

2021 Guide for Restaurants

14 THINGS TO WATCH



BLACK BOX
INTELLIGENCE

From the Desk of Kelli Valade



Against the backdrop of divisiveness and contention in our world coupled with a global pandemic, we can likely agree that we are ready to move on. Yes, there's still a lot of work to do to heal our industry, and our world, and our challenges won't disappear simply because we began a new year. But at the start of 2021 we do come into it with optimism and hope for a better year for everyone.

On the heels of a very challenging year, we are hard at work planning and executing on how we can best support the industry we love, and the future is bright. There is a lot on the horizon. In the meantime, we wanted to kick off the year with the things we are watching closely in 2021.

We're thrilled to include additional political commentary from our good friend and partner Joe Kefauver at Align Public Strategies, and an economic outlook from our resident economist, Joel Naroff, president of Naroff Economic Advisors.

As with everything we do, we hope the data to follow reveals insight to help you as you plan for what's ahead.

With gratitude,

Kelli Valade
CEO & President
Black Box Intelligence™

State of the Industry: 2020 in the Rear View Mirror

To call 2020 a challenging year for restaurants would be an understatement. The industry's same-store sales fell by almost 17% during the year. Same-store traffic dropped by slightly over 20% year over year. These drops are not surprising, given the circumstances. But closer examination reveals the year ended on a concerning note.

Although the -11.4% same-store sales growth reported for Q3 represented quite the rebound from the worst of the pandemic in Q2 (when same-store sales fell by an alarming -35.1% year over year), restaurant sales performance stagnated during the second half of the year. In fact, same-store sales growth for Q4 remained flat in comparison with the previous quarter. The recovery was sidetracked by a new spike in COVID cases and the arrival of colder weather.

Additionally, the lost revenue from those restaurants that had to close their doors completely compounded the industry's troubles in 2020. It's safe to assume that those restaurants that have not been in operation for the last nine months are likely now permanently closed.

By the end of 2020, about 8% of chain restaurant locations remained completely closed.

What was evident from the beginning of the pandemic, and continued throughout the rest of 2020 and into 2021, is that limited-service restaurants were much better poised to succeed in this environment. As the focus of restaurant operations had to shift to off-premise sales, those restaurants farther along the adoption curve of to-go and delivery found themselves in a much

better situation than the rest. By Q4, limited-service restaurants were able to return to positive same-store sales growth at 1.7% year over year.

But the story is different for full-service restaurants, which despite an initial rapid recovery, still found themselves with same-store sales growth of -22% for the last quarter of 2020. Furthermore, as the number of COVID cases rose through the end of the year, the industry seems to be reverting to where it was earlier in the recovery period, with full-service sales growth worsening compared to its Q3 performance.

When the pandemic started and the most severe shelter in place orders were enacted, the industry naturally had to adapt very quickly. In an unprecedented shift, during the second half of March and during April about 95% of all restaurant sales were for off-premise consumption. Restaurants that had not done delivery before or never considered curbside pickup suddenly had to jump in with survival on the line. Although naturally the mix of off-premise sales tapered off as restaurant dining rooms started opening by the end of last Spring, off-premise still represent a much higher percentage of overall restaurant sales today than it did pre-COVID. Moreover, during the last weeks of the year, off-premise mix started rising again for full-service restaurants.

For full-service restaurants, by December off-premise sales represented three times the percentage of total sales they were pre-COVID. For limited-service brands, who traditionally sold most of their meals through off-premise even before the pandemic, the reliance on drive-thru, to-go and delivery also increased. Off-premise sales mix remained 15 percentage points higher by end of 2020 compared with its first two months.

Economic Outlook

The economic outlook for 2021 is fairly good. However, the residual effects of the pandemic and the shutdowns have created an unusually large number of uncertainties that raise questions about any forecast.

The virus outbreak led to the largest decline in economic activity on record, which was promptly followed by the largest increase ever seen. But the recovery was largely driven by government payments to households and businesses.

Enhanced unemployment payments, emergency pandemic unemployment benefits for previously ineligible small business owners and gig workers and business loans and grants that funded the retention of millions of workers, supported the economy.

Ultimately, the private sector will have to stand on its own and the transition may not be easy. There are still ten million people unemployed, almost twenty million receiving unemployment payments and millions of workers whose paychecks are funded by government programs such as the PPP.

The recovery has been unevenly distributed and somewhat artificial, a major concern for the restaurant industry. Lower income workers have suffered, while upper income individuals generally did well. When the unemployment subsidies run

out, so will the spending power of those households devastated by the shutdowns.

In addition, the government funding kept many firms from failing. When that support disappears, bankruptcies could surge, restraining job, income and spending growth.

So, what is the economic forecast for 2021 and what might it mean for the restaurant industry?

Mass vaccinations should cause the pandemic to fade, and as firms reopen, the economy should expand solidly. However, by late spring or summer, the full negative effects of the economic chaos should become clear. Without additional stimulus funds, the expansion could fade significantly. Second half growth is expected to be modest to moderate at best.

The implication for the restaurant industry is that, given the uneven recovery, demand gains could vary greatly by segment. Those dependent on lower to middle income households may not see a significant rise in demand. However, those whose clientele tend to be better off could do extremely well, especially when restaurants reopen fully. So, follow the details of the employment and income reports. They should show how compensation is growing across different income groupings and where customer traffic might rise or even fall.



Joel Naroff

Joel L. Naroff is the Black Box Intelligence economist and president and founder of Naroff Economics, LLC, a strategic economic consulting firm. He advises companies from a wide range of industries on the risks and opportunities that economic developments may have on the organization's operating environment.

Joel is the author, with veteran reporter Ron Scherer, of *Big Picture Economics: How to Navigate the New Global Economy*, published in April 2014. The book, written for everyone, provides a roadmap for decoding the mysteries of a tumultuous economy. It helps people put the pieces together and form frameworks for future decision-making.

Public Policy Considerations

There are two ways to look at what's facing the industry from a legislative, regulatory and reputational lens in 2021. One is what we knew was coming regardless of the election outcome and the other as a result of it. The COVID-19 pandemic dramatically changed the industry's legislative and regulatory agenda more in one year than it had changed in the previous twenty. Not only were a host of new issues put on the table - dining area limitations, health and safety requirements including personal protective equipment, third-party delivery caps, alcohol delivery, cocktails to go and liability protection, to name a few, but our existing agenda of traditional business model issues like wages and benefits were now being viewed through the lens of worker health and safety. Those issues are now discussed using terms like essential worker, hazard pay, job protection for workers forced to quarantine, etc.

As a result, the industry must be prepared to message differently on these issues than we have previously.

We can't fall into the political and reputational trap of arguing our workers are essential, frontline workers when it comes to reopening guidelines and financial support from governments and then simultaneously reject calls for hazard pay, expanded leave and worker health and safety requirements. It won't wash. So we need to be more thoughtful and strategic in how we approach these issues. Additionally, states and localities are facing monumental revenue shortfalls as they absorb both the costs of the healthcare crisis they are facing on the ground as well as a simultaneous economic meltdown. They will be looking for revenue anywhere they can find it and the employer community will likely be among the first stops.

But we knew this before November and most employers have been planning and preparing accordingly. What we didn't know was who would be running the country. We

now know that in spite of election night rhetoric to the contrary, it turns out the Democrats had a pretty good night - they now own the White House and both houses of Congress. As a result, the industry will likely be engaged in a more vigorous national conversation around a federal minimum wage increase, potentially play a major role in brokering a workable federal paid leave process and be involved in an additional stimulus package conversation. But the first priorities of the Biden Administration will generally be pandemic-related. Congress as well as the Labor Department and OSHA will immediately and aggressively pursue vigorous national workplace safety standards to protect workers from COVID-19 transmission. Reversing Trump-era labor regulations will be high on the priority list as will a robust climate-related agenda, but those will have to wait until the country gets its arms around the pandemic. At both the state and federal level, responding to COVID-19 will absorb most of the legislative and regulatory energy in 2021.

With challenge, however, comes opportunity. One significant unforeseen positive that has come out of the past terrible year for restaurant owners and operators is that policymakers at all levels of government and across the political spectrum have a renewed understanding of the critical role that the industry plays in not only the national economy but in the economy of cities and towns. Mayors across the country, as well as many governors, have been working hand in hand with the industry to help these businesses survive. We have not experienced anything approaching this level of understanding and partnership with local and state officials at any time in my twenty-five years in the industry. We should continue to build on those relationships and work together with policymakers to rebuild our local economies. That is the best way to protect our businesses, our employees and our communities in 2021.



Joe Kefauver is the Managing Partner of Align Public Strategies, a full service public affairs and creative firm that helps corporate brands, governments and nonprofits navigate their external environments and inform their internal decision-making. Joe is a respected advisor to senior corporate executives throughout the Fortune 500 and is a valued opinion leader within many consumer-facing industries.

Prior to starting Align Public Strategies, Kefauver was Vice President of Public Affairs for Wal-Mart Stores, Inc. where he oversaw all state and local government matters for the world's largest corporation. Kefauver also served as the Director of Government Affairs for Darden Restaurants, Inc. At Darden, Joe oversaw the company's federal and state government relations programs as well as their political involvement including managing their Political Action Committee.

Kefauver currently serves as a contributing editor for Convenience Store Age, Retailing Today, Nation's Restaurant News, Supermarket News, Convenience Store News as well as produces the weekly Working Lunch podcast for NRN.

Joe Kefauver

joe.kefauver@alignpublicstrategies.com

Reactions to COVID-19

Off-Premise

The virus undoubtedly accelerated an ongoing trend towards more off-premise operations for restaurants and much of that increased sales mix will surely start decreasing again once the health risks fade away. But there is no doubt some of that increased reliance on off-premise will stay for most restaurants, regardless of segment, in years to come.

Investment in Tech

To thrive in the aftermath of the pandemic, restaurants should remain vigilant about continuing to work towards providing a seamless and frictionless experience, both on and off-premise. To achieve this, investment in technology is essential. Furthermore, operators will need to make sure the technology investments are working for restaurants, not against. To do this, training of all employees on restaurant technology remains of paramount importance.

Restaurant Design

As the pandemic amplified demand for convenience and contactless ordering and pickup, expect restaurant locations to get a makeover. Brands have already unveiled futuristic designs that include more drive-thru lanes, expanded outdoor dining areas and contactless curbside pickup areas. Some brands may opt for more express-style stores eliminating dine-in seating altogether.

Value Resurgence

Family bundles and combo meals reigned supreme in 2020, helping restaurants get traffic during shelter-in-place orders. This value-driven approach will remain key in a post pandemic world, as consumers continue to watch spending as we navigate economic uncertainty. Even as the vaccine is more widely distributed, consumer habits will need to shift toward dining out again. Until then, focusing on value will help get guests in the door, even if it is still for off-premise consumption.

Financial Intelligence clients have access to the most comprehensive data set in the industry and can benchmark their sales & traffic against competitors. Learn more at blackboxintelligence.com/financial-intelligence.

Meeting Guest Expectations

Focus On Service

Guests have become more accustomed to ordering through digital channels for delivery or curbside pickup, but are craving human connection. What better industry is there to offer this to guests than restaurants?

Pre-pandemic, service was the attribute that consistently set top performers apart. Guests were initially forgiving of service issues like longer wait times. There is a service component to off-premise offerings also; guest expectations are likely to increase. Ultimately, service will be more important than ever as guests unleash their pent up demand for enhanced restaurant experiences.

Menu Innovation

Restaurants have had to innovate in other ways over the past year, such as implementing family-style to-go meals or even drastically cutting their menus. With the return of the restaurant experience, expect menu innovation to reach new levels and span across all segments to widen appeal to new and regular guests.

An increased focus throughout the industry will be on adding more plant-forward options. Big chains partnering with brands such as Impossible Foods and Beyond Meat are becoming the norm; expect more of this in 2021 with more creativity using these products.

Cleanliness

Cleanliness is still the new ambiance and guests will not be shy about sharing feedback on whether restaurants are following COVID-19 protocols or not.

With online review platforms allowing user-generated feedback to include COVID-19 procedures such as whether employees are wearing masks, it will be much easier for guests to select where to go based on this criteria.

Guest Intelligence clients track their service and ambiance scores as well as other guest satisfaction metrics in real time. Learn more at blackboxintelligence.com/guest-intelligence.

From the Desk of Joni Thomas Doolin

Workplace expert and Founder of Black Box Workforce Intelligence™



We have tracked and studied the restaurant workforce for over 20 years, through multiple economic cycles, government administrations, natural disasters and crises. The unemployment rate has varied from below 4% to over 10%. However, nothing in those 20+ years compares to the shock and volatility of the past 10 months as the pandemic has impacted our industry. With the restaurant industry losing 372,000 jobs in December of 2020 alone, we find ourselves in 2021 facing the most complex and challenging workplace issues, ever.

Overall, our workforce is extremely fragile. Ten months of uncertainty, financial hardship and too often harassment from guests, has resulted in burnout at best and PTSD at worst. **Our number one workforce priority this year must be finding the ways that we can address our employees needs for safety, security and wellness.** That will be even more challenging in the context that our managers are also under pressure, with fewer employees and less take-home pay during 2020.

While this crisis is unlike any other that we have experienced, there are a few things that we know will remain true. The industry is resilient. We have seen remarkable innovation, technological advances and creativity in ways to keep the doors open and survive. The heart of employees and the caring that they have shared with their communities and one another is a hallmark of why we not just survive but thrive on the other side.

With Gratitude,
Joni Thomas Doolin
Founder
Black Box Intelligence™

Workforce Watch

Vaccine Requirements

The decision to require or encourage employees to receive the vaccine will continue to stir debate among the restaurant industry. Having staff vaccinated could be key to helping the industry and restaurants will continue to struggle if they don't have enough employees to operate daily.

Nonetheless, mandating the vaccine for employees comes with its own implications. It's unclear for now if the government will provide any assistance with vaccine costs to the restaurant industry and requiring employees to take the vaccine would imply that the employer would cover the expense.

Wage Increases

There is no doubt the minimum wage conversation will accelerate. President-elect Biden has stated that he is hopeful democratic control of House and Senate will raise odds on prompt action to increase the minimum wage and has publicly supported a hike to \$15 an hour.

As of mid-January, Biden's proposal for a new pandemic relief bill includes provisions for this increase in the minimum wage, signaling this will be among the items prioritized by the new administration's agenda.

Employee Wellness

Wellness programs lost traction over the years but are starting to become a renewed focus at restaurants. Employers are looking to expand beyond common offerings such as gym discounts and fitness incentives.

Employee wellness initiatives for restaurants are extending beyond physical fitness to include mental health, stress management, financial wellness; some are even beginning to offer wellness personal days.

Workforce Intelligence clients know exactly how their brand stacks up against competitors with detailed salary information, turnover metrics, benefit offerings and more. Learn more at blackboxintelligence.com/workforce-intelligence.

Restaurant Technology

Data Convergence

We are living in a time with more access to data than ever before. There is no shortage of applications available to the restaurant industry that provide valuable data to operators. Nonetheless, it's likely a lot of that data is locked up in silos throughout organizations.

The good news for the industry is there is an abundance of access to rich data. The challenge is streamlining it and having the ability to analyze it cross-functionally. Look for solutions that aim to help you consolidate your data and provide a single source of truth so your entire team has access and can collaborate.

Black Box Intelligence is working on something to help you do just that... stay tuned this year for an update that will take your business intelligence to the next level!

Robotics & Digital Ordering

The use of automation and robotics has grown, as was predicted, albeit accelerated by the pandemic. Rising labor costs and staffing challenges already made the concept of self-operating kitchens more than a futuristic curiosity. Viewed through the COVID lens, there is added appeal for operators and consumers for increased use of kitchen robots. In addition to increasing efficiencies inside the restaurant, they reduce human contact with food and provide a more touch-free experience.

The coronavirus pandemic also accelerated adoption of digital ordering technology among restaurants and it is here to stay. Consumers are getting used to the convenience of touch-free interactions, plus it has the added benefit of potentially reducing human error in order taking.

Expansion of virtual brands and increased adoption of touch-free technology is par for the course in 2021 and will likely remain that way even after the pandemic.

WHO USES BLACK BOX INTELLIGENCE?



C-SUITE

Validate and inform your decision making with in-depth knowledge of how your restaurants perform in the market and stay a step ahead of your competitors

FINANCE

Present clear, actionable data and provide a definitive or complete picture of how your sales and traffic data stacks up against other restaurants



HUMAN RESOURCES

Boost employee retention and engagement by having the data and knowledge you need right at your fingertips

MARKETING

Use unsolicited guest feedback and consumer data to inform your promotions and messaging strategy



INSIGHTS

Solidify your forecasting and projections with insights into consumer and employee behavior across all of the Black Box suite of products