IFDA

2024

QUARTERLY BRIEF

THE STATE OF INDEPENDENT RESTAURANTS

Technomic.

Independent restaurants have unquestionably endured a difficult four-year stretch on the heels of the 2020 pandemic. As certain costs stabilize and menu prices remain elevated, many independents have seen profits surge since late 2023. However, menu prices cannot continue to rise indefinitely, but an expected mid-2024 rebound in customer traffic is projected to be the start of a positive period of growth for today's street business.

Image source: Shutterstock

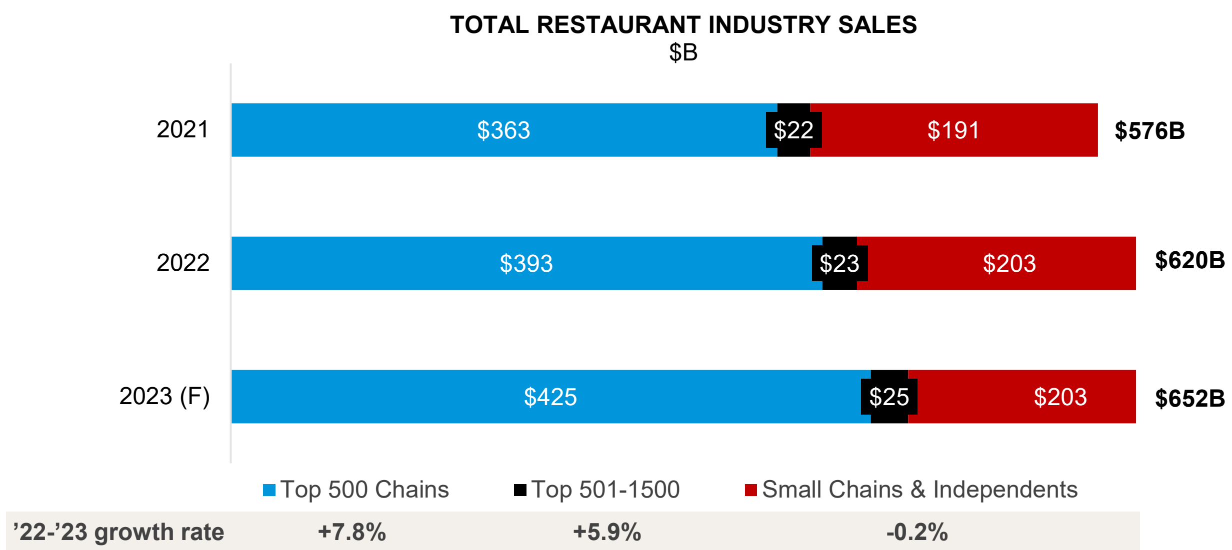
Recent Performance

For the purposes of this brief, independent restaurants will refer to single-unit and two- to three-unit foodservice operations outside of the top 1,500 U.S. chains.

Within that definition, there are nearly 400,000 locations that generate more than $200 billion in foodservice sales. Recently, this group of restaurants has underperformed the broader industry, declining by 0.2% in 2023, while Top 500 chains collectively grew by almost 8% in that same time period. One broadline executive recently commented to Technomic that:

“There are two groups of independents: successful ones looking to grow and challenged ones looking for ways to compete.”

The executive added that both groups are looking for greater support from distributor partners. The successful ones need help in implementing growth plans, and the challenged ones need help in stabilizing their business. Keep in mind that achieving any degree of growth is tough for independents right now; they have some distinct disadvantages compared to chain operators, including limited capital for technology and remodel needs, and limited purchasing power, which puts them more at risk during periods of availability issues and price increases. However, independents and small chains tend to demonstrate greater loyalty to distributors who offer the help they’re looking for in today’s operating environment.



Note: (F)=forecast
Source: Technomic

Core Challenges

Independent restaurants are currently facing many challenges – the above word cloud highlights some that were identified by operators in a December 2023 survey by Technomic. Some challenges are not as intense as they were nine to 12 months ago, but the number of headwinds remains problematic. But the research shows that it isn't just the challenges themselves that are difficult to overcome, but also the fact that independents have less ability to anticipate challenges than their chain counterparts.

The chart to the right shows how much more unexpected certain cost increases have become for independent operators. They say they often lack the information, insights and visibility necessary to predict future cost behavior. Therefore, information on industry trends, economic forecasting and critical commodity outlooks are among the things restaurant owners and general managers are seeking from distributor partners.

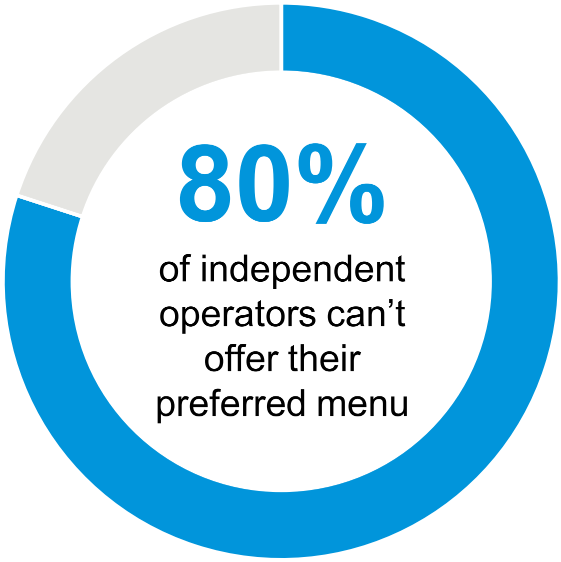
% OF OPERATORS WHO SAID COST INCREASES WERE UNEXPECTED

	Independent	Chain
Credit Card Fees	55%	33%
Technology Fees	51%	32%
Packaging	34%	25%
Utilities	32%	27%
Labor	14%	11%
Food/ Beverages	13%	11%

Base: 500 operators
Q: Were increases in the following costs expected or unexpected?

Base: 250 independent operators
Q: What do you consider to be your operation's greatest challenges/obstacles currently? Please provide a detailed explanation of these challenges/obstacles and how they impact your operation.

The number of challenges has also led four out of five independent operators to report that they cannot execute their menu as they would prefer. They say challenges like food costs, labor dynamics and product availability are inhibiting menu development. Further, 39% say labor-intensive dishes are their biggest problem spot, which is problematic for those looking to use more complex, unique dishes as a differentiator from chain restaurant menus. They increasingly look to distributors to advise on these types of back-of-house limitations and product offerings.



Trends

According to another broadline executive that spoke with Technomic, the future vision of chains and independents will likely continue to diverge:

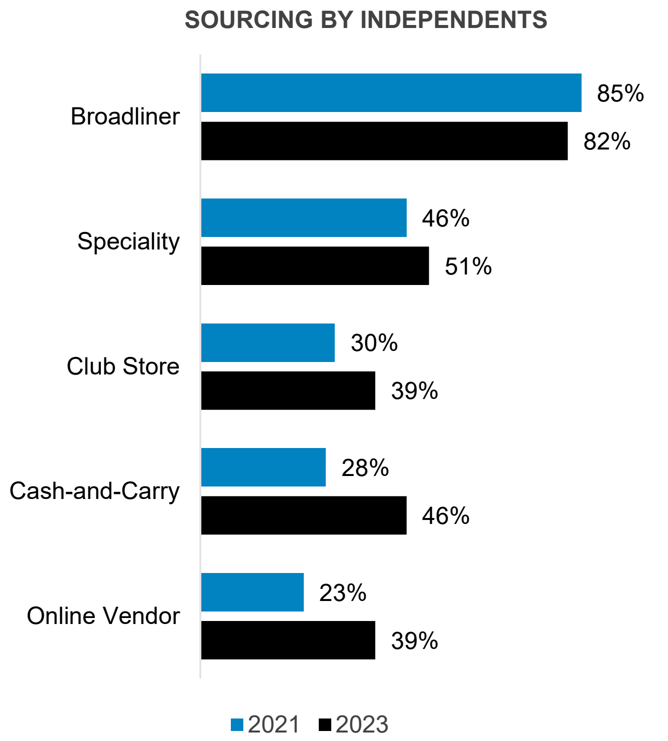
> **"Big chains are investing heavily into tech to make things more efficient: costwise and operationally. Independents can't do that. They have to invest in personalization to be the antichain."**

While many chain restaurants are investing heavily in front-of-house technology, back-of-house technology, mobile apps and off-premise advancements, most independents will go in another direction. Independent operators are more likely to focus more on customer service and experience over technology. Competing with chains on speed of service and technology innovation is considered a losing battle by most.

Source: Technomic Operator Survey December 2023

Results from a December 2023 Technomic operator survey also show some change occurring in distribution sources used by independent restaurants. Data indicates that the percentage of independents that source products from broadliners fell 3 points since 2021. Some of this is likely the result of leading broadliners resigning some of the less-profitable street business. However, specialty distributors, club stores, cash-and-carry, and third-party online distributors (such as WebstaurantStore and FoodServiceDirect.com) have seen the percentage of independent operators placing orders from them increase.

Sourcing considerations will continue to evolve. Many independent operators report that they struggled for several years to get the product they needed, and now opt for a wider range of distribution sources.



Base: 250 independent operators
Q: From which of the following outlets do you typically make purchases for your restaurant(s)? Select all that apply.

Projections

From 2018 to 2023, real sales volume at restaurants and bars declined by 1.4% annually. Sales at independent operations fared even worse, with a 4.3% annual decline. Much of this decline was due to the 2020 pandemic and the associated restaurant closures.

But the future looks brighter, as Technomic is forecasting a considerable turnaround in the long term. Through 2028, the projection is that restaurants and bars will increase by 2.4% annually, and that independents will show positive annual real growth across both limited- and full-service restaurants.

Further, Technomic projects unit growth in this space; by the end of 2027, there will be approximately 11,000 more independent restaurant units than there were at the end of 2023, with the majority of those being full-service units.

Segment	CAGR*	
	2018-2023	2023-2028
Total Restaurants & Bars	**-1.4%**	**2.4%**
Independents	-4.3	1.7
Limited-Service	**0.5%**	**2.8%**
Independents	-2.5	1.8
Full-Service	**-4.2%**	**1.8%**
Independents	-4.9	1.6

Source: Technomic forecast
*Note: Five-year compounded annual growth rates
Note: Numbers may not compute due to rounding and are subject to change

Takeaways

Many independent restaurant operators have spent the last four years battling to survive the pandemic. Their resiliency has been extraordinary, and now they are setting themselves up for a period of growth.

Challenges will not disappear overnight, but with the help of distributor partners, the forecasts look promising. Real growth will be substantially better over the next five years compared to the last five years.

Expect independent operators to be more vocal in asking distributors for support services specific to their restaurant. This will include more predictive insights to help them better plan for future business, more ideation on how to differentiate their menus and services from chain competition during a time when chains will be impressing consumers with tech solutions, and proactive communication about any trends on the horizon to minimize unexpected impact on strategic planning and business performance.

Image source: Shutterstock