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It's 2020 and Restaurant Strategy Has Just Been Changed Forever: Convenience Seekers vs. Experience Seekers

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The restaurant industry is undergoing a tectonic shift as 2020 begins. Traditional segmentation is evolving from the supply side of Full Service vs. Quick Service providers to the demand side of Experience Seeking vs. Convenience Seeking consumers. Restaurant executives and the companies they lead will need to pick one path or the other, like playing tennis, success can't be found in the middle.

Twice in my lifetime, the restaurant industry has undergone a transformational change. Change so radical that the very perception of how we eat food which we did not prepare for ourselves is completely altered. The first began in 1954 with the birth of the fast food restaurant, and here we are in 2020 in the middle of the second of those periods of change as delivery invades the dining space. The National Restaurant Associations' Hudson Riehle says that today represents a tipping point for the industry, with the ultimate convenience of restaurant meal delivery creating "essentially a new business model."[i]

It is important to consider how once massive change like this occurs there is no going back to the way things used to be. Yet it is also important to realize that once the industry is disrupted, neither the traditionalist's model nor the disruptor's model is going to be successful at crossing over into the other's domain. History tells us that decades after the first paradigm shift no full service restaurant companies have grown into leaders in quick service, just as no quick service restaurants have transitioned to become leaders in full service. As Michael Jordan proved, being great at basketball doesn't mean one will be good at baseball.

There are two key factors in this shift. First, any single consumer may at any given time be both a Convenience Seeker and an Experience Seeker, there are no limited boundaries on their demand characteristics. Second, as suppliers trying to match these demands, no restaurant provider can say the same, they will have to focus on one or the other.

This idea is crucial to understanding that as we move to a new market structure we can predict with some certainty that none of today's "Experience Based" restaurant companies –

those built with on-site customer interaction – will master the “Convenience Based” realm of on-line ordering and delivery. The same holds true in the other direction, no Online Delivery Partner (ODP, *see BHR Winter 2018*)[ii] is likely to master the necessary skills to win over the Experience Seeker’s expectations.

As many have found out, attempting a blended mix (playing the middle) of dine-in Experience Based service and time sensitive Convenience Based food offerings will not be the solution. As the cliché goes, no one can serve two masters. One example from history: Pizza Hut, once the dominant #1 in the dine-in and take-out pizza business decided to compete head to head with fast growing Domino’s. At the time the pioneer in delivery, Domino’s, was built on a “30 Minute or Free” time-based convenience model. Attempting to use their vast market reach advantage in traditional dine-in Red Roof Inn locations, Pizza Hut simply added a delivery option out of the same production facilities.

Today, the Red Roof Inn model is in steep decline, and Pizza Hut has slipped to second place in global sales. Domino’s is the world’s largest “IT company that sells pizza” and as Alicia Kelso writes in Forbes, “Some initially balked at this declaration. After all, the purpose of a restaurant brand is to focus on the industry cornerstones: food and service.” But, as former CEO Patrick Doyle noted, “Delivery aggregator economics remain challenging and unproven, and those making attempts to succeed in this space are likely realizing something we have known for almost six decades; delivery is hard.”[iii]

Interestingly, as Pizza Hut abandoned their Experience Based advantage to switch to QSR/delivery, they opened a market opportunity for the explosion of dine-in Fast Casual pizza start-ups such as Mod Pizza and Blaze Pizza. As Restaurant Business’s Jonathan Maze observed in late 2019, “Pizza Hut’s U.S. business is in for a tough ride over the next couple of years as the company works to shift the brand further away from its traditional dine-in locations toward more takeout and delivery units.“[iv] The lesson is that Pizza Hut has lost its Experience Based leadership and will never be able to catch up in Convenience Based offerings.

It should be noted, going in the other direction, from Convenience Based to Experience Based is also all but impossible. The most obvious examples here are in the numerous times that McDonalds and Burger King have attempted with little success to offer table side dinner service in a quick service model.

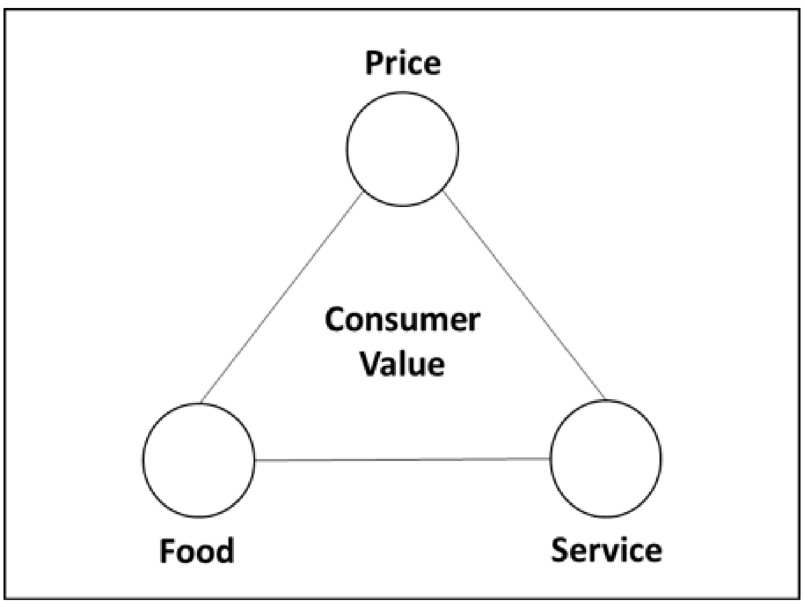
The First Disruption – Full-Service to Self-Service

There once was a time when there were no “fast food” restaurants, no multi-billion-dollar QSR giants dominating the global industry, no Big Macs or Whoppers. Then, starting around 1954 and continuing for about two decades, evolutionary change came slowly for traditionalists and industry insiders. Until then we only had two genteel category choices for dining out, Full Service Restaurants (also called White Tablecloth or Fine Dining) and Limited Service Restaurants (typically called Coffee Shops or Diners). The National Restaurant Association reports that the total share of restaurant revenues of the total food dollar in 1955 was estimated to be about 25%, meaning about three-quarters of all meals consumed were prepared at home. Today that estimated share is 51% of an enormously larger total market and does not include meals bought at supermarkets and grocery stores in a ready-to-eat format.[v]

For the consuming public, the change could not have been fast enough because suddenly, one day, there they were on every corner across America. A brand-new kind of offering, a “self-service” place selling industrialized menu items so inexpensive that a complete meal could come with “change back from your dollar.” To many people these weren’t “real” restaurants, a restaurant required waiters and waitresses.

Reluctantly for purists, the entire definition of what it meant to be a restaurant had to change. No longer did we need to sit down at a table, a booth, or at the counter and be served our food. Instead, customers could just walk right up to the window and order a bagful of burgers and fries and eat wherever and whenever they desired. Fast Food Restaurants liberated the dining public to change the rules of how we all ate forever. Lower prices were a tradeoff incentive to waiting in a queue and time became a hidden proxy, a third factor, in determining value, joining food and service as the drivers of dining choice. Convenience was simply defined by many people as “not having to wait for the waiter to bring me the check,” as it became a consumer decision variable.

Gradually, over the next 60 years or so, as independent “Mom & Pop’s” of all kinds were replaced by corporate chain owned or multiunit franchise models, menu complexity expanded as consumers experimented with exotic cuisines and service styles.



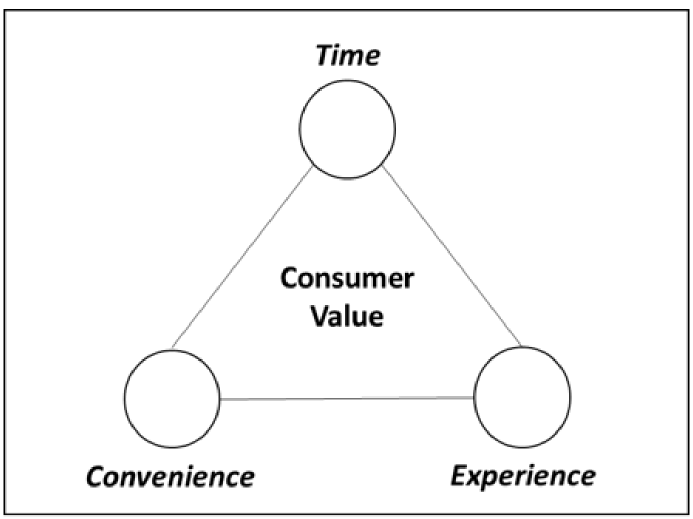
Traditional Base for Restaurant Value

A new segmentation strategy for the restaurant industry unfolded. New business models altered the reality of traditional food and labor cost equations, as did the perception of the time it took to dine out. Full service Casual Theme restaurants such as Olive Garden and Outback Steakhouse lowered menu prices and redefined labor productivity measures, which encouraged growing families to eat out more often. But these places were still traditional restaurants with paid staff bringing meals to a table and handing us a check before we left. At the same time, Fast Casual restaurants such as Panera Bread and Chipotle gave us the opportunity to find new made-to-order options in nicer physical settings, but they were still self service restaurants requiring us to wait in line to order and pay. For all intents and purposes, restaurants were either full-serve or self-serve, and all required an active face-to-face interaction with a customer "inside the last square meter" – the distance between server and guest.

That was until Steve Jobs introduced the iPhone on January 9, 2007 and everything changed.

The Second Disruption – Experience to Convenience

With the rapid acceptance and complete market saturation of smart phones came the APP and the APP begat the Online Delivery Partners (ODP) in 2018. Today, while online and mobile ordering still only account for about 10% of all restaurant sales, or roughly $35 billion in the United States that is predicted to blossom to more than $350 billion by 2030.[vi]
The most important outcome of the consumer's desire for frictionless ordering of home and off-site delivery is it has created a second tectonic shift in the restaurant environment. This is not unlike the earlier shift from the supply-side economic model of traditional dine-in restaurants to a more demand-side and consumer driven model of self service, but it now presents an entirely new trajectory.



Evolving Base for Restaurant Value

The most critical lesson, yet to be fully comprehended by traditionalists in the industry, is that delivery needs to be viewed strategically as a different business model than any form of on-site dining. Delivery is a hybrid form of consumption, both full-serve (the meal is brought to the customer) and self-serve (the consumer independently controls the means of ordering). This distinction, that a new model has evolved, carries with it the challenge of higher costs and lower margins. This portends a time in the near future when the entire “middle” of the traditional restaurant business (where net profits are often well under 10% annually) will simply disappear. Restaurants are no longer competitive if they do not offer enough memorable “Instagrammable” experiences or they are unable to afford the added costs of convenient and reliable delivery over a sustainable time period.

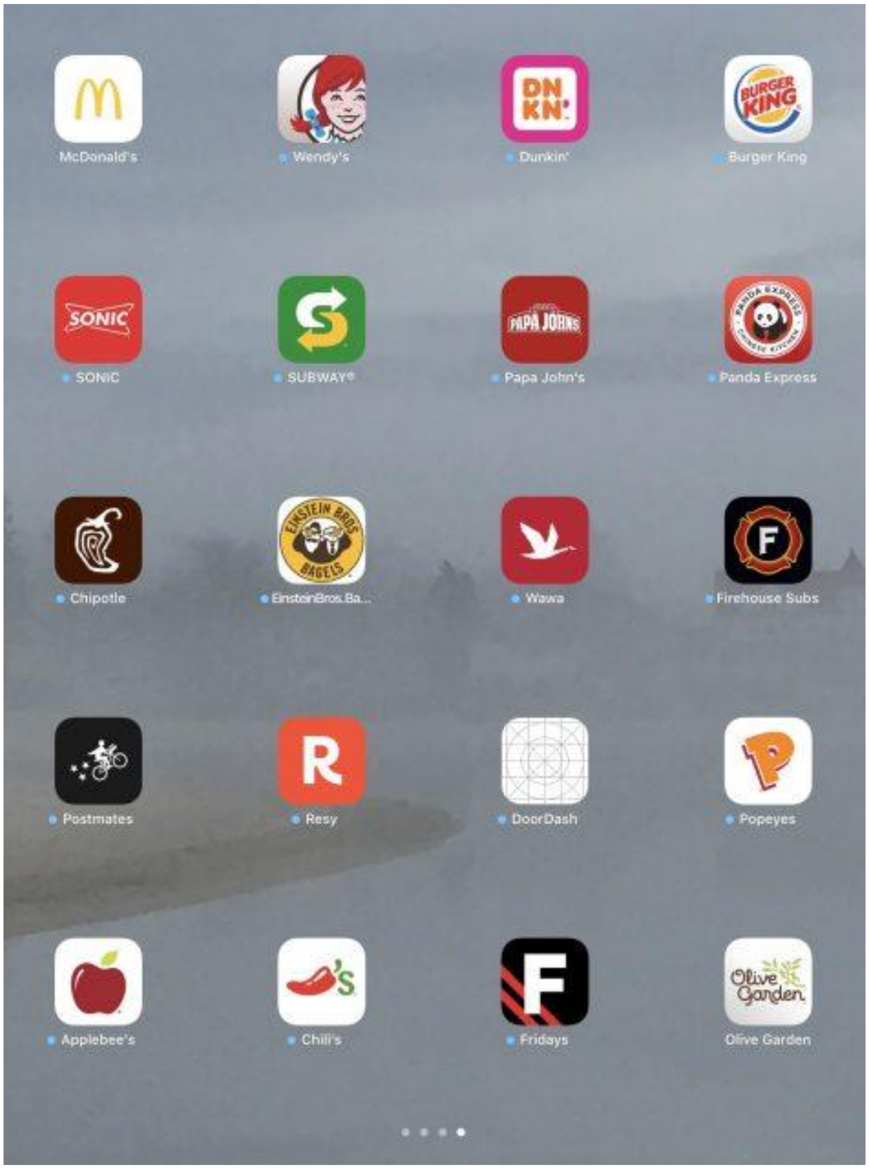
The New Economic Rules

So, here is why this is an important distinction – the old economic formulas built around the Law of Supply and Demand and calculated on the balance of monetary Price and physical Quantity are not the only way to determine consumer Value. Time has always been a cost determining variable, whether when making a reservation for dinner at a high-end bistro on Saturday night or checking the number of cars in the drive-through at McDonald’s. Ritch Allison, CEO of Domino’s Pizza has said, “Our brand was built almost 60 years ago on getting pizza to you in 30 minutes or less. That is no longer good enough. If we really want to win, we got to get pizza in 25 minutes or 20 minutes, or faster.”[vii] Paradoxically, in this new shifting marketplace, Time as a consumer investment has become a proxy for both Convenience Based and Experience Based restaurant purchases.

The Convenience based are time sensitive users, they are seeking to *minimize* the time it takes to search for, order and consume a meal. The latter, Experience based are time insensitive users, seeking to *maximize* the time they are engaged in the entire meal encounter. In this new world, to the first group time is an encumbrance to an often impulsive purchase and is therefore of the essence, even though it may come at a premium price (think of the fees for delivery). For the second group, time is an enhancement for an often indulgent purchase and is therefore to be extended, even though it too may come at a premium price (think of inflated menu prices at luxury clubs).

The Changing Decision Variables – Place, Value, and Purpose

There is a chart attached here, called “Decision Variables for the New Restaurant Consumer” with observations about how this new market segmentation is unfolding. As time and the market evolve, these variables will become more clearly defined. For now, we see that customers are responding to new technology by choosing new meal purchasing forms. The “Place” of purchase has changed. Where just a decade ago companies determined that physical restaurant brand design was crucial to competitive differentiation, for many consumers today the restaurant brand (or the ODP they use to order from it) is a tiny thumbnail icon inside their mobile phone or tablet device.



The new Convenience Seekers are those new consumers who: 1) put the most value on dining away from a restaurant environment itself, typically in a home or office; 2) find value not in paying the lowest price for a balance of food and service, but are willing to pay a premium fee above posted menu prices to have a meal brought to whatever location suits them; and 3) are more driven by occasion, especially on an impulse, than a traditional daypart associated with a restaurant experience. This new mindset can be simply summed up as “I want it now, I want it here, and I’m willing to pay for it.”

When we consider the Experience Seekers, it is easy enough to categorize them as a more traditional dining guest interested in the combination of: 1) food quality, mostly prepared at the point of purchase and consumption; 2) service from a person who is interactive and present (which includes the drive-thru); and 3) the ambiance created by a designed common physical space, a location not confined to fine dining or quick service. For example, Howard Shultz, the leader of the Starbucks coffee revolution described their shops as a “third place” because they are public spaces to gather that are neither home nor work. The attention to design details to create this kind of welcome, even for just a $3.00 cup of coffee, also creates higher experience value for a select group of patrons. This more traditional mindset can be simply summed up as “I want it to taste good, I want it to feel personal, and I’m willing to wait for it.”

What has evolved is the contrast between the Convenience Seeker creating their own “Private Dining Room” in home or office without the trouble of leaving, and the Experience Seeker creating their own “Public Living Room” as a place where single diners looking for social contact or large groups of friends may all congregate to be either alone or together. Both places, the private and the public, satisfy the needs of the defining global demographic trend towards older, single member, or childless households.[viii]

The Way Forward – Two Paths and a Redefinition of the Restaurant

So, what does this mean for 2020 and beyond? The new technologies lumped together into "Social Media" will continue to open business opportunities for restaurant enterprises who have the ability to survive in a new competitive environment. There will be two diverging paths each made up of newly defined segments for these opportunities. Neither is better nor worse than the other, but they are no longer the same product and therefore will require different skills and approaches to be successful.

Taking the one path are convenience seeking, media savvy diners using new frictionless mobile ordering protocols, consuming crowd-sourced visual content while uploading their personal data to be aggregated by companies preparing meals in dark or ghost kitchens to then be rapidly delivered by temporary, independent contract workers. As Charlie Morrison, CEO of Wingstop notes, "We partnered solely with DoorDash. What we found with them was a willingness to be the logistics solution for Wingstop delivery …The restaurants are really the points of production."[ix] Time and logistics will matter most.
Alternately, taking the other path are experience seeking, media savvy diners using the new highly interactive sticky ordering systems at a location-dependent point of purchase, while creating crowd-sharing visual content for uploading to a social network as on-site personalized messaging enhances the experience of a meal dramatically prepared in front of them by highly paid service entertainers. While talking about the retail shopping experience (not a dining one), Eric Lindberg, CEO of Grocery Outlet pointed out, "If you want us, you gotta come to us."[x] Social interaction and the place will matter most.
This is a time of great change for the restaurant industry. Choose now to survive: which customer will you serve, the Convenience Seeker or the Experience Seeker? No one can serve two masters.

Decision Variables for the New Restaurant Consumer

Convenience Seekers	Experience Seekers
Focus: The Private Dining Room	Focus: The Public Living Room
"Brands Inside" mobile devices	"Brands Inside" physical spaces
High Value = Time *vs* Quality or Price	High Value = Social Quality *vs* Time
Frictionless Purchasing	Interactive Exchanges
Social Media as Decision Driver	Social Media as Experience Enhancer
Content Consuming	Content Creating
Logistics Dependent	Location Dependent
Big Data Sharing	Small Data Personalization
Ghost or Dark Kitchens	Open or Theatrical Kitchens
Sustainable Packaging Design	Energy Saving Production Design
Temporary/Casual/Gig Labor Driven	Employee Engagement/Retention Driven

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The Author welcoming guests to a Fine Dining Experience

Citations

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[v] NRA stat

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