Foodservice Industry: Performance & Projections

IFDA
international foodservice distributors association

The foodservice industry has faced a seemingly never-ending string of challenges over the past several years.

Pandemic. Labor. Rising costs. Supply chain. Inflation. Recession?

But through it all, the industry has been incredibly resilient, and consumers have shown steady demand for foods and beverages prepared away-from-home. But as economic headwinds expand to include more consumers, will we see a shift in behavior? This overview will highlight recent industry performance and forecasts for the foodservice industry.

Technomic®

The International Foodservice Distributors Association (IFDA) and Technomic have developed this brief on recent industry performance and the most current foodservice projections. This data is intended to help sales and marketing personnel recognize and better understand the trajectory of the foodservice business. This brief is meant to serve as an educational tool for distributors as they survey the foodservice landscape. With up-to-date insights, distributors can best position solutions directed at operator partners.

INDUSTRY SALES

The chart below shows the current Technomic Index (TIndex), which represents total foodservice industry sales reported monthly, comparing year-over-year performance.

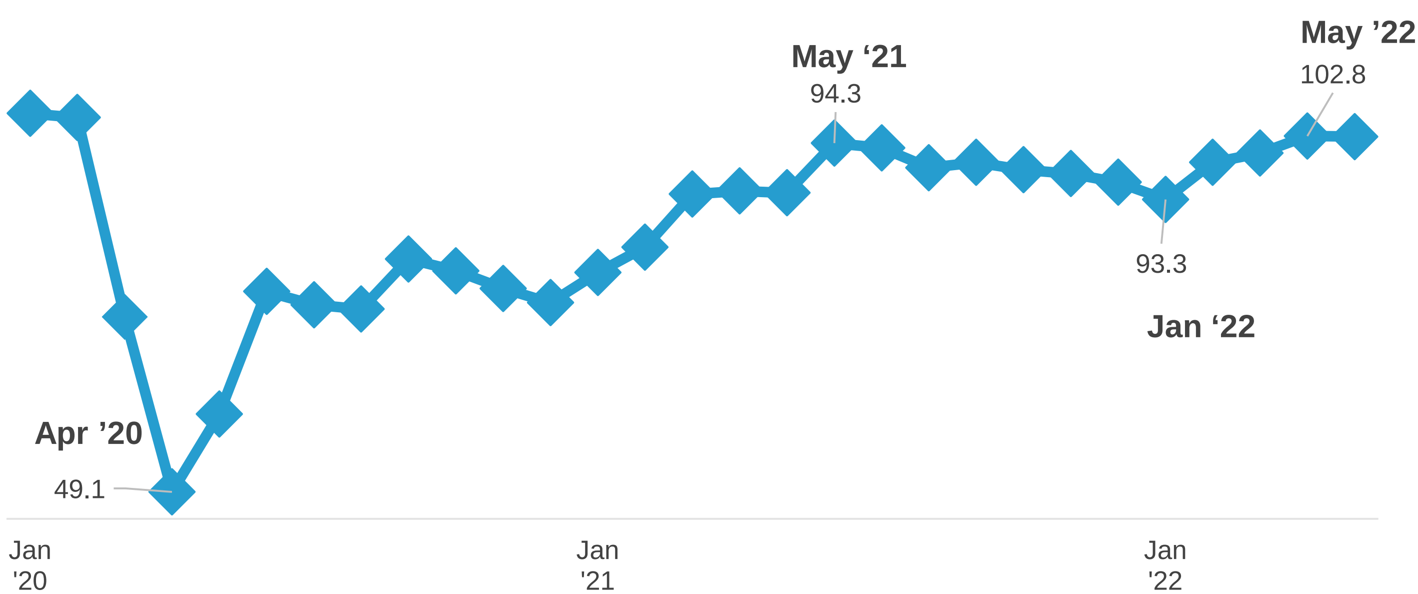
Each index number corresponds to the same month in 2019, where the index is assigned 100. As an example, the May 2021 index of 94.3 suggests that the industry was 5.7% smaller in May 2021 than it was in May 2019.

Please note, the TIndex is based on nominal sales, meaning menu price inflation is factored into these numbers. Therefore, comparing May of 2022 (102.8) to May of 2021 (94.3) shows sales dollar growth of 8.5 percentage points over that 12-month time period. However, because menu price inflation was 7.4% year over year, that suggests real volume growth of only 1.1%.

From mid-2021 through the first quarter of this year, accelerating inflation had little impact on consumer spending and traffic in foodservice. Pent-up demand for dining in restaurants coupled with a strong disposable income position had no negative effect on the resurgence on restaurant traffic, visitation and sales from the collapse of 2020. However, as menu prices have continued to climb, Q2 data has begun to show a slowing in overall industry traffic

Traffic softening is evident within restaurants, as that high level of inflation - not only within restaurants but within the broader economy - is beginning to impact consumer discretionary spending. The current level of foodservice inflation is the highest since 1979.

TINDEX
YEAR-OVER-YEAR INDEX OF FOODSERVICE INDUSTRY SALES
(2019=100)

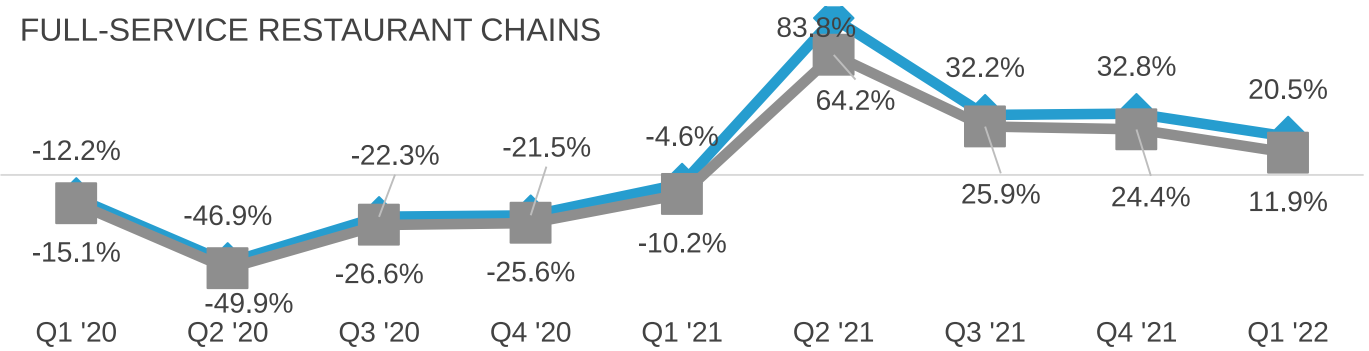


RESTAURANT PERFORMANCE IN 2022

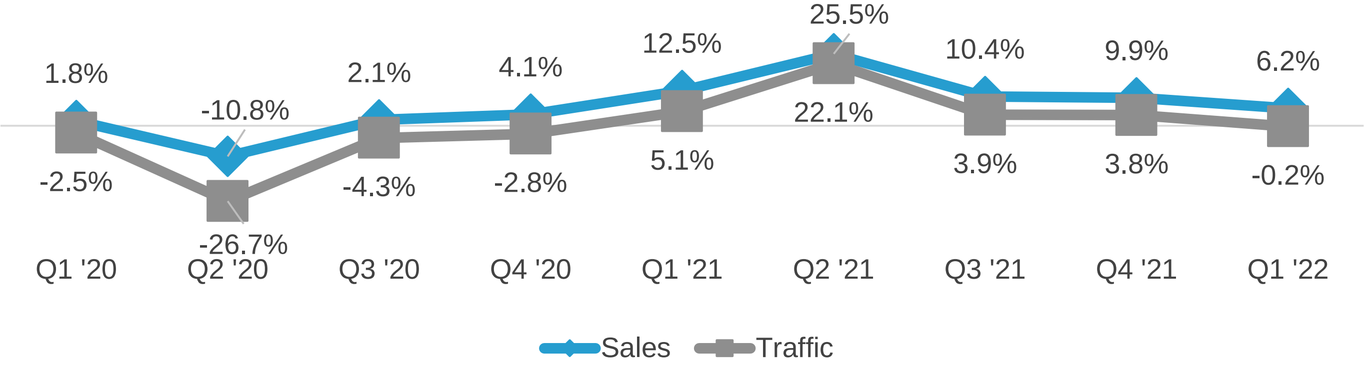
The charts below show quarterly growth within both major segments of the restaurant business: full-service restaurants and limited-service restaurants. In Q2 of 2021, both restaurant types experienced a spike in both sales and traffic in these year-over-year comparisons. This is largely due to Q2 2021 being the first quarter in which individuals were able to get vaccinated from COVID-19.

But since that time, the restaurant business has witnessed a slow, steady decline in growth rates. As a matter of fact, Q1 of 2022 was the first quarter since 2020 during which limited-service restaurant traffic declined. But our current levels of inflation meant 6.2% dollar growth even with slightly declining traffic. The difference between traffic and sales is even greater in full-service restaurants though both remain in positive territory in 2022.

FULL-SERVICE RESTAURANT CHAINS



LIMITED-SERVICE RESTAURANT CHAINS



Source: Chain organization reports, Technomic

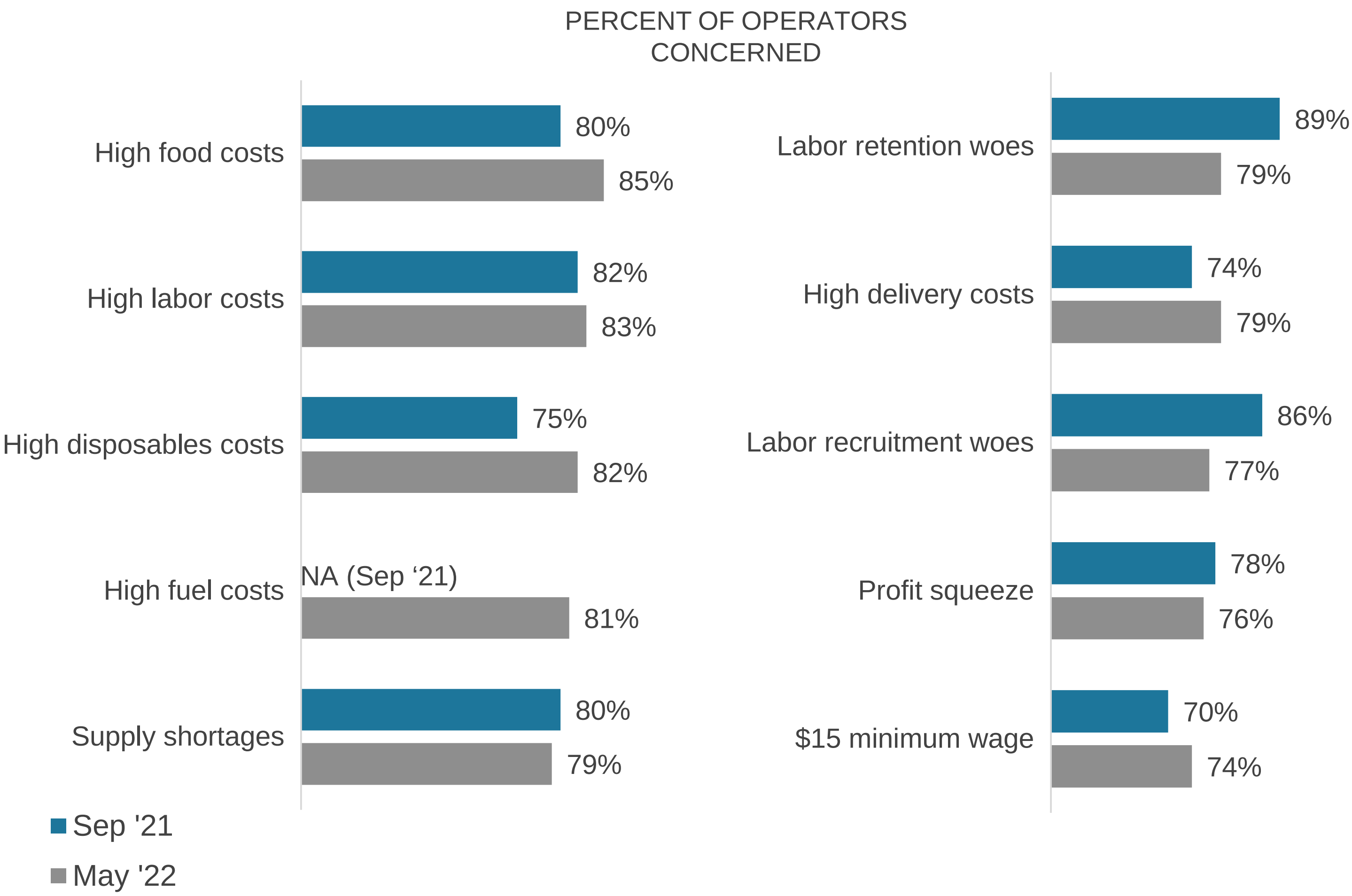
FACTORS IMPACTING OPERATORS' OPTIMISM

Most foodservice operators have maintained their optimism toward 2022 and beyond. Operator sentiment is actually at the highest levels since the start of COVID-19 restrictions (on a Technomic scale of 100 = optimal sales conditions and 0 = need to shutter the business, May 2022 operator optimism was 57.5; this is a steady climb from the bottom of 28.0 in April of 2020).

However, many operators do cite a number of factors as ones they believe may limit growth potential in the next two years.

Labor issues may be ebbing a bit. Labor costs are high but hiring and retention has been improving slightly. But other costs are becoming more problematic including food, disposables, delivery fees, and the multiple impacts of higher gas prices. Each of these are described by many operators as factors that affect their own business' ability to drive sales and/or their customers' ability to purchase food away-from-home at the levels seen in recent months.

It is also important to note that ¾ of operators are continuing to feel a squeeze on profitability. This makes sense based on a Technomic analysis from June 2022 which shows that prime costs (food, paper, labor) have risen more in the last two years than the rate of menu price increases. The bottom line from this analysis was that the typical operator has seen a 2-point erosion in their gross profit since 2020.



Source: Technomic June 2022

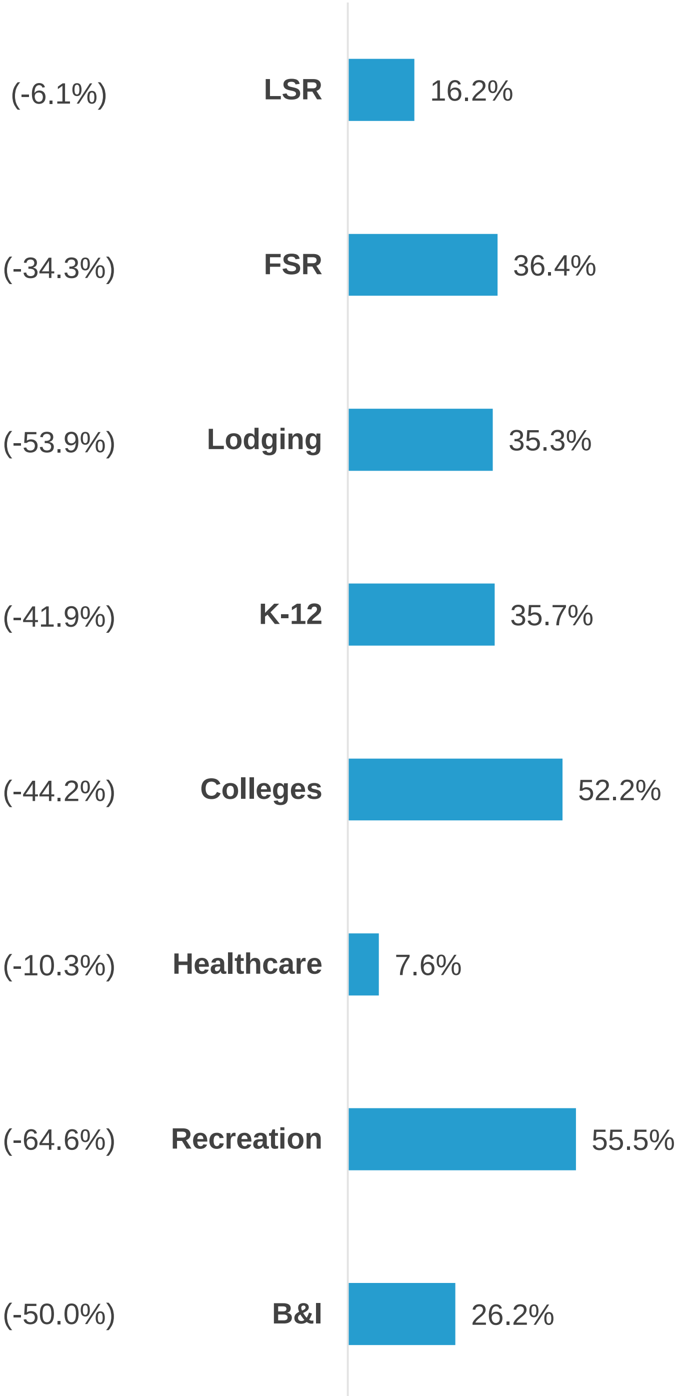
SEGMENT PERFORMANCE

The performance of individual foodservice segments in 2022 is highly dependent on which stage in the recovery a segment resides. For example, limited-service restaurants re-captured most of their lost 2020 sales by the end of 2021 so 2022 sales growth may look closer to historical norms. But a segment such as lodging, which is still facing lingering business travel restrictions, is just now beginning to show signs of a meaningful jump in critical metrics such as occupancy, revenue per available room (RevPAR), and foodservice revenues.

2021 was a year during which certain segments that were badly battered by the pandemic showed an initial, and significant bounce back. Segments like Colleges & Universities and Full-Service Restaurants saw stay-at-home orders lifted and, in turn, an almost immediate surge in consumer/student traffic. The pandemic's impact on other segments was more long-lasting (B&I dealing with increased work-from-home dynamics and, again, Lodging dealing with reduced travel). These segments will have a longer recovery highlighted by re-invention.

2021 was re-shaped by some of these new segment dynamics as well as major pandemic-accelerated trends such as off-premise solutions. This has all been part of an industry re-invention that will not subside anytime soon. The re-invention will impact menus, value propositions, technology, front-of-house and back-of-house design, and many other features – all done to best address evolving consumer need states.

SEGMENT GROWTH 2021
(2020 DECLINE IN PARENTHESES)



Source: Technomic Long-Term Forecast (May 2022)

PROJECTIONS

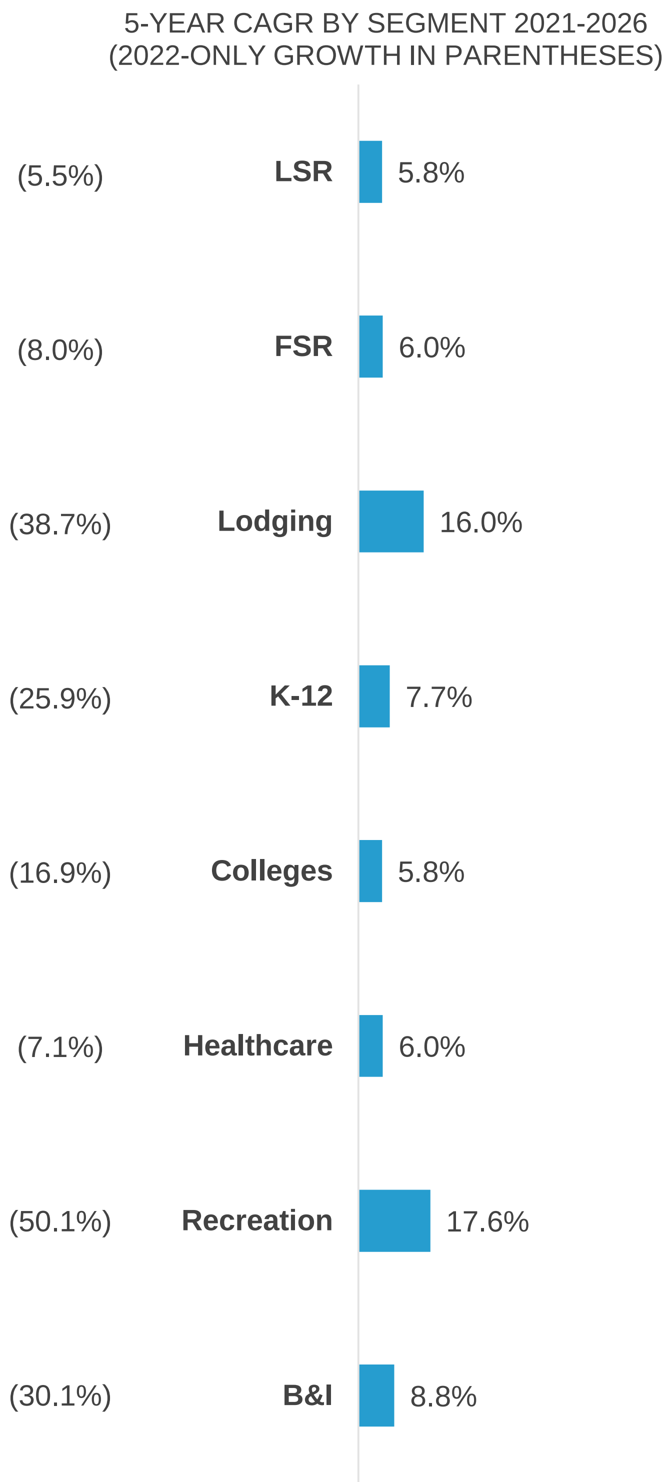
Although the segment has performed very well over the last two years, quick-service restaurants will experience a slowdown in 2022 as these restaurants face strong comps and economic headwinds. In fact, it is expected that QSRs will struggle with real declines in 2022. The segment will, however, regain traction in 2023.

Fast-casual and full-service restaurants will generate real growth in 2022 but forecasts have been lowered slightly due to the building economic pressures. The prospects for these restaurants are better on the growth front compared to QSRs, though, based primarily on anticipated stronger performance against easier comps. Both of these segments will regain momentum in 2023 as inflation subsides.

Chains will outpace independents in terms of longer-term growth based on their opportunistic ability to fund unit expansion as attractive locations become available and new service models (e.g., delivery, off-premise) are expanded post-pandemic. There will be some rapidly growing emerging chains that capitalize on changing consumer interests. Independents will experience more moderate growth as innovation and new concept ideas take hold at the grass-roots level.

As stated earlier, noncommercial opportunities will all depend on the conditions within a particular segment (e.g., education, healthcare, etc.). Savvy distributors and suppliers will identify and prioritize these pockets of above-average growth.

The industry will be facing uncertainty and new pressures from summer 2022 into 2023, but the long-term forecasts are strong. Even during the challenging months ahead, opportunities to grow with effective operators will be very likely.



Source: Technomic Long-Term Forecast (May 2022)