

Retail Practice

# How restaurants can thrive in the next normal

We lay out potential timelines for the US restaurant industry's recovery—and actions that restaurants should take to cater to consumers' new dining needs and preferences.

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**After weeks of quarantine** and physical distancing, what does the future hold for US restaurants—and for the more than eight million restaurant workers across the country who have been laid off or furloughed since March? How quickly will US consumers feel comfortable eating out again?

COVID-19 has not only been a devastating public-health crisis; it has also been the restaurant industry's greatest challenge to date. Never before have so many restaurants been forced to cease operations; some will never reopen. Early indications—from China and other countries where the pandemic seemed to be under control—suggest that consumer demand won't immediately rebound when restrictions are lifted. However, restaurants that plan ahead to adapt and refine their restaurant model for the "next normal"<sup>1</sup> will be better positioned to bring sales back to precrisis levels.

In this article, we describe COVID-19's impact on the US restaurant industry to date and explore two likely scenarios for recovery. We then recommend a set of concrete actions for restaurants to return to stability and help shape the next normal.

### The pandemic's impact to date

COVID-19's economic toll on the restaurant industry hasn't been evenly distributed. Whereas pizza chains have maintained or increased sales during the pandemic, casual-dining and fine-dining restaurants have seen their revenues decline by as much as 85 percent (Exhibit 1). For some fine-dining establishments, revenues fell to zero.

Each restaurant's performance during the crisis has depended largely on the following factors:

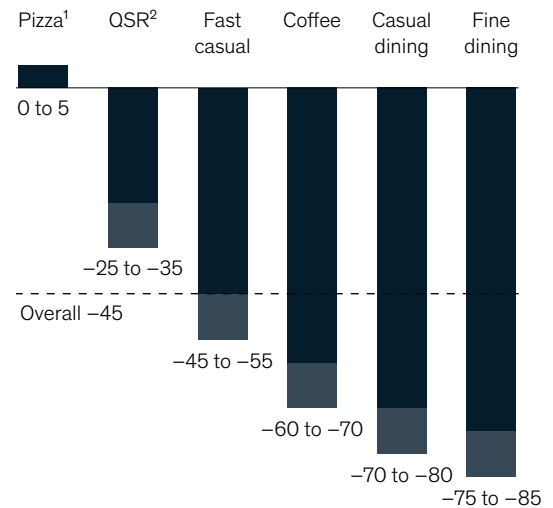
- **Off-premise versus on-premise sales mix.** Unsurprisingly, restaurants with high off-premise sales prior to the crisis are faring better than those that relied more on dine-in sales.

- **Reliance on day-part occasions.** With many people working from home, restaurants that generated much of their business from daytime eating occasions—such as people getting breakfast or coffee on the way to work—have been disproportionately affected.
- **Urbanicity.** There are large disparities in restaurant-traffic declines across states. Declines have been highest in densely populated states such as Connecticut and New York (Exhibit 2).

Exhibit 1

### The pandemic's impact has varied across restaurant types and subcategories.

US sales by restaurant type during COVID-19 crisis, % change from 2019 as of April 17, 2020



<sup>1</sup>Includes fast-food pizza only.

<sup>2</sup>Quick-service restaurant. Includes burger, chicken, Mexican, and sandwich; excludes coffee and pizza.

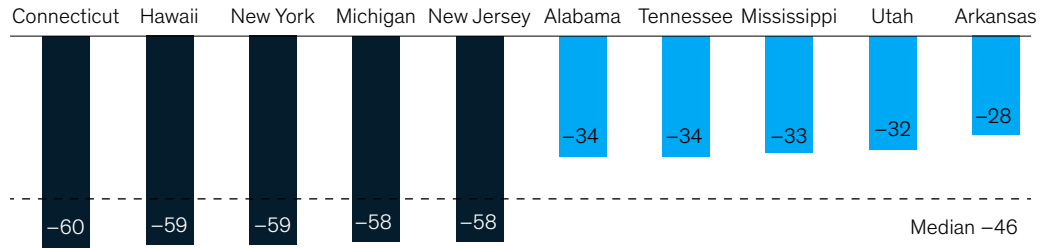
Source: Bernstein Research; Datassential; Earnest Research; McKinsey research and analysis

<sup>1</sup> Shubham Singhal and Kevin Sneader, "The future is not what it used to be: Thoughts on the shape of the next normal," April 2020, McKinsey.com.

Exhibit 2

**Restaurants in densely populated states are experiencing the highest traffic declines.**

**Customer traffic to limited-service restaurants, % change from Feb to mid-April 2020**



Source: Foursquare

- **Digital maturity.** A strong online-ordering presence, digital loyalty programs, and robust customer-relationship-management (CRM) systems have been lifelines for restaurants during this crisis, as levels of digital engagement among consumers have soared. If trends in China are any indication, consumers could remain more digitally engaged even after the crisis. Starbucks China, for instance, saw a 12-percentage-point increase in the share of digital transactions postcrisis—from 15 percent in January to 27 percent in late March (down from a peak of 80 percent in February).
- **Role of value.** Consumer perception of value and the prevalence of deals have buoyed some restaurants' sales during the crisis, as customers—suffering financial losses

and fearing continuing financial insecurity—increasingly look for ways to save money.

Just as the impact of the crisis isn't uniform across restaurants and regions, the pace and shape of recovery will also vary, not least because states have different approaches and timelines for allowing restaurants to reopen.

**Scenarios for the industry's recovery**

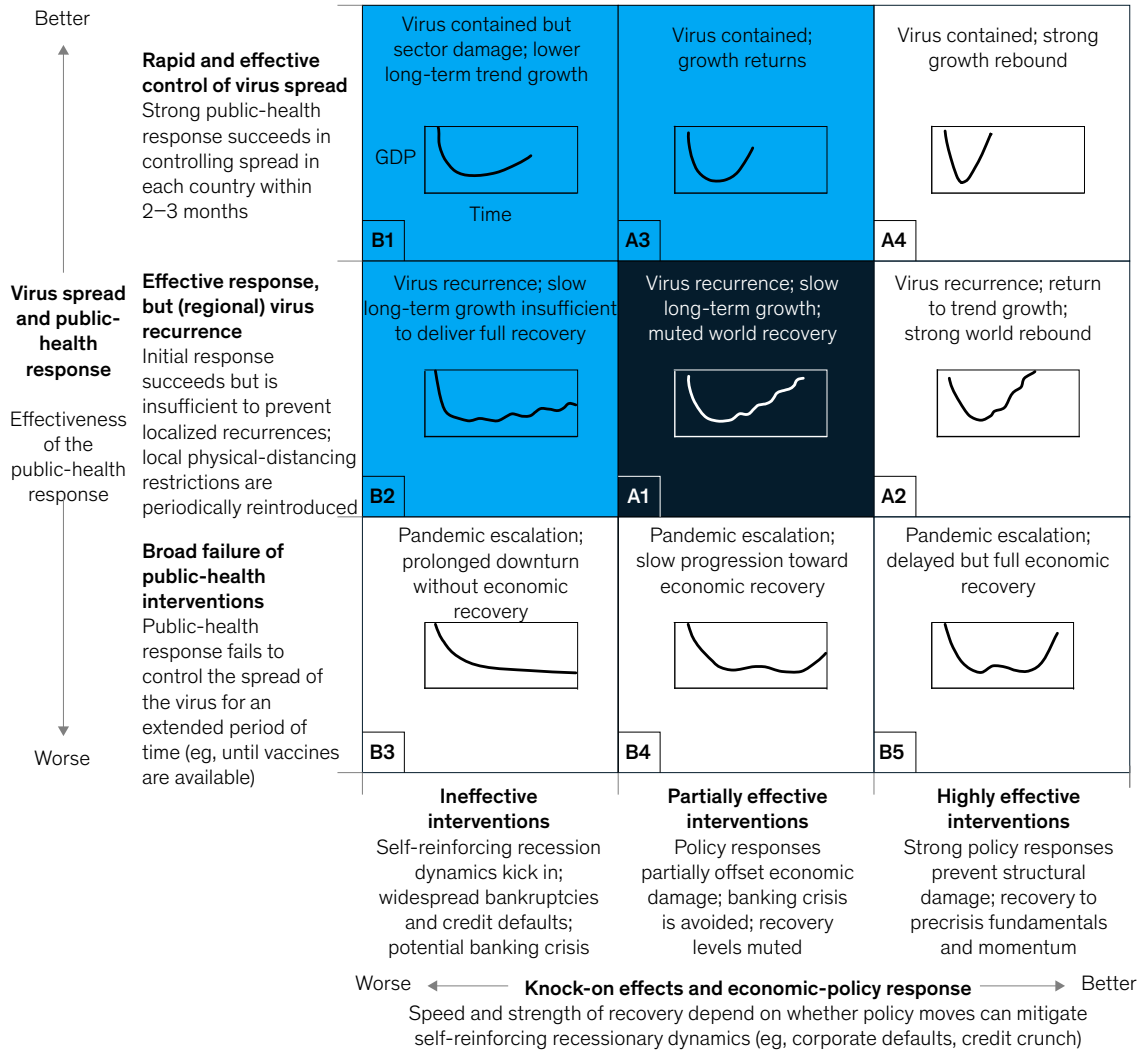
Although much remains uncertain about the pandemic's effects, hopes of a quick economic recovery are fading. Our colleagues have developed nine scenarios for the impact of COVID-19 on GDP, based on the extent of virus spread and the effectiveness of public-health and economic-policy responses (Exhibit 3).<sup>2</sup>

**Just as the impact of the crisis isn't uniform across restaurants and regions, the pace and shape of recovery will also vary.**

<sup>2</sup>Kevin Buehler, Penny Dash, Ezra Greenberg, Tom Latkovic, Audrey Lucas, Martin Hirt, Klemens Hjartar, Sven Smit, and Matt Wilson, "Crushing coronavirus uncertainty: The big 'unlock' for our economies," May 13, 2020, McKinsey.com.

## The economic impact of COVID-19 remains uncertain.

### GDP impact of COVID-19 spread, public-health response, and economic policies



As of this writing, the likeliest scenarios appear to be A1 and A3. While both assume partial to high effectiveness of economic-policy interventions, scenario A1 assumes resurgence of the virus across regions whereas A3—the more optimistic of the two—assumes rapid and effective control of virus spread. In a late-April poll asking more than 2,000 global executives which scenario they see as most likely, A1 was the most popular response, chosen by nearly one-third of respondents; A3 came in second, with 16 percent of the vote.

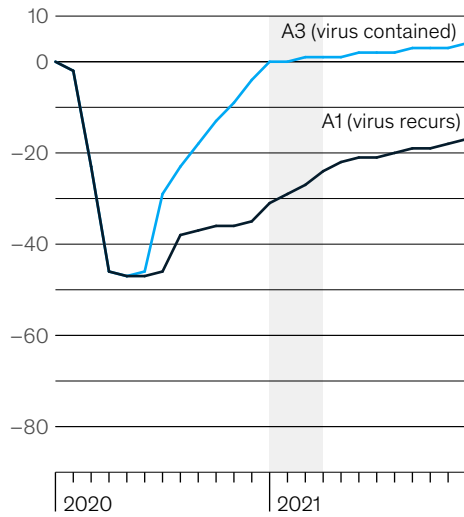
We modeled how quickly US restaurants might recover under these two scenarios (Exhibit 4). In

scenario A3, restaurant sales return to precrisis levels in early 2021. In scenario A1, full recovery to pre-COVID-19 sales takes three years longer. The trajectories also differ by restaurant type, with pizza chains and quick-service restaurants (QSRs) recovering the fastest.

These are grim projections. Many restaurants don't have the financial means to endure such a prolonged downturn. Especially vulnerable are small franchisees (those with ten or fewer locations) and independent operators not affiliated with a chain. To survive, franchisees will need to receive

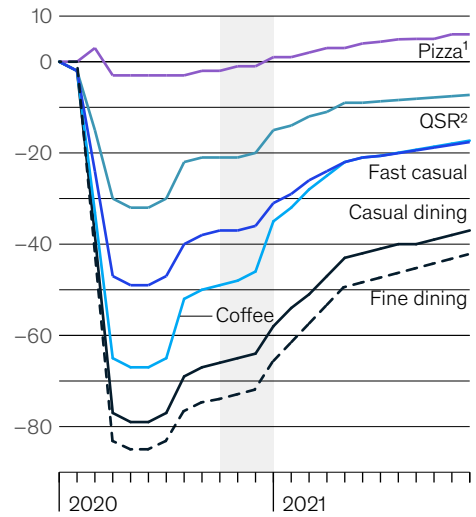
**The shape of recovery will depend on the success of virus-containment policies and will differ by restaurant type.**

**Projected monthly restaurant sales by virus scenario, % change from 2019**



VIRUS CONTAINED	VIRUS RECURS
<b>-15 to -25</b>	<b>-25 to -35</b>
% change in 2021 1st quarter sales (year-over-year)	% change in 2021 1st quarter sales (year-over-year)

**Projected sales by restaurant type in scenario A1, % change from 2019**



PIZZA	FINE DINING
<b>Q4 2020</b>	<b>Q2 2024</b>
return to precrisis level	return to precrisis level

<sup>1</sup>Includes fast-food pizza only.

<sup>2</sup>Quick-service restaurant. Includes burger, chicken, Mexican, and sandwich; excludes coffee and pizza.

Source: Bernstein Research; Earnest Research; Foursquare; industry reports and expert interviews; McKinsey COVID-19 US Consumer Pulse Survey, March 30–April 5, 2020; McKinsey research and analysis, in partnership with Oxford Economics

financial assistance from franchisors and from the government, or drastically reduce their costs; independents could have an even harder time staying afloat because they don't have access to the loans and rent deferrals that franchisors can offer.

We estimate that, of the 650,000-plus US restaurant locations that were in business in 2019, approximately one in five—or more than 130,000—will be permanently shuttered by next year. Independents will bear the brunt of the closures, both because of attributes that make most independents more vulnerable in this pandemic (minimal off-premise presence, limited digital capabilities, low emphasis on value-based menu items) and because of their unfavorable

economics (thin margins and poor access to capital). Independents' share of US restaurant locations could fall from 53 percent in 2019 to 43 percent in 2021.

That said, the situation across the country remains fluid. As states begin to lift restrictions and restaurants gradually reopen, the scenarios could change, depending largely on how well restaurants implement the necessary safety measures to prevent virus resurgence.

**What to do next**

Regardless of which scenario plays out, there's no denying that the coming months will be difficult

for most of the restaurant industry. For restaurant operators across the country, we recommend considering actions in two categories: those that can help you return to stability and those that can power you through to the next normal. With foresight and careful planning, you can equip your company to capture outside value in the post-COVID-19 future.

### **Return to stability**

In the recovery period, your top priorities ought to include updating operating procedures, reactivating customers to bring them back into restaurant dining rooms, adjusting menus to address shifts in customer habits and preferences, and enhancing your delivery capabilities.

### **Update operating procedures**

As parts of the country ease restrictions on businesses, proactively create a reopening playbook. The playbook should include updated standard operating procedures that not only provide a safe store environment but also serve to reassure potentially anxious customers. In other words, simultaneously “go safe” and “show safe.” Ensure that new hygiene and safety protocols are highly visible throughout the restaurant.

In addition, adjust processes to improve labor efficiency and to align with shifts in customer behavior. An important part of restarting dine-in service will be bringing back furloughed staff in a way that matches the restaurant’s new needs with employees’ skills. You will likely need to be innovative to do this successfully—for example, by using talent-exchange programs or partnering with other companies to share labor.

### **Reactivate customers using a segmented approach**

Over the past several weeks, customers have become accustomed to cooking at home more and ordering online—behaviors that will likely have some “stickiness” post-pandemic. To entice customers back to on-premise dining, tailor your approach to each customer segment:

- **Loyal guests.** Encourage loyal customers to return to on-premise dining by sending them personalized messages with critical

information: when your restaurants will be open and why they can be confident that it’s safe to come in.

- **Customers who spent their money elsewhere.** Some fraction of customers may have shifted their spending entirely to your competitors during the pandemic—or made all their meals at home. Effective marketing levers for this segment could include loyalty-driven price promotions and just-in-time offers featuring the most popular items and personalized favorites.
- **People who became first-time customers during the crisis.** To retain these customers, look to initiate them into your loyalty program with a special offer. Also, make sure your digital presence is consistent across platforms: for example, the menu featured on your own app should match the menu on any food-delivery aggregators that these customers may have used during the shelter-in-place period, and should highlight the same family meals they ordered during that time.
- **Potential customers.** In a new dining landscape, some customers who previously patronized other restaurants will be “up for grabs.” It’s an ideal time to re-evaluate your spending mix with a marketing-return-on-investment (MROI) simulator, which helps determine how to invest marketing dollars across email, social media, search, apps, local mass media, and other channels.

### **Align the menu to new consumer preferences**

During the recovery, consumer preferences will have shifted toward value and off-premise dining—but consumers will also be longing to return to some semblance of normalcy even as they remain concerned about health and safety. These new consumer behaviors and preferences will require restaurants to make menu and pricing adjustments. Start by reintroducing your full precrisis menu items such as breakfast, alcohol, and fresh produce, then emphasize core items and comfort foods. Reprice items to ensure they’re competitive under the new market conditions. Build traffic by focusing on value items first, then upselling.

### Optimize your delivery business

Though the percentage of off-premise sales post-COVID-19 won't be as high as it was during the crisis, a portion of the shift to off-premise dining will probably endure indefinitely. Many brands that treated third-party delivery as a low-margin afterthought before the crisis found that it suddenly became a primary pillar over the past two months. Take the time to step back and develop a strategy for managing—and deepening your commitment to—third-party aggregator relationships: think through the specifics of markup rules, access to end-user data, cost-effective packaging, and streamlined processes to make pickup as efficient as possible.

### Shape the next normal

Instead of simply reverting to business as usual, seize the opportunity to innovate in the next normal, thus shaping not just your own company's future but that of the industry as well. Priorities should include rethinking restaurant design, reinventing the menu, assessing the store footprint, and digitizing the customer experience.

### Rethink restaurant design

To achieve post-COVID-19 growth, most restaurants will need a redesign. Think about whether to change your restaurants' physical layout to benefit from the shift to off-premise dining. Layout changes might include the addition of drive-through and pickup lanes, for example. Traffic flow into and out of these zones will need to be carefully thought through.

Also, consider investing in advanced analytics and automation, both to drive efficiencies and to enable contactless services. Advanced analytics and the Internet of Things (IoT) can improve your ability to accurately forecast daily consumer demand and changes in consumers' eating habits. Labor automation can increase the productivity of restaurant processes as well as provide contactless solutions that address consumers' health concerns. Some restaurants are already piloting a range of technologies—such as robots that hand out takeout orders, pulley systems at registers to facilitate transactions with customers while maintaining physical distancing, and smartscreen-controlled shelves for storing pickup orders.

To explore ways to shift to contactless services and solutions, the four-step IDEA framework can be useful:

- **Identify interactions.** Identify the type and nature of each in-person interaction (for example, employee to employee, employee to customer, customer to customer) in employee and customer journeys.
- **Diagnose and prioritize risks.** Use a risk-scoring system that incorporates the intensity, frequency, and duration of interactions along the journey to inform the prioritization and development of solutions (Exhibit 5).
- **Execute solutions.** Implementation should proceed in an agile way, addressing immediate needs while also investing in distinctive long-term solutions.
- **Adapt and sustain.** Collect learnings and ideas from teams to rapidly iterate and refine solutions based on customer feedback.

### Reinvent the menu

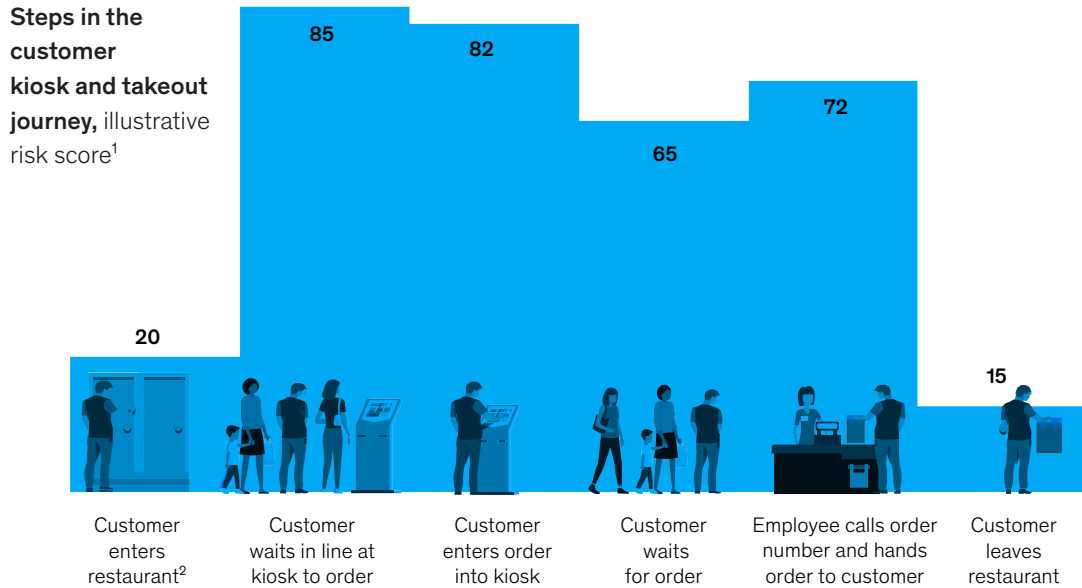
Menu reinvention can be one of the most powerful tools to change a restaurant's long-term performance trajectory. As consumer behavior and sentiment continue to evolve, adapt your menu accordingly. Closely monitor emerging food trends, such as “clean” food, paleo diets, plant-based protein, and others. Introduce menu items to capitalize on these trends, price those items competitively, and market them to consumers.

### Optimize your footprint

As you emerge from the crisis, you will need to evaluate your store footprint and make tough decisions about entering or exiting certain geographies or shifting your strategies at a local level (for example, converting a restaurant to delivery/pickup only). Set up a footprint-optimization task force: a cross-functional team that uses real-time internal and external data and field observations to assess the health of specific locations, then decides whether to enter, expand in, or exit a market.

Exhibit 5

**Restaurants can develop a scoring system to assess the risk levels of customer and employee journeys.**



<sup>1</sup>A scoring system that incorporates intensity, frequency, and duration can be used to assign a risk score to every part of the journey.  
<sup>2</sup>Risk level dependent on automatic vs manual doors.

**Digitize customer engagement**

As mentioned, a shift toward off-premise dining options and physical-distancing behaviors will probably outlast the crisis. The digital customer experience will be critical to retaining current customers and capturing next-generation loyalty, and the best way to enhance the digital experience is through deep personalization. Engage customers with personalized offers across multiple digital channels; use customer data to make decisions about merchandising, pricing, and promotions.

The restaurant industry has faced severe challenges during the pandemic, including sharp declines in revenue and tremendous labor losses as well as some permanent closures. However, at some point, dining in restaurants will once again be a pleasure that people across the country can enjoy. The actions that restaurant operators take now will go a long way toward preserving their business through the crisis and equipping their restaurants to serve customers, not just during—but also long after—the recovery.

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