

THOUGHT LEADERSHIP FROM THE BDO RESTAURANT PRACTICE

BENCHMARKING UPDATE

SEGMENT AVERAGES Q1-16

	SAME STORE SALES		COMMODITY PRICE INDICES FLUCTUATIONS		
	Thru Q1 2016	FY 2015	Thru Q1 2016	FY 2015	
QUICK SERVE	2.8%	4.2%	BEEF	-14.7%	3.3%
FAST CASUAL	0.4%	4.5%	POULTRY	-4.9%	-1.6%
CASUAL	0.0%	1.6%	PORK	-4.8%	-23.4%
UPSCALE CASUAL	1.0%	1.6%	CHEESE	-3.6%	-13.5%
PIZZA	2.7%	6.4%	WHEAT	-5.8%	-10.0%
GRAND AVERAGE	1.0%	2.9%	BASKET	-3.3%	-3.4%

Source: data.bls.gov

	COST OF SALES					
	Thru Q1 2016	Thru Q1 2015	Inc. (Dec.)	FY 2015	FY 2014	Inc. (Dec.)
QUICK SERVE	30.0%	31.8%	-1.8%	31.2%	32.1%	-0.9%
FAST CASUAL	30.1%	31.0%	-0.9%	30.5%	30.9%	-0.4%
CASUAL/UPSCALE CASUAL	28.1%	28.5%	-0.4%	28.5%	28.8%	-0.3%
PIZZA	25.5%	26.1%	-0.6%	25.8%	27.7%	-1.9%
GRAND AVERAGE	28.8%	29.7%	-0.9%	29.4%	29.9%	-0.5%

	LABOR					
	Thru Q1 2016	Thru Q1 2015	Inc. (Dec.)	FY 2015	FY 2014	Inc. (Dec.)
QUICK SERVE	29.8%	29.1%	0.7%	28.4%	28.6%	-0.2%
FAST CASUAL	29.1%	28.0%	1.1%	27.9%	27.8%	0.1%
CASUAL/UPSCALE CASUAL	31.6%	30.9%	0.7%	31.2%	31.2%	0.0%
PIZZA	30.7%	29.7%	1.0%	30.2%	29.5%	0.7%
GRAND AVERAGE	30.5%	29.7%	0.8%	29.7%	29.7%	0.0%

	PRIME COSTS					
	Thru Q1 2016	Thru Q1 2015	Inc. (Dec.)	FY 2015	FY 2014	Inc. (Dec.)
QUICK SERVE	59.8%	60.9%	-1.1%	59.6%	60.7%	-1.1%
FAST CASUAL	59.4%	59.1%	0.3%	58.6%	58.8%	-0.2%
CASUAL/UPSCALE CASUAL	59.7%	59.5%	0.2%	59.7%	60.0%	-0.3%
PIZZA	57.5%	56.9%	0.6%	57.1%	58.5%	-1.4%
GRAND AVERAGE	59.5%	59.6%	-0.1%	59.3%	59.8%	-0.5%

HOW DO YOU COMPARE TO YOUR COMPETITION?

Through Q1 2016, the restaurant industry struggled to maintain flat to positive same-store sales for each segment. Many companies attribute their same-store sales increase more to higher menu prices than traffic growth. The companies offering innovative products with a value proposition are experiencing the most traffic growth.

The quick-serve and pizza segments saw the most significant growth in same-store sales at 2.8 percent and 2.7 percent, respectively. Sonic led the quick-serve segment, reporting same-store sales of 6.5 percent. The chain recently implemented initiatives to improve product quality, place an emphasis on personalized service, add new technology and focus on media strategies. Meanwhile, Domino's Pizza led the pizza segment with a 4 percent increase. It has sustained strong growth by focusing on the digital customer experience and by continuing to innovate, demonstrated by the recent unveiling of the Domino's DXP – or "The Ultimate Pizza Delivery Vehicle" – which includes a warming oven.

The fast-casual segment only averaged a 0.4 percent increase in same-store sales, despite a successful quarter for most of the segment. While Shake Shack and Wingstop reported growth of 9.9 percent and 9 percent, respectively, Chipotle Mexican Grill's 29.7 percent decline worked against the segment's average. The brand continued to experience lower guest traffic related to last year's foodborne illness outbreaks. This also impacted the company's labor costs, up 8.5 percent in Q1.

Labor costs rose across all segments as companies paid higher wages to secure employees in a tough labor market and continued to incur costs related to the Affordable Care Act. New minimum wages in many states also pushed up labor. On the other hand, in an encouraging sign for the industry, cost of sales declined across all segments as commodity prices continued on their downward trend. Beef led the way with a substantial 14.7 percent decrease in Q1, compared to 2015.

Looking ahead, we expect restaurants to continue focusing on controlling costs through strategic inventory and labor management, as well as leveraging technology to drive higher profit margins. Depending on the proactive measures restaurants take to restructure their exempt positions, the industry could be significantly impacted by the new overtime rule that was recently finalized by the U.S. Department of Labor. The rule goes into effect Dec. 1, 2016.

About this update

Each quarter, BDO's Restaurant Practice compiles the operating results of publicly traded restaurant companies to provide you with timely benchmarking information. Our past benchmarking surveys of medium-sized private companies indicated, on average, their prime costs were higher than public companies by 1-2 percent. However, high-quartile participants (best performing) in our surveys had prime costs 3 percent lower than the average public company.

Cost of sales includes food and beverage for all segments. Quick-serve and fast-casual segments also include packaging costs. Labor costs include restaurant level wages, payroll taxes and benefits.

**Prior results have been restated to conform to current-year data availability.*