



Vertical Market Outlook Series

Restaurant Equipment





Established in 1989, the Equipment Leasing & Finance Foundation is a 501c3 non-profit organization dedicated to inspiring thoughtful innovation and contributing to the betterment of the equipment leasing and finance industry. The Foundation accomplishes its mission through development of future-focused studies and reports identifying critical issues that could impact the industry.

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Purpose of This Study

The Equipment Leasing & Finance Foundation (Foundation) commissioned this forward-looking report on the restaurant sector. Big Village was selected to conduct the research. This, the ninth in a series of reports on vertical equipment markets, provides an outlook on the restaurant equipment sector in the U.S., including trends and key developments impacting this sector over the next one to two years. In preparing this report, Big Village utilized its pre-existing expertise, coupled with inputs from several outside industry experts and consultants, in analyzing and examining industry trends in the U.S.

How to Use This Report

This report is intended to provoke thought, conversation, and offer high-level insight for equipment finance professionals to reference in strategic planning. There are many subcategories within restaurants. This report focuses on those most relevant to the equipment finance sector, as determined by a Foundation-led Steering Committee of industry professionals.

The Restaurant Market Landscape

From local coffee shops to fine dining establishments, restaurants are an important aspect of most communities. The industry experienced major challenges during the COVID-19 pandemic, impacting trends and the future of the restaurant industry.

Foodservice Equipment & Supplies, citing Datassential research, identified three macroeconomic challenges that had a “profound impact on overall restaurant industry performance in 2022: labor, supply chain and inflation. They reported that “operators were pretty split when trying to decide which of those factors represented the biggest challenge: 37% said inflation, 33% said labor shortages and 30% said supply chain issues.”¹

Despite challenges, segment growth in both labor and revenue is expected for 2023.

Definition and Composition

The restaurant industry can be defined as “any eating or drinking place which prepares and offers food or beverages for human consumption either in any of its premises or by such services as catering, banquets, box lunch or curb service.”²

Definition by Type

According to a Freedonia Focus Report, the following types make up the Restaurant and Food Service Industry:³

- Full-Service Restaurants
- Limited-Service Restaurants
- Foodservice Contractors
- Snack & Beverage Bars
- Drinking Places
- Caterers
- Buffets & Cafeterias
- Mobile Food Services

Of those categories, full-service restaurants make up the largest portion of the market.

The National Restaurant Association uses a different segmentation in their 2023 State of the Restaurant Industry Report:

- ◆ **Eating & drinking places**
 - **Full-service segment:** Includes family dining, casual dining and fine dining full-service restaurants. Waiter/waitress service is provided, and the order is taken while the patron is seated. Patrons pay after they eat.

- o **Limited-service segment:** Includes quick-service restaurants; fast-casual restaurants; cafeterias, grill-buffets and buffets; snack and non-alcohol beverage bars; social caterers. Patrons generally order at a cash register or select items from a food bar and pay before they eat.
- o **Bars & taverns:** Includes bars, taverns, nightclubs, or drinking places primarily engaged in preparing and serving alcoholic beverages for immediate consumption. These establishments may also provide limited food services.
- ♦ **All other food service establishments:** Includes the following categories: managed services (also referred to as onsite food service and food contractors); lodging places; retail-host restaurants (health-and-personal-care-store restaurants, general merchandise-store restaurants, variety-store restaurants, food-store restaurants and grocery-store restaurants, gasoline-service-station restaurants, miscellaneous retailers); recreation and sports (includes movies, bowling lanes, recreation and sport centers); mobile catering; vending and non-store retailers (includes sales of hot food, sandwiches, pastries, coffee, and other hot beverages); business, educational, governmental, or institutional organizations that operate their own restaurant services; military restaurant services (continental United States only).

Market Size and Growth

According to the National Restaurant Association's 2023 State of the Restaurant Industry Report, the food service industry is forecast to reach \$997 billion in sales in 2023. Eating and drinking places will reach \$742 billion.

	2019 Sales (billions)	2020 Sales (billions)	2021 Sales (billions)	2022 Sales (billions)	2023 Sales* (billions)	'22-'23 % change ²	'22-'23 real % change	'19-'23 % change ²	'19-'23 real % change
Eating & drinking places	\$616	\$509	\$624	\$697	\$742	6.5%	1.1%	20.5%	-3.9%
Fullservice segment ³	\$285	\$199	\$266	\$305	\$324	6.2%	0.9%	13.7%	-9.2%
Limited-service segment ⁴	\$309	\$297	\$340	\$370	\$395	6.8%	1.4%	27.8%	1.9%
Bars & taverns ⁵	\$22	\$13	\$18	\$22	\$23	6.4%	1.1%	6.4%	-10.6%
All other foodservice establishments ⁶	\$248	\$169	\$200	\$240	\$255	6.0%	1.5%	2.6%	-14.9%
TOTAL	\$864	\$678	\$824	\$937	\$997	6.4%	1.1%	15.4%	-8.6%

Chart Source: National Restaurant Association

The Freedonia Group provides a different quantification of the market and forecasts the growth of the U.S. restaurant and food service industry by segment. According to their 2022 focus report, full-service restaurant revenues are estimated to grow to \$464 billion by 2026, while limited-service restaurants are estimated to reach \$443.5 billion.

US Restaurant & Foodservice Revenues by Provider, 2011 – 2026 (US\$ bil)

Item	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2026	r ² 11-21	AAGR 11-21	CAGR 21-26
Total Revenues	<u>497.2</u>	<u>524.2</u>	<u>543.5</u>	<u>576.7</u>	<u>624.2</u>	<u>657.9</u>	<u>692.6</u>	<u>732.0</u>	<u>772.7</u>	<u>849.2</u>	<u>876.3</u>	<u>902.2</u>	<u>1120.1</u>	0.86	4.8 %	5.0 %
Full-Service Restaurants	214.3	227.3	236.8	255.4	276.7	288.0	301.8	317.9	333.8	253.9	382.7	382.8	464.0	0.70	4.5 %	3.9 %
Limited-Service Restaurants	178.3	188.0	196.6	206.9	225.7	240.9	256.4	271.9	286.8	282.2	327.6	345.9	443.5	0.98	5.9 %	6.2 %
Foodservice Contractors	38.5	40.6	41.3	43.1	46.0	48.7	49.7	51.5	54.6	39.2	59.7	62.0	74.1	0.48	3.0 %	4.4 %
Snack & Beverage Bars	29.6	31.1	32.0	34.3	36.6	38.1	39.2	42.2	46.6	43.8	50.6	53.1	66.3	0.97	5.1 %	5.6 %
Drinking Places	20.6	21.4	21.2	21.2	22.0	24.0	25.5	27.1	28.3	16.7	30.1	31.1	36.8	0.18	2.2 %	4.1 %
Caterers	7.8	8.3	8.4	8.9	9.7	10.5	12.0	12.7	13.2	7.6	15.3	16.3	21.6	0.45	4.8 %	7.1 %
Buffets & Cafeterias	7.5	6.8	6.3	5.9	6.5	6.5	6.7	7.2	7.6	3.9	8.2	8.6	10.3	0.01	-0.7 %	4.7 %
Mobile Food Services	0.6	0.7	0.9	1.0	1.0	1.2	1.3	1.5	1.8	1.9	2.1	2.4	3.5	0.98	12.2 %	10.8 %

Chart Source: The Freedonia Group

Fast casual establishments are called out as a growth segment by Robin Gagnon (We Sell Restaurants) in an interview with Modern Restaurant Management, “Fast casual will continue to shine as it has since the pandemic generating the highest asking prices in the marketplace. The ability of this segment to more efficiently staff, deliver and apply technology has paid off for this segment of the industry and their growth will continue.”⁴ Fast casual can be defined as restaurants offering “consumers freshly-prepared, higher-quality food in an informal setting, with counter service to keep things speedy.” Examples include Chipotle, Shake Shack, and Panera.⁵

Macroeconomic Environment

Restaurants have been recently challenged by factors related to labor, the COVID-19 pandemic, supply chain issues, government regulations, and economic factors such as inflation.

Labor

In 2022, there were 15 million restaurant and food service jobs. The industry workforce is projected to grow by 500,000 jobs to reach a total industry employment of 15.5 million in 2023.⁶ Looking ahead to 2030, restaurant and food service employment is expected to reach 16.5 million.⁷

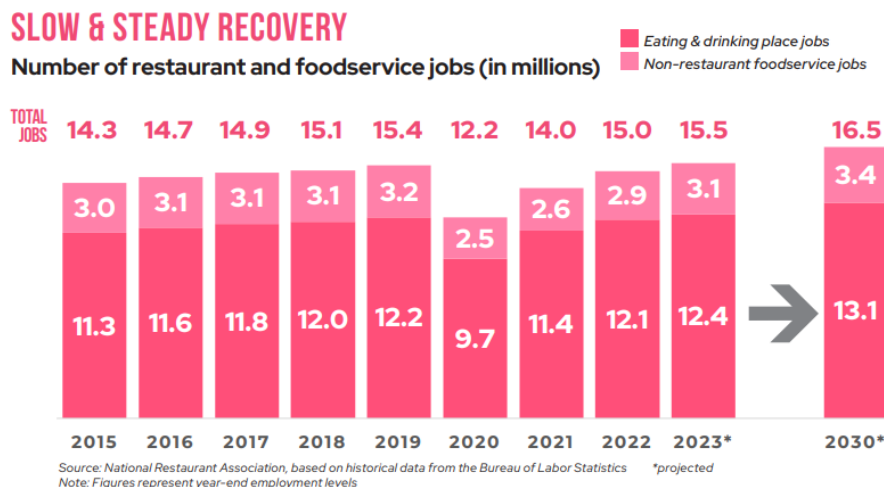


Chart Source: National Restaurant Association

Employees can play an important part in a restaurant's success. In the past couple of years, restaurants have been impacted immensely by labor shortages. In fact, according to the National Restaurant Association's 2023 State of the Restaurant Industry report, 62% of restaurant owners report being understaffed. Additionally, more family dining and fast casual operators say they don't have enough employees compared to other types of restaurants.⁸

% of restaurant operators who say they don't have enough employees

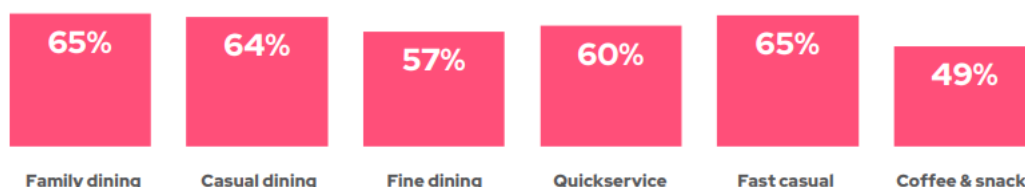


Chart Source: National Restaurant Association

According to restauranteurs in the United States, higher expectations for competitive wages were the top reason contributing to labor shortages at restaurants in 2022.⁹ Wage expectation is followed by competition from other industries and a lack of skilled workers.¹⁰

Leading reasons for restaurant labor shortages according to restauranteurs in the United States in 2022
U.S. reasons for restaurant labor shortages 2022

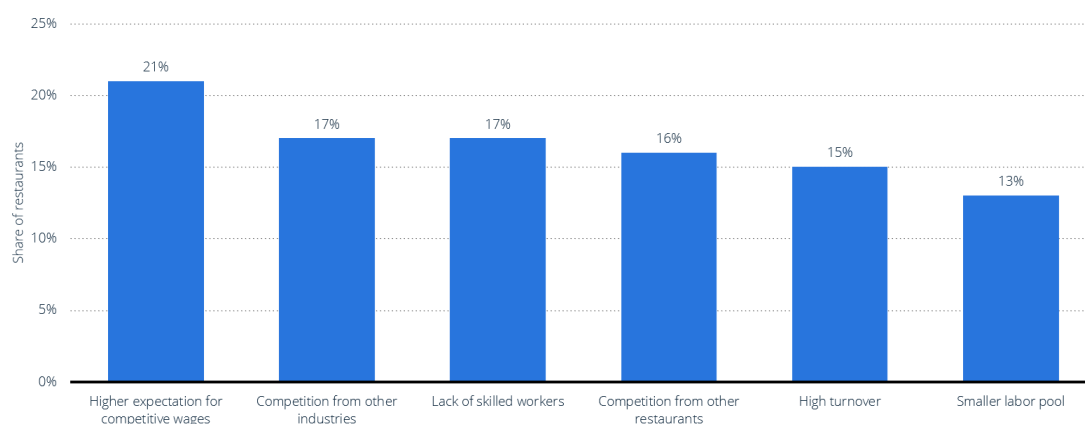


Chart Source: Statista

According to Betsey Stevenson, an economics professor at the University of Michigan and a former Labor Department chief economist:

“There’s this reshuffling going on that is explaining why lots of industries can’t find workers. Their workers have left to go somewhere else.”¹¹

In an effort to stay competitive and attract talent, some restaurants have made changes to their businesses. A general manager of a restaurant in Cambridge, Massachusetts said he raised wages by as much as 20 percent and is also closing earlier on weeknights.¹² Some are exploring innovative ways to hire and retain employees including “adopting unconventional work schedules like a three-day workweek, standardizing education reimbursement to include tuition assistance and grants, and deploying AI-driven personality tests during hiring that could reduce turnover.”¹³

Not surprisingly, staffing shortages have a negative impact on the consumer dining experience. According to a survey conducted by HungerRush, “friction points are increasing in the dining experience with longer wait times to receive food (33%), diminished customer experience due to overstressed staff (32%), and longer wait times just to place an order (17%) being among the top three pain points” among consumers.¹⁴

Many restaurants have turned to technology to combat labor shortages, and some experts see robot waiters as a solution to the industry’s labor problems.¹⁵

% of operators who say the use of technology and automation to help with the current labor shortage will become more common in their segment in 2023

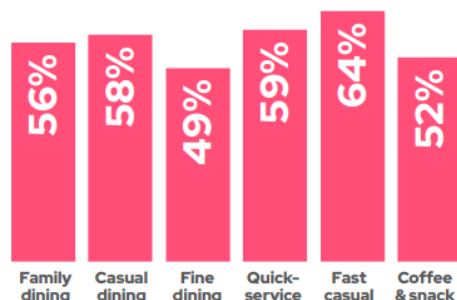


Chart Source: National Restaurant Association

Additionally, QSRs are turning to tech and automation to help with shortages more than other restaurants.

Dennis Reynolds, dean of the Hilton College of Global Hospitality Leadership at the University of Houston agrees that robot waiters will become more common. “There’s no doubt in my mind that this is where the world is going,” Reynolds said on the topic.¹⁶

Government Regulations Impacting Restaurants

Operating a restaurant requires knowledge of the various regulations that need to be followed. In addition to federal government oversight, more than 3,000 state, local, and tribal agencies have primary responsibility to regulate the retail food and foodservice industries in the United States, according to the US Food & Drug Administration (FDA).¹⁷

The FDA also has certain food service codes and regulations within each state, including how “frequently a restaurant or quick-serve restaurant must be inspected by local health agencies or proper storage and handling procedures for different types of food.”¹⁸ Improper food handling can lead to foodborne illness, therefore the restaurant industry is highly regulated in this area.¹⁹

The Occupational Safety and Health Administration enforces rules to keep employees safe from hazards in the workplace. For restaurants, this may mean “having the right type of fire extinguishers present, ensuring employees have protective clothing or equipment, timely reporting and recording workplace injuries and illnesses, and appropriately displaying accident prevention signage throughout the restaurant.”²⁰

Because of the many safety and food handling regulations restaurants must follow, certain procedures and equipment may be necessary to comply.

Beyond safety, restaurants also must follow regulations related to wages and hours. In addition to state and local laws and regulations, the Fair Labor Standards Act (FLSA) impacts how tipped employees are paid, how tips are accounted for, and how overtime is handled.²¹

Impact of COVID on Restaurants

During COVID-19 shutdowns, restaurants adapted to new ways of serving customers, such as through pick-up and delivery orders and outdoor dining. Some trends have remained strong even as dining rooms opened again.

While delivery grew out of necessity, it has remained strong and consumers say they are more likely to order takeout or delivery compared to before the pandemic.²² Additionally, the share of the restaurant market that delivery represents continues to grow and is estimated to be greater due to the impact of COVID-19.

Change in online restaurant delivery penetration share of the restaurant market in the United States due to the coronavirus pandemic from 2020 to 2025

Impact of COVID-19 on online restaurant delivery market share in the U.S. 2020-2025

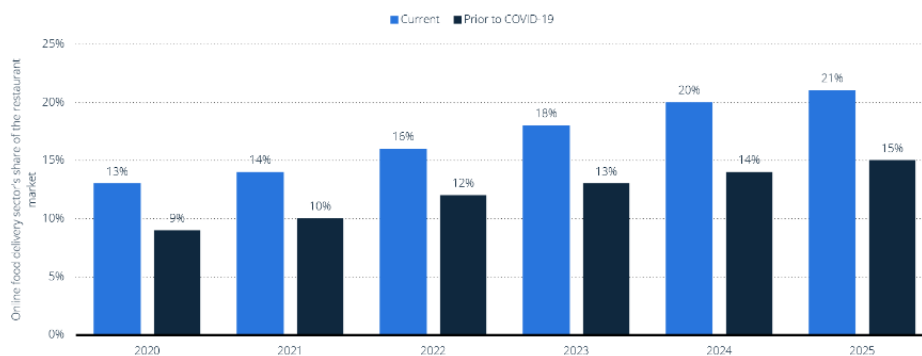


Chart Source: Statista

Some restaurants already offered a delivery option but others, especially among fine dining establishments, say they established it during the pandemic.²³ Additionally, these restaurants plan to continue offering delivery, demonstrating the lasting impact of COVID-19.²⁴

Outdoor dining is another area that experienced growth as dining inside was either not allowed or felt unsafe for some. As indoor dining returned, many restaurants still plan to offer outdoor seating. More than nine in 10 restaurant operators who currently offer outdoor seating say they plan to continue having it in the future. Additionally, consumers enjoy outdoor dining with 69% saying they like having an option to sit outside at a restaurant.²⁵

The use of technology also increased during the pandemic as restaurants implemented QR code ordering and other contactless options. More than four in 10 restaurant operators plan to increase investments in technology to increase productivity.²⁶ This sustained focus on technology may impact the equipment used as restaurants attempt to increase efficiencies. (Read more on technology in the Role of Technology section.)

Inflation

According to the U.S. Bureau of Labor Statistics, food-away-from-home prices increased 0.6% in January 2023 and 8.2% in the past year.²⁷ Menu price inflation remained far lower than price hikes inside grocery stores and other retail food outlets, where inflation was 11.3% in January, which was perceived to be a benefit for restaurants.²⁸

However, March 2023 marked the first time in this period of high inflation that restaurant inflation exceeded grocery inflation.²⁹ In March, food prices rose 8.5% year over year overall, with food at home prices increasing 8.4% and food away from home prices rising 8.8%.³⁰

*“This shift spells bad news for the restaurant industry, given the extent to which consumers have already been overestimating menu price increases, even at times when restaurants were absorbing far more food inflation than grocers,” per PYMNTS research.*³¹

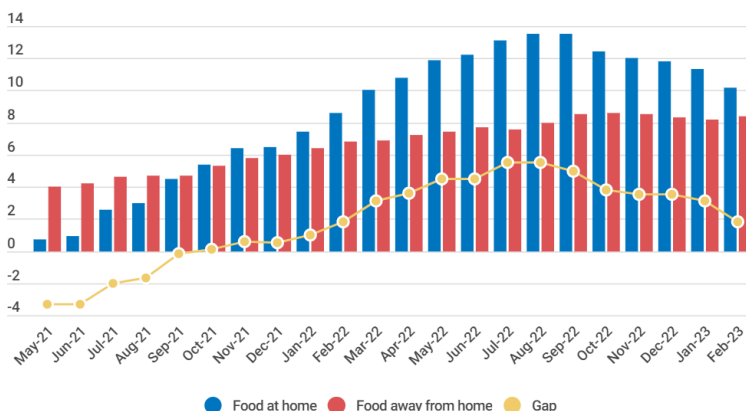
According to the National Restaurant Association, there are a few considerations restaurants can make to combat inflation:

1. Streamline menus by simplifying what they serve, focusing on offering best-selling items since those are the ones that drive sales, using items in season as they cost less than if purchased out of season, and using imperfect produce.
2. Incorporating the latest technology into operations could help in several ways: Robotics in operations can free employees to optimize their skillsets and productivity, especially when it comes to customer experience. Exploring the analytic tools embedded in their POS and inventory management software can help identify sales, best sellers, and busiest sales times for menu items, as well as the highest and lowest margin items and more accurate inventory forecasting and pricing.
3. Reduce food waste by using technology that can help weigh, track, and analyze the food waste generated.
4. Explore temporary surcharges or fees. Some restaurants are adding temporary inflation fees to the bill while others are exploring charging extra for items like condiments.
5. If raising menu prices, restaurants should base any increases on what the market can handle and the value delivered from the product, rather than just to cover growing costs. Restaurants should also avoid raising prices across the board. Instead, identify the items that can withstand a moderate price increase.³²

Many restaurants have had to make operational changes to combat rising costs. The most common being implementing menu price increases (87% of restaurants) followed by changing the food and beverage items they offered (59% of restaurants).³³

Restaurant versus grocery prices

The pricing gap between restaurants and grocers narrowed further in February. Restaurants continued to raise prices at a rate higher than that of grocery stores.



Source: U.S. Bureau of Labor Statistics

Chart Source: Restaurant Business

Actions taken by restaurants *by segment* because of higher costs

	Family dining	Casual dining	Fine dining	Quick-service	Fast casual	Coffee & snack
Increase menu prices	87%	90%	87%	86%	88%	78%
Change menu items	63%	74%	69%	45%	49%	54%
Reduce hours of operation on days they're open	52%	48%	49%	43%	47%	52%
Postpone plans for expansion	36%	35%	29%	45%	40%	43%
Not operate at full capacity	32%	37%	39%	31%	37%	35%
Reduce the number of employees	29%	30%	29%	36%	34%	35%
Close on days they would normally be open	34%	36%	42%	26%	27%	33%
Incorporate more technology	20%	24%	15%	23%	22%	13%
Postpone plans for new hiring	18%	16%	21%	18%	20%	37%
Eliminate 3rd-party delivery	15%	16%	17%	7%	11%	17%

Source: National Restaurant Association
 Note: Multiple responses were allowed.

Chart Source: National Restaurant Association

While restaurants implemented measures to fight inflation, consumers still showed interest in dining out in early 2023. In fact, in January 2023, spending at restaurants and bars increased 25.2% year over year according to the U.S. Commerce Department.³⁴ Additionally, the National Restaurant Association predicts that sales will grow 6.4% in 2023.

Supply Chain

Supply chain issues have plagued the restaurant industry causing disruptions such as increasing prices of food items and delays in receiving certain equipment.

As restaurants came back from the pandemic, some saw sales growth and the opportunity to grow. However, one issue they encountered was lead times with certain equipment. QSR Magazine discusses the delays restaurants face:

“Everything from furniture to blenders have increased lead times, some up to a year, creating challenges for brands that are used to being able to offer franchisees a package of equipment that is tried and true. While manufacturing continues to come on line, they are seeing a surge in order volumes, putting increased pressure on a fragmented workforce and supply chains already stretched to the breaking point.”³⁵

According to the National Restaurant Association, 96% say their restaurant experienced delays or shortages of key food or beverage items during the second half of 2022.³⁶ Additionally, eight in 10 say they experienced delays or shortages of equipment or service items.³⁷

% of restaurants that changed menu offerings due to food or beverage supply delays or shortages

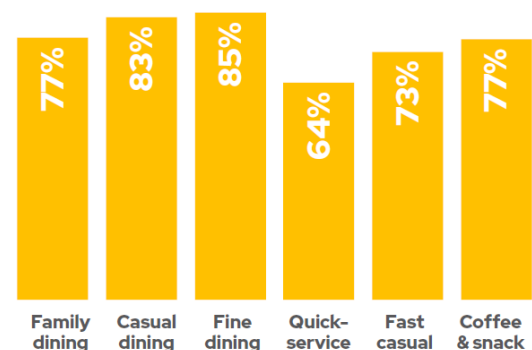


Chart Source: National Restaurant Association

In response to shortages and delays, restaurants have had to change their offerings. This has impacted all restaurants, but more fine dining and casual dining establishments say they changed their menu items compared to other restaurants.

Supply constraints will continue to disrupt restaurant development plans, as construction delays increase the cost to build and renovate restaurants, according to Restaurant Dive. As an example, the same source reported in January 2023, that Titan Hospitality (restaurant management, fine dining) was in the process of building two restaurants and it was taking 16 weeks to get materials and 30 weeks to get a walk-in freezer box. Further, there weren't enough electricians and plumbers to complete work within a typical three-week time span. These delays were extending construction timelines, putting the company 30% over budget on these projects."³⁸

Financing

Inflation, supply chain issues, and rising labor costs have impacted restaurant margins, causing concern among lenders.³⁹

At the beginning of 2023, CapitalSpring Partner and head of restaurant investment group Erik Herrmann said fewer traditional banks are willing to lend to restaurants and interest rates have nearly doubled, making it more expensive to take a loan out.⁴⁰ Therefore, restaurants beyond proven successful concepts such as Taco Bell, are having a hard time attracting lenders and getting capital.⁴¹

However, Herrmann predicts that "with stability and earnings improvement, you should see more people come back into the market in terms of willingness to lend."

Jay Halpern, partner at ArentFox Schiff, echoed these concerns in a Restaurant Dive interview, "With these challenges, with the supply chain, and the employees and everything else, you've got to get money, and money's gonna come either as debt or equity. And when you look at debt, a lot of banks won't lend to restaurant companies."⁴²

Restaurant Failures and Bankruptcies

The failure rate of restaurants is difficult to track nationwide and there are varying estimates, but the National Restaurant Association estimates a 30% failure rate, meaning one in three restaurants won't survive their first year.⁴³

Recent events such as COVID-19 have also likely had an impact on restaurant closures. However, according to FSR Magazine:

"There's no concrete point today on how many closures COVID ushered. In 2020, independent locations declined by 8 percent, according to The NPD Group. Or 28,399 closures. According to NPD's Fall 2021 ReCount restaurant census, which counts restaurants opened as of September 30, 2021, the independent field expanded by 1 percent, or 2,893 units, in 2021. Using Business Employment Dynamics data compiled by the Bureau of Labor Statistics, The Washington Post pegged the 2020 total closure number at about 72,700. In March 2021, Datassential's Firefly database shared a number of 79,438."⁴⁴

In terms of bankruptcies in the restaurant industry in recent years, even once-successful franchises have been impacted.

In 2022, “Midwest pizza chain Happy Joe’s filed for Chapter 11 bankruptcy protection in September, and Bertucci’s Brick Oven Pizza did the same in December (for the second time in just four years).”⁴⁵ Other recent filings include Burger King franchisee TOMS King Holdings, which was a top-performing Burger King franchisee in North America just a few years ago.⁴⁶ Illinois-based TOMS King is now currently in the process of selling its remaining 90 Burger King units.⁴⁷

Trends in Restaurants

Restaurant Equipment

According to Nation’s Restaurant News, “foodservice operators’ equipment needs are evolving to meet the demands of a new environment in which off-premises dining plays a larger role, operating costs have soared, and new opportunities and challenges are arising almost daily.” Currently, operators are interested in equipment that “helps minimize labor costs and optimizes efficiencies. This includes not only experiments with robotic equipment that performs physical tasks such as cooking fries and burgers but also equipment that is configured to improve throughput and allow operators to serve customers with fewer staff.” More energy-efficient and lower-maintenance heating and cooling equipment may also be in demand.⁴⁸

The growth in off-premises dining impacts equipment needs, according to the same source. Second drink dispensers to better handle multiple food distribution points, and temperature-controlled lockers to better manage pick-up orders are some examples cited. “Other equipment investments include those that seek to drive operational efficiencies beyond labor and/or improve sustainability, such as heating and cooling units that require less maintenance and optimize energy use.”⁴⁹

Foodservice Equipment & Supplies magazine looked at food service operators’ 2023 equipment plans:⁵⁰

Kitchen equipment replacements	67%
Kitchen renovation:	24%
New construction	20%
Dining room renovation	15%
Dining room replacement	15%
None of these	22%

(FE&S Forecast 2023)

The same source found that 58% of operators had plans to increase their equipment and supplies budget for 2023 compared to 9% that planned to decrease it (23% of operators analyzed were keeping their budgets the same).

Native Foods is an example of a company making such equipment investments. “Everyone is looking for increased productivity, easier prep and speed-of-service improvements. Combi-ovens and speed ovens sure help,” CEO Carin Stutz stated in an interview with Nation’s Restaurant News. The plant-based chain is adding both induction cooktops and combination ovens — which can use a combination of steam and convection cooking — to its kitchens as it builds new locations, she said. Native Foods, which has traditionally featured a long galley kitchen configuration, has also tightened up the layout, Stutz said, which allows workers to pivot in place and work multiple pieces of equipment with minimal steps.⁵¹

Another example, showcasing both equipment and design efficiency is Wendy’s Global Next Gen restaurant prototype. According to Nation’s Restaurant News, the prototype features a double-sided grill, a galley kitchen layout, and a modular design. “These elements work together to not only streamline workflows and provide the flexibility for future innovation, but also create a better experience for workers,” said Deepak Ajmani, U.S. chief operations officer for Wendy’s.⁵²

The Next Gen model also includes a dedicated delivery pick-up window (separate from the drive-thru window) complemented with paired parking, for order-ahead customers to grab food to go. Namely, the window will keep delivery couriers out of the dining room and shift traffic from the drive-thru line. In addition, Wendy’s devised dedicated mobile order pickup spots, with mobile pickup shelving inside. Wendy’s president, international and chief development officer, Abigail Pringle, says the Global Next Gen restaurant is conceptualized to handle 400 times the digital capacity of the chain’s current volume. She said, “Technology powers everything from the point of sale, grills, to the new back-office platform designed to streamline general manager tasks.”⁵³

Role of Technology

Restaurants of all types are looking to technology to move their business into the future. According to an FSM article, in 2023 many operators want to keep moving toward the edge, with more than four in 10 restaurant operators planning 2023 investments in equipment or technology “to increase front- and back-of-the-house productivity. These investments are anticipated mostly in the order and payment space, rather than automated systems or robots that prepare and serve food.”⁵⁴

Incorporating options to streamline ordering is one key area that is wanted by customers. Retail Dive reported on research that showed “79% of customers saying that they prefer to order through online kiosks rather than staff, and 78% saying that they enjoy the benefits of ordering with QR codes.”⁵⁵ This preference is echoed by restaurant owners as well, with nearly two out of three saying “that automation would fill critical gaps in managing online orders.”⁵⁶

According to the Food Institute, more restaurants are “embracing digital systems for taking orders and handling transactions.” In fact, John Oakes, Revenue Management Solutions CEO, said in a published interview that 2023 is shaping up to be the year of the kiosk. Some large chains utilizing kiosks for ordering include McDonalds and Panera.⁵⁷

When companies invest in these digital systems, “It’s important to ensure the transition process happens smoothly for the sake of the employees and the customers. Some systems may require ‘training’ of consumers, needing signage or perhaps an employee to explain how these systems work, but ultimately, the experience will remain largely the same,” Maria Hossain, an employment lawyer and restaurant industry expert, told The Food Institute.⁵⁸

Restaurant Dive reports that “restaurants are also connecting with their customers across channels. From social selling to marketing, technology tools are helping restaurateurs reach both new and old customers. Omnichannel tools such as kitchen display systems, inventory management, and customer insights are invaluable as restaurants move toward a more modern future.”⁵⁹

Another opportunity for technology to assist is in the area of staffing. “With more orders coming in online and in person, restaurants are prioritizing their back-of-house management tools to ensure a frictionless front-of-house experience. In fact, 90% of restaurants agree that increased automation would allow their staff to focus on more important tasks.”⁶⁰

Staffing challenges are encouraging restaurant owners to investigate the possibility of using robots. It has been reported that “fast food restaurants like White Castle began using Miso Robotics robots at their fry stations. Panera Bread will soon use robots to pour beverages for customers, and Chipotle expects robots to be frying and seasoning tortilla chips.”⁶¹

However, others argue that incorporating automation into restaurants is difficult. “Restaurants are pretty chaotic places, so it’s very hard to insert automation in a way that is really productive,” says Craig Le Clair, a vice president with the consulting company Forrester who studies automation.⁶²

The National Restaurant Association announced the winners of the 2023 Kitchen Innovations Awards in February 2023. Several of these highlight such technical advancements as AI and robotics; as well as addressing “the industry’s most pressing challenges, including labor shortages and skill levels, speed of service, space constraints and rising costs.” Here are a few examples of the award-winning equipment innovations:

FryBot - A seven-axis robotic arm allows this robot from Lab2Fab to fry two separate frozen foods, up to 30 pounds each, at the same time and in the same workspace as a human employee.

SafetySuite - PathSpot Technologies created a digitized safety inspection system networked with the company’s HandScanner technology that detects microbial contamination.

Robojo—Powered by MyAppCafe - This totally unattended coffee “theater” is built around two automatic espresso machines, an ice machine, two latte art printers, a refrigerator, and a robotic arm. Customers pay via app or with credit card.⁶³

Restaurant Design

Initiatives, such as outdoor seating and curbside delivery, implemented during the pandemic as a way to stay in business are now here to stay driven by consumer preference. Restaurants are installing more outside seating than ever before, however as noted in Restaurant Trends 2023:

It’s deeper than tossing umbrellas and a few tables on a patio. In 2023, brands must seamlessly integrate the interior and exterior environments to create a holistic experience tailored to the future needs of customers. Restaurant owners have to find ways to infuse the two environments to keep consumers coming back. It’s having a well-thought-out design and environmental experience that speaks to a brand and its message. Guests are looking for flexible spaces so they choose how long they stay and where to sit, “Insta moments” to share their experiences online, and the harmony of interior and exterior spaces they crave to keep coming back to. The design of the space must improve that experience.⁶⁴

Other design aspects resulting from the pandemic include smaller dining spaces. According to Julien Legeard, Founder of Legeard Studio, in a published interview, “Clients are looking to feel a higher level of comfort – similar to what they felt when dining at home – and these smaller spaces provide an enhanced, less overstimulated hospitality experience where they can connect versus being in a large, loud dining room.”⁶⁵

Legeard also noted that lighting is considered one of the most critical aspects when designing a restaurant. “We’re now seeing lighting that you’d find in high-end homes make its way to hospitality as these establishments evolve and look for more ways to integrate cutting-edge technology, create dimensionality within their space, and serve as extensions of our homes. In our work, we’ve been integrating smart lighting systems such as Ketra as they provide endless customization, natural lighting to bring the outdoors in, and personalization for any activity, mood, or dining experience.”⁶⁶

Innovative Venues

Restaurants have always experimented with innovative dining options. Two examples of venues that have often been cited in the COVID and post-COVID periods are ghost kitchens and food halls.

“Ghost kitchens, also called cloud kitchens or micro-kitchens, are commercial kitchens that don’t offer in-house dining options. Instead, their small footprint prepares food for online orders and delivery only. These kitchens are often used as coworking spaces for multiple restaurants, requiring fewer start-up and staffing costs.”⁶⁷ According to the Design Trends 2023: Restaurants 2023 report, “Ghost kitchens are one of the most profitable types of restaurants because of their convenient locations and lower prices for consumers. They aren’t the right fit for every restaurant concept, but as long as online ordering continues, ghost kitchens will thrive.”

However, some sources note that ghost kitchens may face challenges going forward. According to a Restaurant Dive article they “may struggle amid slowing delivery demand and food quality struggles,” said Rishi Nigam, CEO of Franklin Junction. “In 2022, some prominent platforms in the ghost kitchen space began to see restaurant deals fall through despite the ongoing success of Kitchen United, one of the first players in the game.”

In order to succeed, ghost kitchens need to “invest in quality packaging and efficient operations.”⁶⁹ Zhong Xu, CEO and co-founder of restaurant ordering platform Deliverect, noted in a published interview that another factor driving the success of some ghost kitchen and virtual brand companies and the failure of others is disparate familiarity with restaurant operations. According to Xu,

“You have ghost kitchens built by real restaurant operators and brands that have been quite successful. [There are] ghost kitchens built by pure techies, they thought ‘hey, let’s set it up, how hard can it be?’ and then [they] realize that it’s very much an operations game as well a brand game.”⁷⁰

Food halls were named as an “accelerating trend” in a Food Institute article:

Food halls “cater to busy shoppers who don’t want to sit down for a full meal necessarily and bridge the gap between traditional fast-food establishments and restaurants,” said Kay Gowrinath, managing director of Xquisite Productions, a U.K.-based company largely focused on design.

“Since consumers now value speed, efficiency, and choice, these food halls give a good range for couples, families, and people who may not have otherwise gone out to dine,” Gowrinath added.

They might look somewhat similar to the mall food courts of yore, but food halls are designed with a different set of motivations. Food halls have become a robust platform for cultural expression, for one thing, creating a new perspective on dining establishments.⁷¹

The article reports that food halls are “helping keep downtowns vibrant, while revitalizing dilapidated department stores and factories, along with once-fading shopping malls” and makes the point that “some industry experts feel food halls are the safest investment in restaurant real estate.”⁷²

“The ability to easily switch out vendors, host private and public events, and offer a communal setting for groups that may want to eat different cuisines all contribute to their resilience,” according to Phil Colicchio (Executive Managing Director and food, beverage and entertainment expert at Cushman & Wakefield) and Cushman Executive Director Trip Schneck (in a BisNow article).⁷³

Dining Trends

Some current dining trends do have an impact on the space and equipment needed.

Consumers continue to want high-quality food when dining, but increasingly they are looking for experiences combined with their meal. Entrepreneur Magazine reported on survey data that found that “Customers are seeking more than just a delicious meal and are looking for a memorable location (76%), a surprising menu or theme (84%) and a truly unique experience (74%).” Experiential dining can incorporate the following, just to name a few:

- Multisensory fine dining experiences
- Themed restaurant
- Pop-up restaurants
- Interactive or theatrical dining experiences
- Game bars and restaurants
- Speakeasy bars⁷⁴

Having an open kitchen can provide entertainment and interaction. “An open kitchen, typically visible through glass or partitions, gives clients a transparent food prep experience. Open kitchens provide an “eatertainment” element, where guests can often enjoy a view into the kitchen from the dining room. High visibility from the kitchen to the dining space maintains that sense of engagement but also creates an implied sense of sanitation and transparency.”⁷⁵

The fine dining venue Atomix NYC is one example:

Upon arrival, guests can visit the sophisticated ground-floor cocktail bar or the skylit lounge area for pre-dinner drinks and snacks. Next, guests can find their seats at an intimate U-shaped counter surrounding the open kitchen located in the dramatic basement space. Before the first of the 10 courses is served, guests get to select their own chopsticks from an artisan collection. Guests get a welcome card and menu cards with detailed information on the dish's ingredients and origins and the inspiration behind them.⁷⁶

Another possible trend that may impact design needs, is increasing consumer interest in eating at the bar in fine dining venues. According to one article,

Another shift in consumer behavior is occurring at Titan Hospitality Group's fine dining restaurants. Customers are increasingly dining at the bar, James King, founder and CEO of Titan Hospitality Group, said. Typically, the bar has had more drink sales, but food sales have been increasing over the past six months. This has been a favorable trend for his restaurants since it increases sales and keeps diners around longer, he said.

"We like this trend. It's a great thing for us and we're having conversations now about how do we expand on that and make [the bar] more dining friendly and really entice people," King said. "It helps us turn seats and takes a little pressure off the kitchen because it's coming in at different times."⁷⁷

Sustainability

There are numerous ways that restaurants can become more sustainable in terms of the equipment used in addition to such widely touted options as solar panels and charging centers for electric vehicles. Kitchen equipment, HVAC systems, and lighting can be replaced with the "latest energy-efficient, smart models that can turn off equipment during slow times to save energy."⁷⁸

Vendors are working with restaurant owners to improve the impact of such new equipment purchases on ROI. According to Manik Suri, CEO and founder of smart cooling company Therma, "A lot of the newer sustainability technology companies have dropped the payback period, so now you're ROI-positive from day one. More restaurant brands these days want to position themselves as sustainability-focused because that's what younger consumers want these days. But you don't have to bleed green to make a difference. You don't have to be a climate activist. It's just good business."⁷⁹

And restaurants are not only focusing on equipment when it comes to sustainability, they are incorporating it into the design of their space. The California Business Journal identified key areas "that are really pushing the boundaries of sustainable creativity when it comes to new and upgraded designs" in a recent article. They include:

- LEDs or Compact Fluorescent Lightbulbs
- Timers And Motion Sensors for Lighting
- Biophilic Design
- Low-Flow Toilets, Sinks, And Spray Valves
- Solar Power
- Hemp ("Widely acclaimed to have the lowest environmental impact from a lumber alternative, HempWood® is being adopted for a variety of construction and decoration uses in restaurants.")
- Bamboo ("Restaurants are using bamboo in tabletops, chairs, wall siding, and flooring, as well as operational execution such as disposable bamboo cutlery.")
- Reclaimed Wood
- Recycled Glass
- Composting⁸⁰

An example of how restaurants are evolving to reduce their environmental impact is Chipotle's all-electric restaurant which was unveiled in April 2023. The new design completely omitted gas grills and replaced them with electric systems that can be powered by renewable energy. The new format also includes "rooftop solar panels, electric vehicle charging stations and biodegradable flatware and bowls. Other changes include cactus-leather chairs and artwork made from recycled rice husks. Chipotle (CMG) will tweak the design based on feedback from customers and employees, the company said." CNN reported that "two of these new locations have opened in Gloucester, Virginia and Jacksonville, Florida, with a third opening this summer in Castle Rock, Colorado. The goal is to have 100 new locations operating entirely on electricity next year, which is a small percentage of the long-sought goal of operating 7,000 locations across North America over the next several years...Chipotle is constantly tweaking its store designs. It's currently experimenting with designs that are smaller than its typical footprint and focuses on digital ordering so it can build new locations in urban areas where real estate is pricier."⁸¹

Generational Differences

There are clear differences in dining preferences that should be taken into consideration when creating a restaurant's business strategy. For example, younger generations favor increased incorporation of technology into their dining experience. According to the 2023 State of the Restaurant Industry, while the majority (65%) of consumers prefer traditional service by employees, "Baby boomers (80%) and Gen Xers (71%) were much more likely to pick the restaurant that offers traditional service." Millennials and Gen Z adults were found to be split between the traditional employee option and restaurants that incorporate more technology into the experience. Younger generations are also more interested in utilizing technologies such as digital wallets for payment and self-service electronic kiosks for ordering than Gen X and Boomers.⁸²

Here are some further generational differences identified by ARF Financial:

- Almost 2/3 of younger generations are "into the idea of tasting menus or chef's table experiences, but the baby boomers would rather pass (just 1/3 of them are on board)"
- Gen Z adults and millennials "love the idea of ordering several-course meals for takeout, diving into the meal subscription trend, or using meal kits from services or restaurants"
- Gen Z and millennials "also love restaurant swag—hats, shirts, glasses, you name it"
- "Sustainability is a key driver in bringing younger generations to the table: more than the baby boomers, these folks prefer restaurants with an eye on sustainability and the environment."⁸³

Graham Humphreys, CEO at culinary innovation consultancy Culinary Edge, called out Gen Z as a "huge opportunity" in a session at the National Restaurant Association Show in May 2023. In comments published in Restaurant Business, "Humphreys and Nikki Freihofe, associate director of strategy at Culinary Edge, noted that Gen Zers have \$360 billion in disposable income, but they are eating out about 10% less than millennials did at the same age. This presents a huge opportunity for restaurants. According to Humphreys, marketing brands or products that resonate with consumers' social identity is the major way restaurants can attract younger consumers, but social responsibility is a close second."⁸⁴

Case Studies

AI Adoption in Restaurants

Similar to other industries, using AI in restaurants has the potential to increase the efficiency of operations. Until recently, AI in restaurants has been in reference to “robot automation like drive-thru and phonebank AI.”⁸⁵ However, restaurants should also start paying attention to generative AI, including the use of platforms such as Open AI and ChatGPT.⁸⁶ Marbet Lewis, founding attorney for hospitality and restaurant industry law firm Spiritus Law, predicts that AI could eventually be used to create menu concepts and pairings as well as developing other new business ideas for owners.⁸⁷

Chipotle is one brand that has invested heavily in AI and other technologies in their restaurants. In April 2022, the company announced that “it was establishing a \$50 million venture fund to accelerate new technologies through its sites to boost customer experience and tackle ongoing issues with labor costs and shortages.” Also in 2022, the company started piloting a new kitchen management system that leveraged AI and machine learning to monitor ingredient levels and signal to staff how much to cook and prepare.⁸⁸ Other ways Chipotle leverages AI include a robot named “Chippy” to create their tortilla chips.

Checkers and Rally’s have also implemented AI by using it to take orders at their restaurants. After initial testing, results included:

- Increased efficiency using AI over humans to take orders
- A more consistent customer journey with a pleasant voice 100% of the time
- Upselling was accomplished more frequently using AI to take orders⁸⁹

Employees at Checkers and Rally’s also found that “the implementation of AI for order-taking led to less strain on the staff and more time to focus on higher-value tasks and interaction with the customer.”⁹⁰

Taco Bell’s Defy Concept

As consumers continue to desire convenience beyond the pandemic, restaurants have experimented with new concepts such as pick-up or drive-thru-only locations. One such concept is Taco Bell’s Defy prototype.

In June 2022, Taco Bell opened a digitally-focused restaurant with a four-lane drive-through. Main features of the concept include check-in screens for mobile orders, two-way AV services to speak with staff, and food elevators to bring food down to customers.⁹¹

Additionally, according to the Taco Bell website, customers still have options for how they order their meals at a Taco Bell Defy:

- Pre-orders: Customers who order via the Taco Bell app will receive skip-the-line service.
- Delivery Drivers: For those ordering through a third-party delivery partner, drivers will be able to process orders with the goal of providing an even faster delivery time.
- Traditional Drive-Thru: For those who prefer to drop in for their favorite menu items, there’s one lane dedicated solely for that purpose.⁹²

“Taco Bell Defy is an incredible innovation for our brand and one that’s meeting our consumers in a really unique way. For decades we’ve been committed to providing a fast, safe and friendly drive-thru experience; now with our bold goal of creating a 2-minute or less drive-thru experience for customers of this concept, Taco Bell Defy is the future.”⁹³

— Mike Grams, Taco Bell President and Global COO

Looking ahead regarding equipment purchasing

A number of factors will impact the future of equipment purchasing in the restaurant industry.

As restaurants attempt to increase efficiencies and have a continued focus on technology, this will impact equipment purchases. This could include robotic equipment that helps with tasks such as cooking, as well as equipment that combats labor issues, such as systems that implement AI ordering.

Additionally, the growth in pick-up orders and off-premise dining will also influence equipment needs. Trends in restaurant design and sustainability are other areas that will affect equipment purchases. Restaurants may update current equipment, lighting, or HVAC systems with more sustainable options.

Over half of restaurant operators are planning to increase their equipment and supply budgets in 2023 and 67% plan to make kitchen equipment replacements. These plans highlight the importance of equipment to restaurant operators.

Conclusion

“It used to be that experiencing the joy of eating from a restaurant meant ordering and dining in person. Today, restaurants are taking a different approach to ensure that, no matter where customers are or what their comfort level is with in-person dining, they can still experience their cuisine.”⁹⁴

COVID-19 fueled changes in the industry that are here to stay, such as the growth in popularity of outdoor dining, the adoption of new technologies, and the success of delivery and take-out options.

Additionally, there have been many positives for restaurants post-Covid, including consumer desire for dining experiences and their rapid adoption of new models to service customers. However, continuing macro-level challenges such as staffing and supply chain issues may be impacting their ability to finance growth and technological expansion. Automation is one way restaurants may try to fight labor shortages and rising wages, creating opportunities for new equipment to be utilized in the industry.

The continued challenges restaurants face, coupled with advancing technology and customer preferences, will drive restaurant strategy going forward.

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About the Researcher

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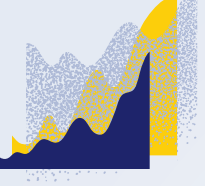
⁹⁰<https://www.forbes.com/sites/forbesbusinesscouncil/2022/09/02/how-technology-is-changing-the-restaurant-business/?sh=11a-f00a0659a>

⁹¹<https://www.fastcompany.com/90846979/most-innovative-companies-dining-2023>

⁹²<https://www.tacobell.com/news/taco-bell-defy-concept-opens-june-7-one-of-the-most-innovative-drive-thru-experiences-yet>

⁹³<https://www.tacobell.com/news/taco-bell-defy-concept-opens-june-7-one-of-the-most-innovative-drive-thru-experiences-yet>

⁹⁴<https://www.restaurantdive.com/spons/squares-future-of-restaurants-report-2022-edition-2/632422/>



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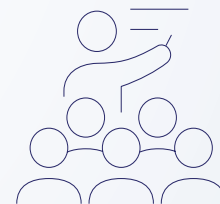
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