RESTAURANTS ARE THE NEW RETAIL

WHAT HAPPENS WHEN SUPPLY OUTPACES DEMAND?

EXECUTIVE SUMMARY

Beginning in 2008, the retail landscape in America drastically changed, with both large-scale retailers (Toys R Us, Sears) and mom-and-pop shops shutting their doors as oversaturation and the onslaught of e-commerce options made staying in business impossible. In their wake, a new wave of restaurants was born, taking advantage of low rents and investor interest. Now restaurants are facing the same oversaturation and decline in growth and profitability. What can they learn from what retail has gone through? Who survived the "retail-pocalyse" and why ... and how can restaurants use those lessons to save themselves?

After a prolonged stretch of explosive growth, fueled by interest from Wall Street, experts say there are now too many fast-food, casual and other chain restaurants.

THE STORY OF RETAIL

The advent and widespread adoption of e-commerce, particularly the looming force of Amazon, is usually credited with the retail industry's collapse. But the real story is a bit more nuanced. From 1970 to 2015, malls grew at twice the rate of the population, resulting in far too much retail for far too few people. The resulting closures are less of an unexpected apocalyse and more of a course correction. **(source)** As Neil Blumenthal, president of Warby Parker, so succinctly put it: "It's not the end of retail, it's the end of bad retail."

THE SEQUEL: RESTAURANTS

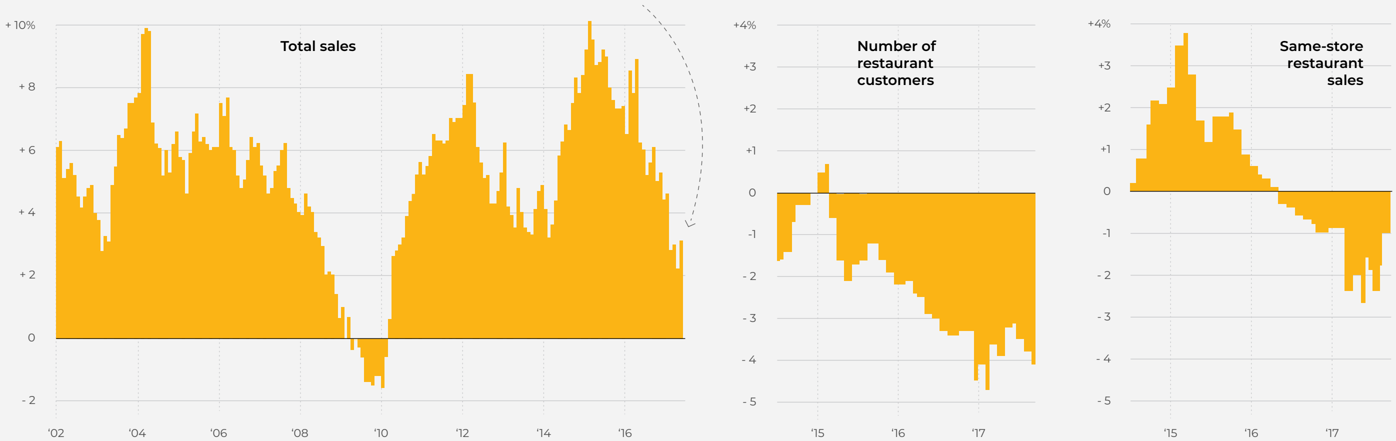
The retail correction created additional space in the market that was quickly filled by an explosion of food and beverage, particularly fast casual. Barriers to entry for restaurants were lowered, landlords were suddenly agreeable to much more favorable terms, and many new brands and concepts were born. "In 2017, everything changed in New York City," says Sisha Ortúzar, co-founder of 'wichcraft. "Suddenly landlords were going out of their way to get tenants and rents definitely adjusted."

What is happening now should come as a surprise to no one. Restaurants, having learned nothing from retail's contraction, are now themselves growing at twice the rate of the population. There are too many options, too few customers, and not enough money to go around. "The structural headwind is there are a lot of seats out there," Eugene Lee, the chief executive of Olive Garden's parent company, told investors last month. **(source)**

CUSTOMERS AND SALES IN NEGATIVE TERRITORY

Overall restaurant sales are growing, but the pace is the slowest it has been since the recession...

... while individual chain restaurants have reported drops in customers and sales.



Notes: Retail trade and food service sales are year-over-year changes in rolling three-month averages. Number of customers and same-store sales are monthly changes in three-month moving averages.

By *The New York Times* | Sources: Census Bureau; TDn2k "Restaurant Industry Snapshot"

Another correction is coming. And this time it's coming for our food.

THE RESTAURANT CORRECTION

To paraphrase what Neil Blumenthal said about retail, restaurants won't die, but bad restaurants will die. "Like the retail industry, the restaurants that fall into the 'ugly middle' won't last," says writer and trend analyst Jess Kimball Leslie. The market will become bifurcated, with some food service establishments focusing only on speed and accessibility and others finding ways to elevate the in-person experience.

Those restaurants that choose the path of speed and accessibility will be playing the role that e-commerce played in the retail story. (Domino's, with its focus on technology, seamlessness, and even drones, is a leader in this space.) And players like Walmart and Amazon (especially its Whole Foods component) will revolutionize access to semi-prepared foods through grocery channels.

The rest of the market will have one of two choices, says 'wichcraft's Ortúzar: adapt or die. "There are those who are prepared for what's coming and are willing to change to meet it, and those who are not prepared," he says. "Only one group will survive."

THE WAY FORWARD

The silver lining for the restaurant industry is that retail did it first. Restaurants can learn from what they went through, predict what's going to happen next, and imitate those that figured out how to make it work. Why have some chains completely collapsed and others been able to survive despite the forces working against them? What separates those that are still here from those that are not? Let's find out.

First, we look at three ways that retailers have thrived despite the forces against them, and apply those learnings to restaurants.

RETAIL LEARNING #1

DIVERSIFY YOUR REVENUE SOURCES

With increased competition and decreased foot traffic (because there are fewer retail neighbors to drive it), restaurants can no longer count on generating all of their revenue from passersby. They have to find other ways to make the numbers work.

DIVERSIFIED REVENUE IN RETAIL

The incredible experiment in LA called Popuphood gives us proof that diversifying revenue streams can be an effective real-world strategy. Launched in LA in an attempt to revitalize a dying neighborhood, Popuphood is a program that removes barriers for new retail entrants by giving innovative owners six months rent-free to get started. Some retail stores were able to convert their first six months into a lasting business, and some were not. Those that prevailed “turned their stores into experiences ... [they] go beyond brick-and-mortar: they have online stores, wholesale businesses, blogs, and Instagram accounts. They hustle like crazy.” **(source)** Popuphood is a perfect demonstration of what types of retailers survive when the playing field is equal: those willing to adapt.

DIVERSIFIED REVENUE IN RESTAURANTS

LA-based Moon Juice realized before most people did that juice shops were not a sustainable business model - they had become elitist, overpriced, and oversaturated. Rather than shutting her business and moving on, the owner Amanda Chantal Bacon noticed that her packaged supplement powders were selling well and generating buzz. She started focusing on creating a wholesale herbal supplement business in addition to her shops, with fantastic results. Today, her Moon Juice shops still exist, but only because Bacon has adjusted her business model to leverage the brand in a different category altogether. **(source)**

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RETAIL LEARNING #2

CREATE CONNECTIONS ON A HUMAN LEVEL

As Amazon/Whole Foods, Walmart, and other convenience and value plays continue to creep into the territory once occupied solely by restaurants, eateries will have to find a way to offer more human-based knowledge, connection, or experiences, just as successful retail stores offer something that their digital competitors can't.

HUMAN CONNECTION IN RETAIL

Globetrotter, a sporting goods store in Munich, has brought the outdoor in with a rain chamber, kayaking pool, climbing wall, and high-altitude cold chamber, allowing customers to try the gear they sell in real-life conditions before they purchase. There's also a doctor's office on site to provide vaccination and other travel-related medical advice. Amazon can't do that (yet).

HUMAN CONNECTION IN RESTAURANTS

Sweetgreen is selling a hard-to-love product (salad) in a crowded market (fast casual lunch). But somehow they have managed to achieve a cachet and a loyal following versus very similar competitors (often located on the same block!) by going beyond just selling a product. Years ago, when they opened their second location in Washington, DC, they couldn't convince customers to come in. So they "set up a big speaker outside and blasted music every weekend," co-founder Nicholas Jammet says. "We also gave a lot of samples to the people who came to hear the music, and once we got the customers, we kept them." **(source)** Sweetgreen went beyond serving food to serving their customers an experience they couldn't get elsewhere, and definitely couldn't get at home.

RETAIL LEARNING #3

DIFFERENTIATE

The only way to survive restaurant oversaturation is to build a meaningful brand that sets your restaurant apart from the others. “With ‘regular’ customers less common due to the number of options available, acquisition is increasingly important,” says Andrew Martino, principal at Martino Hospitality Consulting and founder of Ghost Truck Kitchen. “Strong branding is definitely a way to make yourself stand out, particularly if your competition is not well-branded.”

DIFFERENTIATION IN RETAIL

Target, the darling of big-box stores at the turn of the century, lost its luster through the 2000s as it tried to match competitors like Walmart, Kohl’s, and eventually Amazon on prices. Losing the cachet that had earned it the moniker *Tar-zhay*, it became just another discount store. Now, with a new CEO on board, Target is reminding customers why it’s different. They focus on their private label products, investing money behind brands like Cat & Jack, its children’s clothing line, to build brands that mean something to customers. **(source)**

> The idea that everybody needs to be terrified of Amazon is completely wrong. Everybody needs to figure out what makes them special and use those weapons to compete.

BRIAN SPALY, COFOUNDER OF BONOBOS AND TRUNK CLUB

DIFFERENTIATION IN RESTAURANTS:

Oversaturation hit “better burger” concepts particularly hard. BurgerFi , a fast-casual chain that launched in Florida in 2011, has been able to break through the burger clutter and become one of the fastest-growing food chains in the U.S. by using its differentiated product to build a unique brand. Its marketing focuses on the fact that its beef is in the top 1% of all beef worldwide, giving BurgerFi a way to truly differentiate itself from almost-natural competitors.

THE TAKEAWAY

Every restaurant has an opportunity to adapt to the new environment they find themselves in – either by diversifying, connecting more deeply with customers, or differentiating. Those that do will survive the industry contraction and emerge on the other side with fewer competitors. Those that don't will likely struggle to succeed in the new world.

METHODOLOGY

The collapse of retail and the resulting boom in restaurants has been well-documented. We wanted to move the conversation forward by examining what we think will happen next and by drawing parallels between the two industries. In order to take a deeper look, we conducted research interviews with three of the industry's most forward-thinking experts:

1. **Sisha Ortúzar** - Sisha co-founded one of the first fast casual concepts, 'wichcraft, and grew it to 17 locations.

2. **Andrew Martino** - Andrew is a principal at Martino Hospitality, a hospitality consulting agency, and is the founder of Ghost Truck Kitchen, a brand-new food concept inspired by food trucks and made just for takeout and delivery.

3. **Jess Kimball Leslie** - Jess is a writer and futurist who has been featured in *Wired*, *Reuters*, *Elle*, *Newsweek*, *The New York Times*, *US News & World Report*, *TechCrunch*, *New York Magazine*, and *Forbes*. She is currently writing a book about the future of the American economy explored through the lens of retail.

PARTNERS + NAPIER

KEY CONTACT

Mallory Diamond
New Client Relations

1 (585) 340-9422
mallory.diamond@partnersandnapier.com