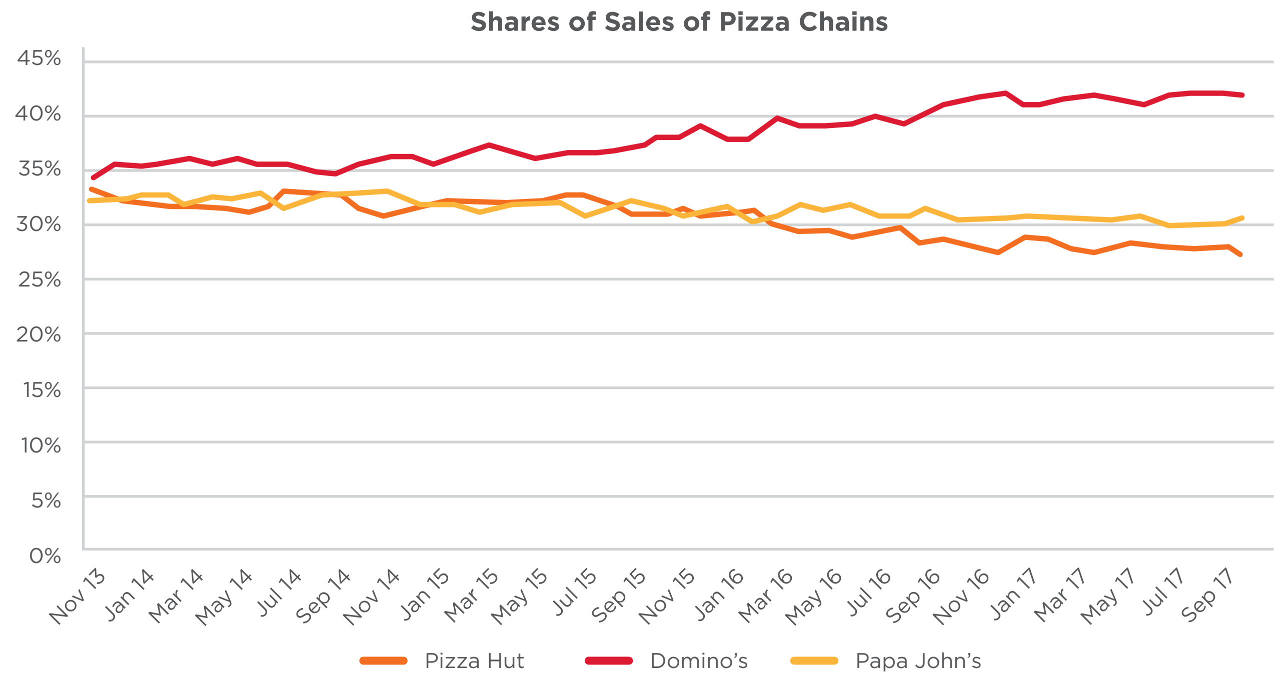
A DEEP (FRY) DIVE INTO THE QUICK SERVICE RESTAURANT INDUSTRY

Quick service restaurants (QSRs) are staples of the American dining experience. It's exciting that this category has expanded by increasing the number of options and improving in quality. Within sub-categories like pizza and sandwiches, dynamics among competitors are changing, while coffee and burgers have been static over the years. By analyzing the spending behaviors of millions of U.S. diners who pay with credit and debit cards, this report uncovers why some category leaders are growing, others are falling and why some are just too hard to beat.

PIZZA

Between Pizza Hut [YUM], Domino's [DPZ] and Papa John's [PZZA], the pizza space has remained flat with just 1% growth in sales year over year. Pizza Hut appears to be taking a hit and here is why:

- **Market Share:** Pizza Hut's market share has declined by 6 share points over the last four years, while Domino's has grown by 8 share points in the same time. In early 2016, Papa John's surpassed Pizza Hut's market share and has maintained its lead ever since.
- **Customer Spend:** Pizza Hut customers spend an average of $4 less per month than Domino's or Papa John's customers. While a large hand-tossed pizza costs $13-14 across all three chains, Pizza Hut's customers have slightly smaller order sizes and go to Pizza Hut less frequently than their competitors' customers.
- **Lost Customers:** 38% of Pizza Hut customers who dined from Nov 2015 – Oct 2016 did not return in the following year. Instead, from Nov 2016 – Oct 2017, 56% of them dined at Domino's or Papa John's. As a result, Pizza Hut lost 21% of its customers to their top competitors.

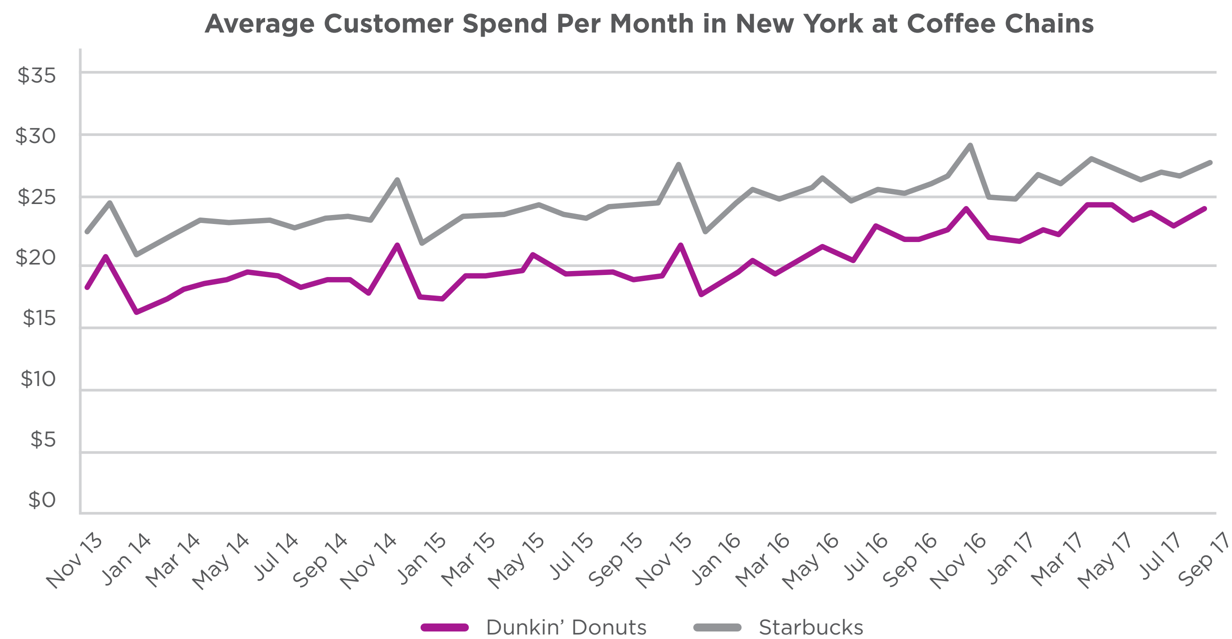


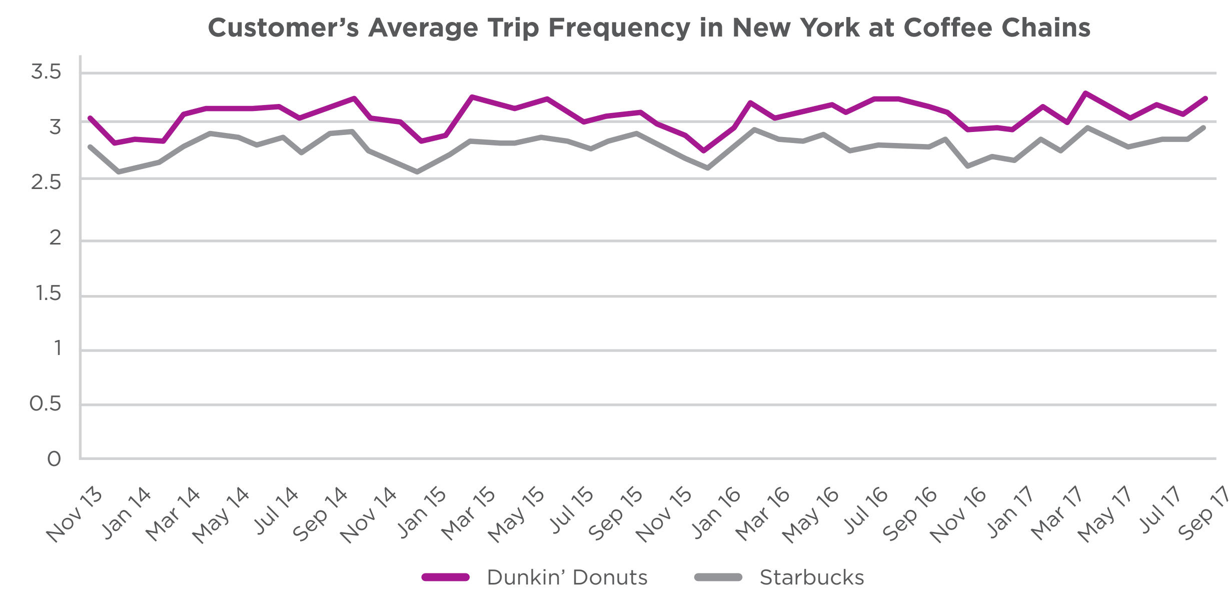
1010DATA
MORE POWER TO YOU
+1 212.405.1010
www.1010data.com

COFFEE

Starbucks [SBUX] and Dunkin' Donuts [DNKN] have been vying to be America's coffee cup of choice for decades. New York exemplifies this battle with market share at an even 50-50. Why have these companies been at a standstill in NYC for so long?

- **Customer Loyalty:** Dunkin' Donuts and Starbucks retained 69% and 63% of customers who shopped in the year prior, respectively. The percent of customers each chain lost to the other is 28% for both coffee providers. This means that the remaining 72% of lost customers either went to local baristas, brewed at home or (dare I say it) gave up coffee altogether. The loyalty in this category is fierce, adding to a fairly even split in market share.
- **Trip Frequency:** The average number of trips to Starbucks or Dunkin' Donuts has changed little over the years, hovering between 2.6 and 3.2 trips per month. Although Dunkin' has a slight edge on trips, the average Starbucks customer spends $2 more per month than a Dunkin' customer.

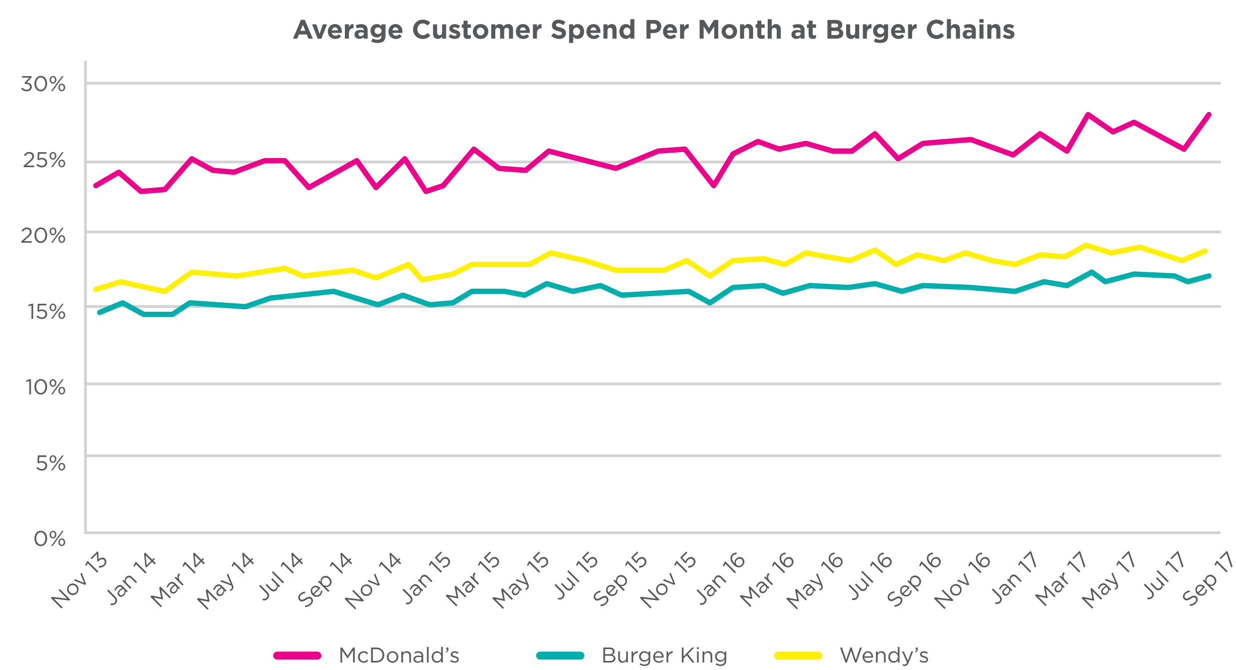




BURGER

McDonald's [MCD] is the largest QSR chain in the United States and has been dominating the burger space for decades. Between McDonald's, Burger King [QSR] and Wendy's [WEN], growth has been lackluster, with just a 4% increase in sales year over year. With more locations than Burger King and Wendy's combined, it's no wonder that McDonald's accounts for two-thirds of sales in this space. The following points explain McDonald's dominance:

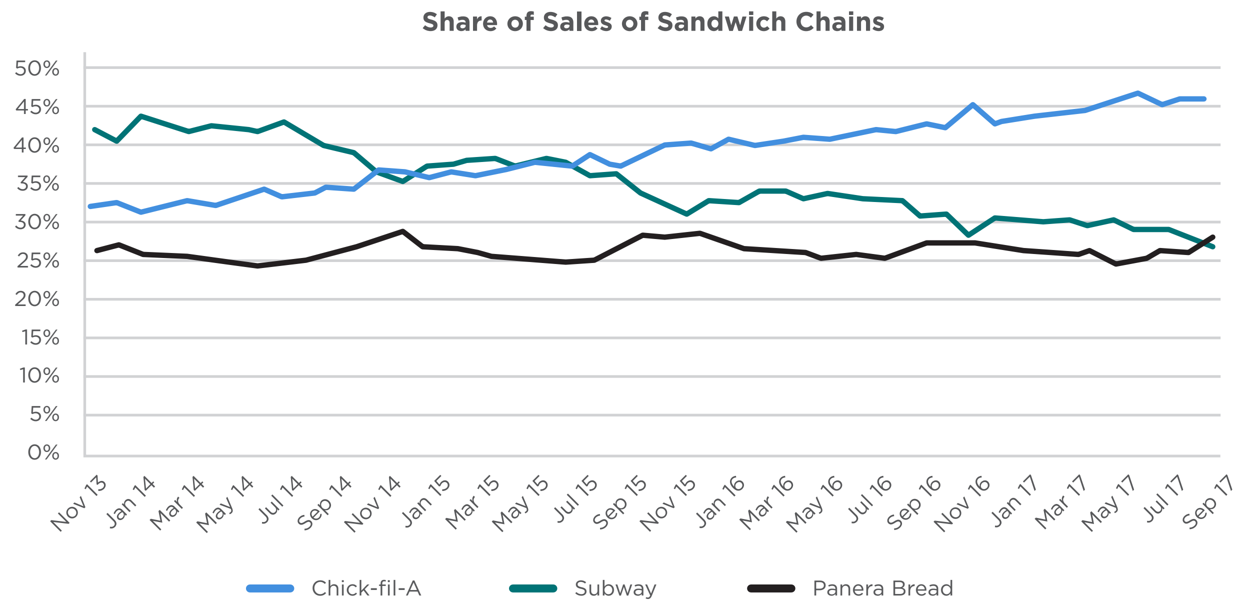
- **Customer Loyalty:** McDonald's retains the most customers in this space year over year. 88% of customers who dine at McDonald's will return the next year. This is particularly impressive considering Burger King and Wendy's retain 73% and 78%, respectively. It also helps that over 80% of customers who dine at Burger King and Wendy's in a given year also dine at McDonald's.
- **Customer Spend:** McDonald's high market share is also a result of the average amount customers are spending in a given month. On average, McDonald's customers spend $26/month whereas Burger King and Wendy's customers spend $17/month and $18/month, respectively. Although McDonald's average order size is slightly lower than its competitors, the average trip frequency in a month is 3.1 compared to 1.7 at Burger King and 1.8 at Wendy's, leading to much higher spend/month.



SANDWICH

Fast-casual options for sandwiches are gaining in popularity. Cumulative sales for Chick-fil-A, Subway and Panera Bread [PNRA] grew 7% year over year, but Chick-fil-A is growing faster than its competitors. Here are some reasons why:

- **Market Share:** Chick-fil-A's market share grew 13 share points over the last four years. Subway's share declined by 15 share points in the same time, allowing Chick-fil-A to surpass Subway in the middle of 2015. Panera's share grew by 1 share point.
- **Customer Retention:** Chick-fil-A is losing the fewest number of customers each year. From Nov 2016 – Oct 2017, Subway and Panera lost 23% and 30% of customers who dined in the prior 12 months, respectively. Meanwhile, Chick-fil-A retained 81% of all its customers in the same time period. Chick-fil-A's retention rate increased year over year, while Subway and Panera's declined.



METHODOLOGY

This study covering trends of quick service restaurants is based on the non-cash transactions of millions of shoppers across the U.S. The data was analyzed using 1010data Merchant Insights, a web app delivering online versus brick-and-mortar performance and the shopper behaviors that drive it, to assess competitive dynamics and the consumer lifecycle. Restaurants analyzed in this report include McDonald's, Burger King, Wendy's, Starbucks, Dunkin' Donuts, Pizza Hut, Domino's, Papa John's, Chick-fil-A, Subway and Panera Bread.

1010DATA™
MORE POWER TO YOU

+1 212.405.1010
www.1010data.com

To learn more about how your business can gain an edge using state-of-the-art data and analytics, visit 1010data.com/DI