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Future of Restaurants and Food Service: Thriving amid disruption

Contents

Introduction

The restaurant industry is challenged. According to Deloitte research, intent to spend on restaurants is lower than two years ago, when a short post-COVID-19 pandemic resurgence briefly elevated restaurant spending.[1] In 2024, 20 large restaurant chains filed for bankruptcy, the most since 2020 at the height of the pandemic.[2] In addition, we recently conducted a survey of 150 restaurant executives to better understand what drives them, what they prioritize, what trends they are seeing, and the investments that they are making. According to this survey, restaurant companies are facing multiple challenges across the business, from struggles to grow traffic to high input costs.[3]

To address these challenges, restaurants appear to be taking actions in specific areas, including improving their digital experiences, innovating their menus, improving everyday value to drive traffic, and implementing efficiency measures to cut costs. Each of these point plays could provide temporary relief, but a more holistic approach may be warranted to help shape a thriving future and enable longer-term growth.

Our research indicates that there are five strategic considerations that restaurant companies should understand and consider incorporating into a more holistic plan to help with sustained growth. However, before we get to those considerations, it is important to understand how we got here.

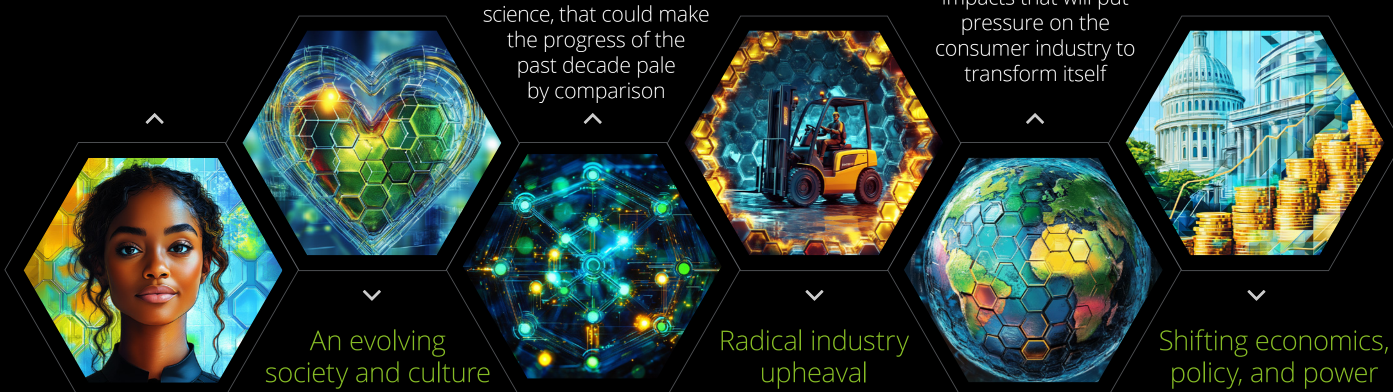
Unprecedented macro forces

Deloitte's ongoing research into the future of the consumer industry has culminated in the identification of six forces reshaping all consumer-facing businesses. These forces—encompassing shifts in culture, society, geopolitics, policy, and technology—are converging with unprecedented speed and complexity, accelerating the pace of evolution for restaurants. (See sidebar, "Six forces shaping the consumer industry" and the Deloitte article here.)

Each of these forces are playing out in the restaurant industry. For example, while restaurant companies may have historically been able to target the broad middle of the consumer bell curve, the unprecedented fragmentation of consumer backgrounds, needs, and wants are contributing to a shift from mass strategies to micro strategies and personalization.

When combined with the exponential change in technology, restaurant companies may find themselves under pressure to leverage artificial intelligence (AI) and digital marketing to connect with these consumers.

Restaurant companies should understand how these forces are driving the issues that they face in their businesses and the strategic imperatives that may help them to navigate this changing world.



The unprecedented consumer
evolving and transforming across multiple dimensions

An evolving society and culture
with consumers breaking free of traditional anchors

Exponential xTech
with advancements in infotech and a broad set of technologies, including biotech and material science, that could make the progress of the past decade pale by comparison

Radical industry upheaval
with the dynamics shaping the industry in pace and intensity

Environmental pressures and the energy renaissance
and their economic impacts that will put pressure on the consumer industry to transform itself

Shifting economics, policy, and power
that are taking a hard pivot, are becoming increasingly uncertain, and could require a more flexible approach to management

Issues driven by extraordinary change

The macro forces are having an outsized influence on restaurant companies. We've identified several issues, backed by our broad proprietary research with restaurant executives and our research with the James Beard Foundation.[4] Many of these are evergreen issues, made more intense by the changes over the past decade and accelerated by the pandemic.

Radical transformation of the consumer

Today's restaurant consumers are a varied mosaic, driven by demographic shifts.

The baby boomer generation was more than **70%** White, while Gen Alpha is less than **50%** White, with Asian, Black, Hispanic, and other races making up more than **50%**.[5]

This diverse set of consumers is expected to have a diverse set of needs and wants.[6] And more than a quarter of the country's households are single-person households, with a trend that indicates that it will only continue.[7] As mentioned, to reach this varied group, restaurant companies may need to change how they market—from targeting the broad middle to being much more segmented and personalized.

Advancements in technology and the rise of AI

Restaurant companies often face real pressure to improve their digital experiences and kitchen operations in a world where many still rely on legacy technology.

In a Deloitte survey of US restaurant executives, **84%** of respondents said they believe there is increasing pressure to offer a better digital experience. In the same survey, upgrading legacy data and technology infrastructure came in second only to driving customer frequency as the top challenge for leaders.[8]

This could indicate that restaurant companies are working to resolve "tech debt" at the same time that they are racing to improve digital experiences.

Even smaller, independent restaurants are feeling pressure to up their digital game.

According to research by the James Beard Foundation and Deloitte, **75%** of independent restaurants surveyed use social media as a key tool for engagement.[9] At the same time, AI is changing the game for restaurants.

AI is advancing faster than Moore's Law, doubling in power every three months, as adoption costs are falling.[10] So, while restaurant companies are feeling pressure to modernize their systems and improve their digital experiences, they also may **need to harness the power of AI to transform their business or else risk being left behind.**[11]

The relentless push for more convenience

Convenience has been an ask of restaurant companies for as long as there have been restaurants. Today, the bar appears to be set higher than ever. With the rise of restaurant delivery during the pandemic, **some consumers may expect that with a few taps on one's phone, food can be on its way.**

With that can come challenges. Some restaurants may find that they need to create multiple channels for ordering and receiving food: web, app, kiosks, delivery, various forms of pickup, multiple drive-thru lanes at quick-service restaurants (QSRs), ghost kitchens, and drone delivery.[12] These channels are often digitally enabled—requiring digital tools that are sophisticated yet easy to use—and have rewards that can entice customers to use them. Channel expansion can also add new partners to the mix. In our survey of restaurant leaders, **78% of respondents reported that managing delivery aggregators is a big challenge**, because they own the customer relationship while driving up prices for those same customers.

Creeping operational complexity

The expansion of channels has contributed to a rise in complexity in some restaurants as well. Managing multiple channels can include fundamental changes to team member roles, such as finalizing orders for multiple pickup channels with different procedures, and restaurant layouts. This is often true in restaurants with high delivery percentages.

The fragmentation of the consumer base, as mentioned earlier, could also contribute to complexity in the kitchen, as some restaurants attempt to cater to multiple audiences through limited time offers (LTOs) and new permanent items.

A 2022 survey noted that **52%** of those surveyed seek out LTOs when choosing where to dine, and **39%** of consumers are most likely to experiment with flavors through sauces, seasonings, and toppings.[13]

The proliferation of proteins has also driven complexity. Per capita, chicken consumption in the United States overtook beef in 2010.[14] Since then, even traditional beef-forward restaurants have likely considered the quality and variety of chicken offerings.

Eroding restaurant economics

According to Deloitte's survey of restaurant executives, **high input costs was cited by 88% of respondents as a top concern**, the highest in the survey.[15] This includes both direct materials and labor, despite recently slowing inflation. This was echoed in the recent joint research by the James Beard Foundation and Deloitte, with rising costs and hiring a top concern, regardless of business type or geography.[16]

Rising environmental threats

Natural disasters have impacted the state of restaurants, which affects traffic and input costs.[17] In addition, **waste and high energy usage are among the biggest challenges surveyed restaurant leaders said they face when attempting to improve operations and supply chains.[18]** Those that fail to adapt could fall behind in both compliance and consumer trust.

Five imperatives for restaurants to consider

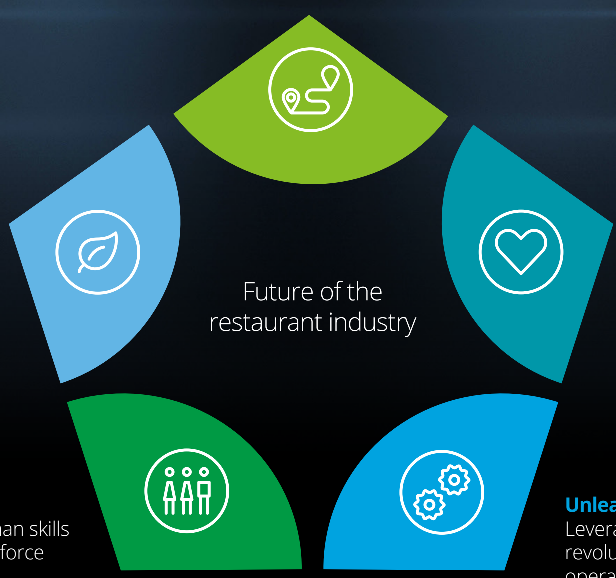
Unprecedented impact of macro forces are contributing to extraordinary change. Restaurants can consider a wide range of solutions. Deloitte has developed a list of five imperatives for the restaurant industry to consider.

We will dive into each one in turn and explore options for restaurant companies to consider to improve sustained performance.

Restaurant imperatives

To overcome the issues and drive future performance, restaurants should consider these five imperatives

Unlock new growth horizons
Pioneer new concepts, formats, and menus to drive growth while expanding in emerging geographies and nontraditional locations to access new customers and segments



Serve up a sustainable future
Championing sustainability and responsible waste management as a signature offering through core values, transparency,and partnerships

Elevate convenience and connection
Enhance brand affinity, loyalty, and customer lifetime value through digital and physical experiences to embed in relevant communities and create new ones

Empower the future-ready workforce
Integrate technology seamlessly with human skills to develop an upskilled future-ready workforce

Unleash breakthrough efficiency
Leverage data, AI and automation to revolutionize in-store efficiency, back-office operations and create a predictive enterprise

Five imperatives for restaurants to consider

Unlock new growth horizons

Restaurant companies should consider pushing beyond traditional boundaries to capture new customers, markets, and revenue streams. These could include new formats; innovative concepts; food innovation to capture the increasingly diverse consumer; regional and international expansion; daypart and occasion expansion; and targeting new segments.

- **New formats.** **Some restaurant companies are increasingly finding it difficult to find locations for their traditional stores. In Deloitte's survey of restaurant executives, 83% of respondents cited this challenge, making it a top-five issue.** However, with new and different formats, and nontraditional locations, restaurants can meet consumers wherever and whenever they want to eat. To that end, some restaurants are experimenting with new form factors. These include walk-up, drive-in, drive-thru, and takeout-only restaurants. Some restaurant companies are also optimizing within their existing footprints to help meet the proliferation of channels, by reducing the sizes of dining rooms and expanding kitchens to include digital-only make lines, increased space for delivery pickup, and mobile order pickup areas.

- **Innovative concepts.** Some restaurant companies may also be looking at new concepts to reach incremental segments of consumers, whether that is to take advantage of the growth of beverages or to cater to emerging flavor trends.

- **Geographic expansion.** Many restaurant companies are expanding regionally. Smaller brands that began in one region with a unique flavor profile are finding that those foods and flavors can have broad appeal as the country becomes more varied. At the same time, some concepts can be popular internationally, and multiple chains are ramping up international expansion plans.

- **Menu and culinary innovation.** The fragmentation of customers can create challenges as well as new opportunities for growth. Consider the popularity of customized beverages: extensive flavor combinations, "secret menu" options, "dirty sodas," multiple types of coffees and teas, energy drinks. There is also a burgeoning non-alcoholic beverage market presenting a major opportunity, driven by health-conscious consumers and Gen Z's lower alcohol consumption.[19]

Rise of zero proof

One of the most notable spending shifts has been in alcohol consumption, with 47% of restaurants reporting noticeable change.[22] While rising costs may have contributed to this trend, shifting customer preferences for indulgence and attitudes toward alcohol consumption are also likely factors.

Furthermore, the increasing use of GLP-1 weight-loss drugs[20] may further shift consumer preferences toward smaller portions, lower-calorie options, and "better-for-you" ingredients across the entire menu. This shift could place greater pressure on restaurants perceived as a treat as opposed to others with a perceived healthier menu.

However, the overall impact of GLP-1 drugs on the industry could remain manageable if restaurants are agile in responding to evolving preferences.[21]

Further, innovative flavors, sauces, and condiments can create new excitement in core menu items, allowing for incremental offerings while minimizing kitchen complexity.

- **Revenue growth management.** Some restaurant companies appear to have found value in leveraging analytics to achieve higher precision in pricing recommendations. In our survey of restaurant executives, **the three actions with the greatest impact on revenue growth and margin are implementing location-specific or segment-specific pricing using advanced analytics and AI; planning promotions linked to pricing moves in a holistic strategy; and using web scraping to automate competitive pricing insights.**[23] When combined with menu optimization and LTOs designed to elevate the core items on the menu, restaurant companies can increase volume, average check, and profit.

- **Expanding occasions and customer segments.** Restaurant companies could find new growth platforms by digging into occasions and customer segments where they are winning and occasions and customer segments that are open for new expansion.

Five imperatives for restaurants to consider

Elevate convenience and connection

Restaurant-goers may want more than just a meal—they likely crave meaningful connection and seamless experiences that blend digital convenience with real-world enjoyment.

- **Creating a leading digital experience.** Some restaurant companies are trying a multitude of ideas to improve their digital customer experience. In our survey of US restaurant executives, the three areas with the highest impact on performance are implementing personalized offers at the point of order, **implementing ordering suggestions, and implementing seamless payment.**[24]
- **Building convenient channels.** In the same survey, **50% of respondents say that building new channels (e.g., fast lane, ready on arrival, digital-only lane, curbside)** and adding more convenient pickup are investments with the greatest impact.

Getting loyalty right

Financial rewards and simplicity and ease are the most important features of a loyalty program to consumers. The top-five attributes are:

- The ability to earn and redeem financial rewards (88%).
- The simplicity and ease of the program (87%).
- Personalized experiences or rewards (65%).
- An accessible and enjoyable digital experience (61%).
- Access to nonfinancial benefits, such as exclusive experiences or upgraded services (56%).

- **Elevating loyalty programs.** Loyalty programs are one way to build connection with consumers—creating stickiness, if done well, can help increase brand affinity.

According to Deloitte's recent Loyalty Survey, **77%** of restaurant consumers are more likely to start spending with a brand once they enroll in the brand's loyalty program. In addition, **41%** of restaurant consumers surveyed engage with loyalty programs on a weekly basis, up **10%** compared to the cross-industry average.

Loyalty programs should pay attention to what consumers value to help them be successful. In Deloitte's research, we found that the ability to accelerate earnings and select preferred rewards are the most important financial benefits to restaurant consumers and outpace all other industries.[25]

- **Deepening engagement.** Restaurant companies can work to overcome the competition for attention through experiential dining experiences and community collaborations to strengthen loyalty.[26] Immersive experiences such as interactive tableside services, pop-ups, and collaborations can help spark memorable, shareable moments not only to differentiate restaurants but also to help fuel organic social media exposure and sustained business growth.

Five imperatives for restaurants to consider

Unleash breakthrough efficiency

Improving operations, speed of service, improvements, order accuracy, and logistics are the top-five areas of increasing investment at restaurant companies surveyed.[27] With the power of AI increasing, and the cost declining, the conditions for AI adoption in restaurants are significant.

Generative AI (GenAI) and AI agents can also work with multiple sources of structured and unstructured data, helping enterprises to be more efficient in their operations.

AI in action

Deloitte helped a restaurant company to leverage AI to analyze service tickets at a large, global restaurant client.[28]

As part of the work, GenAI was incorporated into a tool that would allow users to ask questions about service ticket data using a simple chat interface—making the help desk experience more natural and simpler for harried workers. The solution also leveraged a multi-lingual approach.

- **Predictive analytics.** Analytics are getting more sophisticated and can help restaurants to make real-time forecasts and improve decision-making at all levels across the restaurant. These include decisions on when to cook the next batch of fries, what the next food order should include, and what to prep at the start of each shift. Our survey of restaurant leaders uncovered that the operational improvement with the greatest impact is leveraging analytics-based or AI demand-based sensing (e.g., using cameras and other Internet of Things [IoT]) to inform next-best-action workforce direction in the restaurant.[29] **These technologies can help with hotter, fresher food; lowered wait times for customers; and reduced waste.**
- **GenAI.** New applications for GenAI are being found in restaurants. Recent advancements in conversational AI have helped restaurants to realize the promise of AI order taking in the drive-thru.

Restaurant companies that are testing these tools are seeing reductions in cost, improvements in service times, and a far higher incidence of upsell success, given that AI never forgets to upsell.[30]

Some restaurant companies are also having more success in the back office and the kitchen, from developing marketing messages for personalized offers to in-kitchen assistants for the workforce, leveraging GenAI's power to create and to interact in order to make the existing workforce more efficient.

- **Agentic AI.** AI agents are reasoning engines that can understand context, plan workflows, connect to external tools and data, and execute actions to achieve a defined goal. AI agents don't just interact. **They can effectively reason and act on behalf of the user.[31]** Restaurant companies could explore how to bring these agents to life, whether assisting the company in finding improvement opportunities by scanning data and generating a list of the most effective actions or developing code changes based on analysis of systems performance.
- **Simple automation.** Restaurant kitchens have repetitive tasks that can take time away from higher value-add activities. Restaurant companies can increasingly explore simple automation to help **alleviate burden from repetitive tasks, increase speed and accuracy, and lower costs.**

Five imperatives for restaurants to consider

Empower the future-ready workforce

Given the changing landscape, the workforce of the future may need new skills and capabilities. At the same time, restaurants are likely dealing with evergreen issues in scheduling, retention, hiring, and training that can be addressed with new technologies. Some restaurant companies appear to be working through these issues in multiple ways.

- **Strategy alignment.** Some restaurant companies are likely aligning their talent strategies with their workforce strategies by **designing skill development plans and career plans** that equip the whole organization to enhance the workforce experience.
- **Modernization.** Some restaurant companies are leveraging technology to attract, enable, retain, elevate, and empower the workforce. In Deloitte's survey of restaurant leaders, the top-three investments with the greatest impact for respondents are improved kitchen management systems; dynamic staffing and scheduling software linked to demand forecasting; and updating their staffing models based on the new demands from increased channels, technology, and digital offerings.[32]

  AI is changing the game for these tools. Some restaurants are leveraging AI in scheduling to confirm that the right employees are in the restaurant at the right time.

  They can also leverage AI assistants in the kitchen to help speed up problem resolution and keep operations running smoothly. In addition, predictive analytics can help restaurants understand where employees may be under pressure or have too many tasks, helping to even out staffing and reduce stress and turnover.
- **Upskilling.** Future employees should be able to take full advantage of the latest technology, tools, AI, and analytics. Restaurant companies that pay attention to this change and enable their workforces to leverage it could be more successful. This should include increasing project management capabilities. In Deloitte's survey of restaurant executives, **strong project management was cited as one of the top reasons why investments in technology either work or don't work in their companies.**[33]
- **Digital twins.** Some companies are creating digital twins that can enable them to model and simulate changes in staffing, equipment and layouts to optimize costs; speed of service; equipment investment; and quality and accuracy.

Making a difference

Restaurant leaders surveyed have indicated impact on performance across digital customer experience, operations, workforce, and revenue growth management including:

Digital customer experience

- Personalized offers at the point of order
- Ordering suggestions (e.g., upsell, cross-sell)
- Seamless payment

Operations and supply chain

- Analytics-based or AI demand-based sensing and automated in-restaurant workforce direction (e.g., using cameras and other IoT)
- Automated traceability solutions
- Restaurant and kitchen flow modernization
- Workforce experience
- Improved kitchen management systems
- Dynamic staffing software linked to demand forecasting
- Updating the staffing model based on new demands

Revenue growth management

- Location-specific or segment-specific pricing using advanced analytics and AI
- Promotions planning linked to pricing moves
- Competitive insights automation

Five imperatives for restaurants to consider

Serve up a sustainable future

Restaurants are appearing to accept that consumers are often drawn to brands that have strong reputations for operating sustainably. Some restaurant companies are taking several steps to meet challenges and create value in this area.

- **Automating reporting and improving transparency.** Sustainability reporting mandates such as the Corporate Sustainability Reporting Directive (CSRD) will ask restaurants to disclose governance of climate-related risks; greenhouse gas (GHG) emissions; climate-related financial statement metrics and the impact of climate-related physical events and transition activities; and information about targets and transition plans. At the same time, **only 3% of consumer companies surveyed say they produce sustainability data that is as accurate and verifiable as their financial data.**[34] To help meet these challenges, restaurant companies can improve their technology maturity around climate accounting and forecasting, establishing data controls and materiality measurements and automating sustainability reporting. GenAI can help with this journey.

- **Climate resilience and value chain transformation.** Some restaurant companies are developing strategies to anticipate climate challenges, achieve carbon neutrality, and reduce waste through innovative value chain transformation. This could include nurturing relationships with local and regional growers to foster shorter supply chains and diversifying for new suppliers as a hedge against natural disasters, severe weather, or trade disputes.[35]

- **Sustainable offerings.** Some restaurant companies are reviewing their packaging and plastics usage, just as packaged goods industries have. Deloitte research has found that **52% of consumers surveyed reported making a sustainability-based purchase within the previous four weeks, and 34% of those paid significantly more than an alternative.**[36]

Conclusion

There are likely significant opportunities to help improve performance embedded in each of the five considerations outlined above. Restaurant companies should consider their aspirations, take stock of the current state, and devise options that can cross all five to help them prioritize a plan of action. Each imperative alone could provide value, but a custom plan that crosses all five could set a restaurant company up for continued success.

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