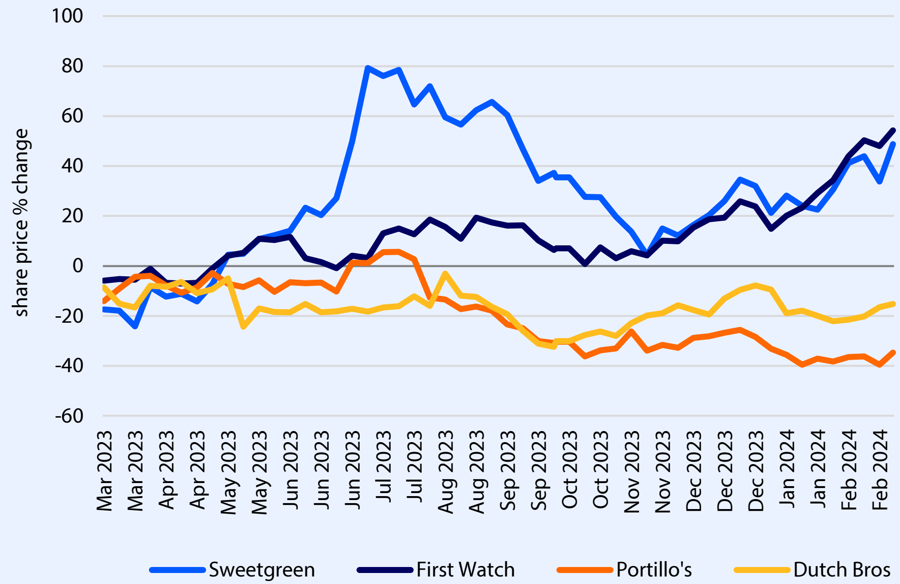
In Spain, Tastia group, which owns Muerde la Pasta restaurants and ready-meal production plants, has been acquired out of administration by local investors with a portfolio in food-related activities. Meanwhile, Abu-Dhabi-based virtual brand operator The Cloud, recognized an international expansion opportunity and acquired ghost kitchen business Kbox Global in the UK through a similar transaction. Current trading conditions may prove too challenging for struggling operators, creating new business opportunities for investors along 2024.

Restaurant share prices in the US

Recently, listed restaurants have experienced mixed share price performance, perhaps because actual financial performance in the industry is also very mixed. Success in the restaurant business is notoriously challenging and has been exacerbated by recent economic factors, higher interest rates, volatility in COGs, fickle consumers, and labor costs.

Yet demand for food away from home has been more resilient then expected due to consumers' desire for experiences. However, in 2024, consumers are expected to be reluctant when it comes to dining out.

We will be monitoring if Panera goes public to see how it performs in terms of share price.



Source: Pitchbook , Rabobank 2024

Contact details

Rabobank Wholesale Rural and Retail

RaboResearch Food & Agribusiness
Consumer Foods sector team

Utrecht office:
Croeselaan 18
Utrecht 3521CB – The Netherlands

Rabobank Hong Kong:
Telephone +852 2103 2431
13/F, One Pacific Place
Hong Kong

Chicago office:
150 North Riverside Plaza
Chicago, Illinois 60606 – US

Rabobank

Rabobank

Thomas Bailey
Senior Analyst

Telephone *+1 212 916 7831*
Mobile *+1 331 212 1077*
Email *Thomas.Bailey@rabobank.com*

Rabobank

Rabobank

Maria Castroviejo
Senior Analyst

Telephone *+31 30 71 23811*
Mobile *+31 612 44 68 48*
Email *Maria.Castroviejo@rabobank.com*

Rabobank

Rabobank

Rena Ma
Analyst

Telephone *+852 2103 2431*
Email *Rena.Ma@rabobank.com*