

BANK OF AMERICA RESTAURANT GROUP

State of the Restaurant Industry

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Restaurants endure

In the face of unprecedented adversity, restaurants are enduring. End-of-year sales are on track to reach \$789 billion, up 20% from 2020, despite the Delta variant, rising food and labor costs, and stalled supply chains.

Key to this resilience: consumers who continue to express strong demand, despite having new service expectations and dining habits, and operators who are responding with entrepreneurial strategies and a willingness to pivot as conditions change.

Our 2021 report covers these critical developments with insights from industry leaders.



“The industry looks more than fully recovered. Overall, the rebound is remarkable. To have 120% sales increases, which some of these chains have had, is unprecedented.”

Wally Butkus
Partner and analyst
Restaurant Research

Where we are now

Better and more resilient

Although 2020 was its most challenging year in recent history, the restaurant industry adapted, innovated and has rebounded in 2021.

Cristin O'Hara, restaurant head for Bank of America, says, “Ironically, we thought 2020 would be dire. But right now, there are so many folks that are in such a healthier position because they had to dig deep, even while panicking. They had to face hard questions: How do we deal without a dining room? How do we find other ways to gain revenue? Operators were forced into different modes. They were looking at expenses with a fine-tooth comb.”

“And ultimately, most restaurants may be in a much healthier position because they had to go through that painful process. Most restaurants were able to figure that out.”

According to BofA Global Research economists, consumers ramped up spending this year. Part of that was driven by the extraordinary amount of stimulus that hit the economy in the beginning of the year. That was coupled with a reopening of the economy this spring, which saw consumers back out spending, particularly spending on leisure. There was a very meaningful acceleration in travel, and in restaurants, particularly on in-person dining. That stayed at a very healthy clip until midsummer, right around July, when we started to see some moderation in consumer spending. We mostly saw that moderation in travel, but we even saw some of that slowdown in restaurants.¹

After that summer slowdown, BofA Global Research economists anticipate that to the extent that people feel comfortable going back out and engaging in in-person activities, we should see a minibalancing in terms of leisure activities. Maybe not quite as dramatic

as we experienced in the spring and early summer when there was so much pent-up demand, but we still think today there is a lot of demand out there—from people who were waiting on the sidelines and are very eager to go back out and reengage and spend in the economy, particularly in leisure. When we look at the Bank of America aggregated card data, and dig down into the data and pull out spending on restaurants and bars on a two-year comparison relative to 2019, spending is up 20%.²

Wally Butkus, partner and analyst with Restaurant Research, uses same-store sales as the best benchmark of industry health. Looking at the second quarter of 2021 compared to 2019, he says, the industry was up 12.8%, representing a high-water mark. “The industry looks more than fully recovered,” he says.

Butkus says, “Overall, the rebound is remarkable. To have 120% sales increases, which some of these chains have had, is unprecedented. It took a little while for these chains to reconfigure their strategies, but that’s the advantage the national brands have: They had the technology and infrastructure in place, the top-notch real estate. They’re at a scale to negotiate better agreements with third-party delivery services. For some chains, especially in QSR, which weren’t doing more than 15% to 20% in dining room sales anyway, they actually have been able to manage their labor better, and are making more money than they have in the past.

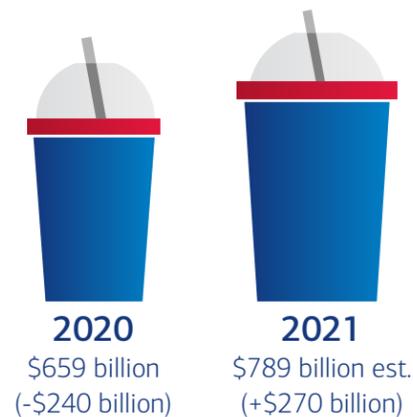
“It’s unfortunate for independent restaurants, but national brands are taking market share.”

The recovery is more impressive when considering the numbers: The restaurant industry chalked up \$659 billion in sales during 2020, down \$240 billion from expected levels, according to the National Restaurant Association, with 110,000 restaurants across the country temporarily or permanently closed.³

McKinsey & Co. points out that the long-term trend has been toward a 50/50 split of U.S. consumer food spending between grocery stores and restaurants and other foodservice locations like schools. That was disrupted beginning in March 2020. That month, the balance shifted immediately to grocery stores, when consumers spent 63% of their food dollars at grocery stores. Sales at restaurants immediately declined 29% from the previous March.⁴

But many operators, particularly QSR chains, saw sales trend back up in the third quarter of 2020, and when 2021 is done, total restaurant sales are projected to rebound to \$789 billion, up nearly 20% from 2020, according to the NRA.⁵

Projected restaurant sales up 20%



Source: National Restaurant Association.

Roger Matthews, investment banking vice chairman for BofA Securities, thinks consumers are more appreciative of restaurants than they were pre-pandemic. “All of us didn’t realize what a big part restaurants played in our lives. The food they provided, the time they gave us in our lives versus cooking, the social interactions. Oh, and by the way, most of us probably didn’t have enough appreciation for the people who work in the industry,” he says. “For three decades, more

of our food dollars have been increasingly spent away from home compared to at home. Then all of a sudden, we pivoted to needing to shop, prep, cook and clean every meal. Collectively we missed the restaurant food, but also the time needed to cook at home. That’s the ultimate product you can’t buy.”

Many restaurant operators adjusted operations, added technology and trimmed expenses. The past 18 months have ushered in new options for restaurant dining, or accelerated industry trends: curbside pickup, delivery, contactless payment (card, phone or digital), alcoholic beverages to go, ghost kitchens, smaller dining rooms. Research from Incisiv predicts digital sales will make up more than half of quick-service and limited-service restaurant sales by 2025, a 70% increase over pre-pandemic estimates, while delivery’s share of sales is forecasted to grow to 23% by 2025.⁶

At quick-service restaurant chains, the average menu size decreased from 73.5 items in 2019 to 68.9 as of June 2021 — and at full-service restaurant chains, from 87.3 items in 2019 to 76.8 as of June 2021, according to an analysis by Restaurant Research.⁷ Experts predict many of these trends are here to stay.

O’Hara still sees challenges on the short-term horizon. She points to, first, the industry’s challenge to find labor — and pay for it. Second, there’s the impact of the still-spreading Delta variant of COVID-19. And third, all industries are coping with disruptions in the global supply chain.

However, says Matthews, “COVID-19 was the greatest stress test we could have imagined for the restaurant industry. And now we find ourselves today in a situation where the consumer has a greater appetite for the industry than ever. We can’t wait to go back to our favorite restaurants.”

And, he says, “Restaurants themselves, they’re better and more resilient than before the pandemic.”

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Roger Matthews
 Vice Chairman
 Consumer and Retail Investment Banking
 BofA Securities





Labor issues

Staffing challenges require new strategies

According to the National Restaurant Association's midyear 2021 survey, three out of four restaurant operators say recruiting and retaining employees is their toughest challenge.

Restaurant jobs gain, but remain 8% below pre-pandemic peak



The NRA estimates that 8 million restaurant employees were let go or furloughed during 2020. Although Bureau of Labor Statistics numbers show that the restaurant industry added back 1.4 million jobs during the first seven months of 2021, that growth stalled in August—and the industry remains nearly 1 million jobs, or 8%, below the pre-pandemic peak levels.⁸

Supply is the biggest problem. As restaurants, hotels and other entertainment venues have reopened, job openings also have surged upward.

But large employers in other industries, including grocery stores and retailers like Amazon and Walmart, also are looking for help and have boosted starting wages, creating tough competition.

BofA Global Research economists make this assessment of the labor situation: The labor force has not returned to where we were prior to the pandemic. There's been an insufficient return to the workforce, and there are a variety of potential reasons for that. One, and probably most important, is directly attributable to COVID-19. People either don't feel comfortable being in the workforce, they've fallen ill, they've been taking care of family members who have fallen ill, or they're taking care of their kids who don't have childcare or school. The good news is that we're starting to see some resolution there. We're also starting to see in our survey data a little more comfort in returning to workplaces as well. There's also the financial need of people to return to work. We'll see if that starts to bring more workers back into the labor market.⁹

According to BofA Global Research economists, there is better news on the horizon: We do expect some greater labor force reengagement. But I think it might be difficult to get all the way back to the labor force we had prior to COVID-19. We had a lot more retirees, people accelerating the timing of retirement. There's also been a lot of change in how people are working, and the types of jobs people want, after such a traumatic time. That means there's more of a mismatch or friction in the labor market that needs to be worked out.¹⁰

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BofA Global Research economists.

That need for workers, coupled with a new commitment to higher hourly pay from big operators including Chipotle and McDonald’s, has led to dramatically boosted wages in the industry overall.

Wally Butkus, partner and analyst with Restaurant Research, says, “In the big picture, there’s a lot of labor pressure. Minimum wages have been going up at the state level across the country. Operators have had to increase what they’re paying for many reasons, including the presence of federal stimulus payments, and more competitors increasing wages too. And the pandemic has changed the way people think about work, and how they prioritize things in their lives; some are not coming back to the industry. It’s a shift in mentality.”

Some workers still are simply missing from the labor pool. Valerie Sanger, Bank of America senior relationship manager, says, “A lot of people in this industry, including many of the really good ones, were laid off at the beginning of the pandemic. They asked themselves: When is this going to come back, and are we ever going to be the same? In many cases, they walked away from the industry to other jobs. That’s especially true for those who didn’t love the industry, which demands that people work a lot of weekends, holidays and nights.”

Bank of America research indicates that nearly 2 million workers left the U.S. labor market due to skills mismatch, retirement and COVID-19 deaths. In addition, as of April more than 4.6 million former workers remained on the sidelines for a variety of reasons, including fear of in-person interactions during the pandemic and childcare issues. And although federal unemployment programs and those of many states have recently ended, Sanger and other analysts say those payments allowed some workers to choose to stay home with their families.¹¹

But operators need to find solutions to the shortage; as Butkus says, “The industry needs to be able to attract the right employees, and keep the turnover number contained, because that is so expensive.”

Sanger says the labor shortage not only has hit entry-level positions, but also has created problems at the store management level. “The shortage we have now has created a bidding war in many markets, especially for store managers and assistant managers,” she says.

The short-term outlook from BofA Global Research economists is for continued higher labor costs: First we look at what businesses are saying, like the Jolts survey from the Bureau of Labor Statistics, which shows a record-high rate of job openings. That is accompanied by a record-high quit rate. That means companies are out actively trying to recruit. We’ve seen some real upward pressure on wages, particularly in the leisure hospitality segment. There was a big cut in wages when the pandemic first hit, and so many displaced workers, but now there’s this really strong desire to get back to full capacity, and bring workers back to meet this strong demand for restaurants. So the end result naturally has been an increase in wages. How long does this last? We should see some movement back into the labor market more naturally, and you should see perhaps some cooling of demand once we get past this pent-up demand for restaurants. And then we should see some moderation in wages. But we’re certainly not there yet. It’s going to take a lot more time until we get to equilibrium in the labor market.¹²

Sanger says the situation “gives us the opportunity to think about what benefits are offered to employees. There may be additional HR items a company needs to add, or restructure or promote more heavily: 401(k) plans, stay and retention bonuses, college tuition help. We may see more companies upping benefit plans to attract and keep employees.”

Going forward, some operators also may address persistent labor shortages by making operational changes or with additional technology. Sanger points out that some chains, for instance, are reducing reliance on wait staff by having customers place orders on tablets at tableside. “Self-serve counters, counter ordering, kiosks, tablets — all of those could factor into the future for some restaurants,” she says.

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Valerie Sanger
Managing Director
Global Commercial Banking
Bank of America

Supply chain

Wage pressure is a key link

In addition to increased labor costs, restaurant operators have been dealing with supply chain issues causing product shortages and increased costs.

“There is wage pressure in many industries that supply restaurants, from truck driving to food processing. People all over are asking: ‘Is this a good job? Are there other options for me?’ That is creating labor shortages from the entire top to bottom of the supply chain.”

Rich Watson
Senior Relationship Manager
Bank of America

According to BofA Global Research economists, one of the many things the pandemic has shown us is that the supply chain is complicated, complex, and highly global. As a result of the initial shock from COVID-19, and the aftermath, there have been many delays built into the supply chain, and they feed into one another.¹³

The restaurant industry isn’t as exposed to the global supply chain, but there is a lot of spillover. Because that supply chain is so constrained, it’s creating a lot of congestion and confusion, and it’s contributing to the lack of labor to just help move products. Restaurants also are feeling that, in terms of getting their materials—what they need to produce the food—and satisfying the demands of their customers.¹⁴ Some situations are pandemic-related, like the well-publicized ketchup packet shortages: When the industry tilted toward pickup and delivery rather than in-person dining, ketchup suppliers like Kraft Heinz had to shift to producing packets instead of bottles. But the shift took some time to catch up to demand.¹⁵

Other supply issues, says Bank of America Senior Vice President Global Commercial Banking, Rich Watson, “Loop to loop back to the overall labor issue.”

For instance, he says, although chains have mentioned it is tougher to procure chicken wings, there is not a serious shortage of chicken in the country — but unexpectedly high demand and prices, coupled with some production delays caused by bad weather, plus issues in processing and transporting chicken.

“There is wage pressure in many industries that supply restaurants, from truck driving to food processing. People all over are asking: ‘Is this a good job? Are there other options for me?’” Watson says. “That is creating labor shortages from the entire top to bottom of the supply chain.”

Bank of America’s Senior Vice President Global Commercial Banking, Aliya Willis, also says restaurants have had to temporarily pull certain menu items due to lack of availability of ingredients, such as meat shortages, or because they don’t have the employees needed to produce certain labor-intensive products.

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BofA Global Research economists.

McDonald's franchisee profile

Benefiting from continuous innovation

Victor Quiroz says he's heard the comment many times: "McDonald's was preparing for the pandemic without actually knowing it was coming," says Quiroz. "It's true."

Quiroz is owner-operator of St. Jude Enterprises and its six McDonald's franchises on the central coast of California.

"At McDonald's, we already were going hard on delivery, mobile ordering and payment, and having kiosks in our restaurants. We were focused on adding technology and improving the drive-thru experience," says Quiroz. "We knew those would be key factors in the future. But they were also keys to our success and survival during the pandemic." He says his restaurants saw sales dip during the first month and a half of the pandemic — but since then have seen a steady climb in sales and transactions.

The company has continued to adjust operations to deal with the challenges of 2020 and 2021. "We've had to be creative and use all the resources we have available," he says. After seeing national news about labor shortages, and about restaurants limiting hours of operation, Quiroz says, "We took action to mitigate. We live and work in smaller towns. We offered employment to 14- and 15-year-olds during the summer. It was a rewarding experience

for everyone. We got young, eager employees with big smiles on their faces, thankful for the opportunity to work and earn money for themselves. And those younger workers helped us continue to provide our convenient and speedy service."

He says McDonald's corporate decision to streamline its menu "has made it easier to make our food and serve customers, by limiting the menu back to the classics. We've been able to operate with great speed, even under the current conditions."

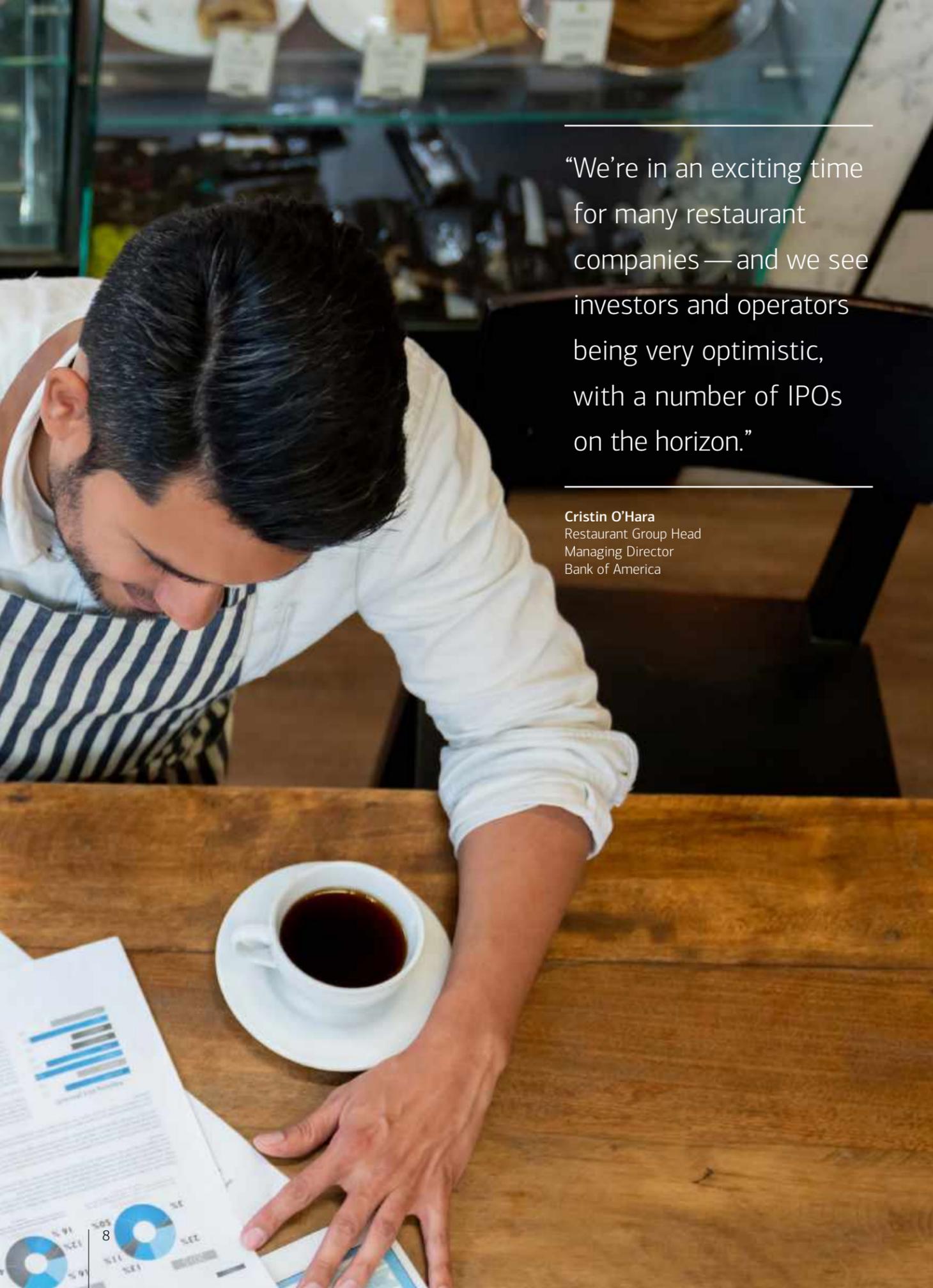
Looking forward, Quiroz says, "I'm an optimistic person. I think the restaurant industry will continue to move on a positive path. Traffic might change with people going back to school, and adults going back to work; maybe it will start to feel more normal. But no matter what, we'll keep an eye out to how our customers need us to serve them."

"Our customers have seen the benefits and convenience of using our facilities. They feel safe and comfortable using us. In the past year we've made some great gains in traffic, and we should be able to retain those, if not continue to grow."

"We were focused on adding technology and improving the drive-thru experience. We knew those would be key factors in the future. But they were also keys to our success and survival during the pandemic."

Victor Quiroz
McDonald's Owner-operator
St. Jude Enterprises
Six locations
Central California





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Cristin O’Hara
Restaurant Group Head
Managing Director
Bank of America

Investors’ view

Votes of confidence

With exceptional valuations, access to capital and continued M&A activity, the investment community has given the restaurant industry a big vote of confidence.

Post-pandemic, says Roger Matthews at BofA Securities, “Not only do consumers have a greater appreciation for this industry, investors have a great appreciation for how resilient this industry was.”

Bank of America’s Cristin O’Hara agrees: “We’re in an exciting time for many restaurant companies — and we see investors and operators being very optimistic, with a number of IPOs on the horizon.” Krispy Kreme went public in the summertime, and Bank of America led the highly successful Dutch Bros IPO in September with First Watch and several others expected behind it.

“As we’ve come through COVID-19, it’s forced operators to wring out unnecessary expenses. For a strategic buyer, that means a lot of the hard work is already done.”

Ted Lynch
Managing Director
Global Commercial Banking
Bank of America

Valuations have trended higher for almost every publicly traded restaurant company in 2021, “especially in the QSR segments, where you can get more transactions out of a box, with less labor,” says Ted Lynch, managing director for Bank of America. “The past couple of years have really highlighted the quality and reliability of the top QSR brands.”

Lynch credits the “annuity quality” of these big chains. “They generate predictable dollars. Having something like that that doesn’t go through ups and downs or is subject to seasonality — many investors find that’s worth paying more for,” he says.

The leading national restaurant brands “had the capacity and capital and wherewithal to ride out the storm of the pandemic,” Lynch says. For them, even closing dining rooms was a mixed blessing: It reduced labor costs and saved the wear and tear on dining rooms, and since he says dine-in sales provide less than 20% of many QSR unit sales, it was often a profitable trade-off to send customers to curbside or drive-thrus.

Lynch thinks M&A activity will continue unabated as the industry consolidates. “As we’ve come through COVID-19, it’s forced operators to wring out unnecessary expenses,” he says. “For a strategic buyer, that means a lot of the hard work is already done; he can take over a clean operation. Opportunistic buyers often expect an even higher return on their investment, but because this industry is so reliable, with such good earnings quality, they are willing to live with a lower level of returns when they are assessing their models when considering an acquisition.” In addition, looming tax and capital gains increases may drive deals as operators opt to retire or get out of the business.

Innovation and technology at Panera Bread

Delighting customers with digital expansion

“Having such a large base of customers who have given us the permission to communicate directly with them allows us to drive awareness, consideration and conversion. When we launch a new category or a new product, for instance, we have a powerful megaphone that is very low-cost relative to paid media.”

George Hanson
Chief Digital Officer
Panera Bread

Panera Bread, which already had a robust digital infrastructure in place, has spent much of the past two years adding and expanding technology as it rethought how customers order and receive its products.

When dining rooms closed and its catering business dropped off in the early days of the pandemic, Panera shifted to curbside pickup and delivery. Simultaneously, it added new capabilities to its online ordering and to its popular mobile app, which serves more than 44 million MyPanera loyalty members.

Customers ordering through the app now can opt in to track their orders with push notifications via email and text. Geofencing allows stores to know when a customer has arrived for pickup — and the chain is piloting a program that uses geolocation data to prepare orders just in time for customer arrival. A post-purchase digital experience is “the equivalent of the ‘easy’ button for guests in case anything goes wrong,” says Panera Chief Digital Officer George Hanson.

“We introduced a lot of innovations focused on the guest experience,” he says. “We had all those digital channels built and working but added improvements. The goal was to solve friction points, while leveraging the increased reliance our guests have on their phones.”

Now, he says, more than 50% of the chain’s orders are being processed in some sort of digital fashion that captures data — whether through the app, online, at a kiosk, at a drive-thru or through a loyalty transaction at the register. “We know who is ordering, and what,” he says.

Panera is working to capitalize on that trove of data. “We’ve always had a strong ability to leverage our data and connections with our customers in terms of providing rewards, including ‘surprise and delight’ rewards,” Hanson says. “But what we hadn’t done was fully leverage that data on our app. This year, we rolled out personalized product recommendations, personal reorder suggestions, and a look at the last 90 days of orders for each customer. Those are the beginning of us leveraging that data in the actual ordering experience. We’re obsessing over the sort order of recommendations, and what’s featured for each customer — like Amazon, for instance, obsesses over how category searches on its site are sorted and what products are listed first. We’re applying that same data-driven merchandising approach.”

Hanson says it’s a huge competitive advantage on which the chain is just starting to capitalize. “Having such a large base of customers who have given us the permission to communicate directly with them allows us to drive awareness, consideration and conversion,” he says. “When we launch a new category or a new product, for instance, we have a powerful capability to reach millions of guests with personalized and relevant messaging that is very low-cost relative to paid media.”

Panera mobilizes with technology and automation

More than 50%
Percentage of orders Panera processes digitally

Digital tools for orders and customer data

- Mobile app
- Online orders
- Kiosk & drive-thru
- Loyalty transactions

Delighting customers after the purchase

- Push notifications enable order tracking
- Geolocation data streamlines food preparation
- Geofencing signals customer pickups

The next phase in the chain’s technological evolution, he says, is bringing some of these digital tools in-store, in what he calls the “digitally enabled café.” Panera this summer revealed a new store design including a double drive-thru and in-store kiosks.¹⁶ Hanson’s vision is that when a customer steps up to the counter, the Panera system will recognize that customer via his payment or loyalty ID number. “It will enable the associate to know who you are, and trigger the system to give you a free cookie or something else that is personalized to your profile.

“Restaurants have been behind retailers in providing a personalized experience on their digital properties. We’ll be caught up to retailers in our app this year, and then focus on how we bring this into the café,” he says.

Payment and treasury innovations

Adopting consumer trends. Streamlining operations.

Restaurant operators have implemented new payment and money-handling options and innovations — some in response to ongoing consumer trends, but accelerated by pandemic concerns.

Even before the pandemic hit, of course, customers had become accustomed to a plethora of new ways to pay for goods and services, from merchant apps to digital wallets and contactless, tap-and-go cards.

Charles Murphy, treasury sales officer for Bank of America, says, “Consumers are pulling out their physical credit cards less and less. Whether it’s real-time payment options like Zelle® or Venmo, digital wallets, Apple Pay — all a customer needs is a phone to pay in most cases. If the only thing your business is accepting is a physical card or cash, you’re going to frustrate clients. That will be even more true as millennials and Gen Z become more of the marketplace.

“Treasury departments need to be in tune with what’s happening with consumers,” he says. “The more friction you add to the payment process, the more frustrating you make it for your customers.”

“There was a true surge in the demand for different ways to take payments, and changes to accommodate a new digital payment infrastructure. All of this has caused restaurants to get innovative in how to serve their customers.”

Monica Kennedy
Merchant Specialist Executive
Global Strategy & Enterprise Platforms
Bank of America

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Charles Murphy
Senior Treasury Sales Officer
Global Banking and Markets
Bank of America



“During the pandemic, we’ve had our managers working the lines and dealing with new pickup and delivery options. Those managers need to focus on operational issues, not on putting deposits together and driving them to a bank location.”

Deena Libertosky
Director of Treasury
Flynn Restaurant Group

The pandemic itself added new friction points and demanded new solutions. “When the pandemic lockdown started, the restaurant industry was hit extremely hard. As they shifted operations, they also had to shift how to take payments — in most cases, the customer wasn’t present to hand over cash or their card,” says Monica Kennedy, Bank of America merchant specialist executive for Global Strategy & Enterprise Platforms. “Restaurants had to decide how to handle things like online ordering and contactless payments. There was a true surge in the demand for different ways to take payments, and changes to accommodate a new digital payment infrastructure. All of this has caused restaurants to get innovative in how to serve their customers.”

Says Murphy: “Restaurants had to survive or die, and part of that was giving their clients an easier way to do business with them, to process their transactions.”

Restaurant operators added in-app and online payment options, payments through third-party delivery services and via QR codes, plus the option of paying curbside, or in store at kiosks, tap-and-go terminals, and at self-service tablets available tableside.

The explosion in those new transaction types “brings a lot of good things for customers and operators, but it also can increase the opportunity for fraud,” says Galen Robbins, treasury sales executive for Bank of America. “Now is the time to optimize those fraud prevention solutions.”

In addition, as digital payments continue to surge, Kennedy adds, “It represents the slow death of cash. A lot of retailers don’t want to deal with cash — and during the pandemic, in particular, people don’t want to touch cash.”

It’s a challenge for the restaurant industry. As Murphy points out, transactions in the QSR segment are still 50% cash.

For safe and labor-efficient cash handling, more operators are installing smart safes like Bank of America’s Safe Connect system. Employees make cash deposits directly into smart safes, which recount deposits, send totals to the network and provide faster access to monies. A courier company stops by to empty safes on a regular basis.

Operators like Flynn Restaurant Group are installing smart safes to address labor shortages and safety issues. “With the industry’s labor issues, and us not being able to find workers, we’ve looked at how we can put our employees’ time back into the stores,” says Deena Libertosky, director of treasury for Flynn. “During the pandemic, we’ve had our managers working the lines, and dealing with new pickup and delivery options. Those managers need to focus on operational issues, not on putting deposits together and driving them to a bank location. That extra hour or two goes a long way for them.”

She says before the pandemic hit, Flynn was working on a smart safe RFP that showed store operators and company executives how much the company was spending on labor connected to cash management. “It was eye-opening,” she says. Now Flynn has completed a pilot program in 34 of its 280 Taco Bell locations and has begun rolling out smart safes to 1,200 of its restaurants.

Serving customers with new ways to pay

- In-app & online payments
- Third-party delivery services
- QR codes
- Curbside payments
- Kiosks
- Tap-and-go terminals
- Self-service tablets



In addition to changes in card payments and cash handling, many restaurant companies found the pandemic changed how they needed to process vendor payments, as back-office staff worked from home. During that transition, many treasury departments began to move away from producing paper checks for accounts payable, instead opting for digital options like ACH and e-payments, or even having financial institutions like Bank of America produce checks for them. Murphy says Bank of America clients can send AP files to the bank, which either can produce and print checks, or convert to ACH or other electronic payments. “It saves labor, and means you don’t have to worry about protecting the check stock in an empty office,” he says.

Like many corporate officers, Flynn’s Libertosky says the pandemic was a challenge. “But you learn a lot when you go through something like that,” she says. “We’ve gone back to the drawing board to ask: What can we do better? What can we do with less people?”

“It’s been great to have a good banking partner to work with us and help us think outside the box in making things as efficient as possible.”

ESG and D&I

Restaurants address consumer expectations

Many restaurant operators, like other businesses around the world, are leaning into environmental, social and governance (ESG) and diversity and inclusion (D&I).

“The restaurant industry is hitting ESG on all three levels,” says James Short, senior relationship manager for Bank of America.

In its “Good Done Right” effort, Wendy’s says it is prioritizing seven of the United Nations’ 17 Sustainable Development Goals,¹⁷ including providing decent work and economic growth, and responsible consumption and production. Specific initiatives range from expanded paid sick time for employees to responsibly sourcing proteins and produce, and reducing greenhouse gas emissions.¹⁸

Businesses and brands are responding to increased expectations from today’s consumers. Some 81% of Americans agreed with the statement, “I expect businesses to have a positive impact on society and the environment,” according to Kantar’s U.S. Monitor consumer survey.

Bank of America has implemented its own 10-year ESG commitment, which includes a 10-year, \$1.5 trillion community development lending and investing goal; a 10-year, \$2 billion philanthropic investment goal; and a 10-year, \$50 billion environmental business goal.

That interest in corporate and brand purpose is even stronger among Gen Z, the emerging post-millennial generation now entering the workforce and a prime target of restaurant employers.

Seventy-nine percent of Gen Z respondents agreed with the statement, “When looking for job opportunities, I give preference to inclusive companies,” according to Kantar’s research.¹⁹

As Bank of America Senior Relationship Manager Aliya Willis points out, “Historically the restaurant industry is one of the most diverse in America”; nearly half of all restaurant employees are minorities, and half are women.²⁰ That diversity has not always translated to supply chains or senior management, though.

McDonald’s Corp., for one, says it recognizes “that through our scale and influence, [we have] the opportunity to accelerate change.” The company says it spent \$14 billion with its suppliers in 2020, and 23% with diverse-owned suppliers. McDonald’s now is connecting compensation for its CEO and executive vice presidents to diversity incentives, including increased representation of women and historically underrepresented groups in leadership roles around the world.²¹

Restaurant companies’ ESG focus also includes reconsidering pay levels for hourly workers. Chipotle implemented a \$15 average minimum wage in 2021, and McDonald’s has committed to an average \$15 hourly minimum wage by 2024 in its company-owned restaurants.²² Roger Matthews at BofA Securities, who spent two years as CFO at Panera, says that experience changed his views on the minimum wage. “I interacted with people earning \$8 an hour. You can’t live on that. Part of our industry’s focus on ESG includes raising wages,” he says. “It’s a realization that we have to create a better, sustainable work environment for everyone.”



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Vice Chairman
Consumer and Retail Investment Banking
BofA Securities

Future sight

Operational makeovers. Industry consolidation.

Bank of America's Rich Watson puts it this way: "This is an interesting time to be in the restaurant industry."

"Everything that has happened has created an opportunity for operators to evaluate and strip down their business model, to figure out what's working and what's not, and where they can alleviate the pressure on operations," says Watson. "Over the next six to 12 months, things will continue to change and the restaurant industry we saw in 2018 or 2019 won't be the industry we see going forward."

As operators and industry observers look forward, two things are clear: First, restaurants will continue

to focus on operational changes that meet both consumer needs and bottom-line efficiency.

Pickup and delivery options, with expanded and improved customer digital access to both, are here to stay, and will change restaurant floor plans and labor needs in the future.

"On the new-unit development side, there's more of a push for delivery options; where a restaurant might have had one drive-thru lane, there now might be two or three, and maybe one dedicated to third-party pickup," says industry analyst Wally Butkus. "These are not short-term changes; it's a commitment to changing a building for the long term."

Says Watson, "Everyone has learned that they can run a more profitable four-walled business without the dining room — that they don't need 60 to 80 seats. That changes what development looks like going forward." Chains already are setting up commissary-like "ghost kitchens" designed to fill delivery and pickup orders without a dining room — much less expensive and faster to open than a full restaurant, says Bank of America Senior Relationship Manager John Schmidt.

Second, the industry will continue to consolidate — and the top names are likely to get stronger, with an even greater competitive advantage.

Butkus points out that the industry has been overbuilt, with excess capacity. The shakeout begun during the pandemic will continue, especially among independent restaurants and smaller chains. It will favor what he calls the "billion-dollar chains," which have the capital to selectively expand and make acquisitions, and

to invest in the technology and innovations needed to meet customer expectations.

Cristin O'Hara says, "It will be a healthy time for the industry, with consolidation among really good operators. A lot of franchises are looking to become multi-brand franchise groups, providing a path for growth and a way to transform their companies."

The macroeconomic view from BofA Global Research economists suggests that there's been a shift or rotation in the consumer basket: In the early days of the pandemic, it was about spending on goods, big-ticket goods, autos, things for the home. Of late, we've seen a rotation toward services, beginning in the spring of this year. When you consider where there's more room for growth and expansion, it's more on the leisure side because of demand, particularly given the ongoing supply chain challenges for many goods manufacturers and distributors. Generally speaking, leisure and services will do better in 2022 than the durable goods side of the economy.²³

Overall, says Roger Matthews at BofA Securities: "I feel more confident and better about the restaurant industry than ever before. It may seem crazy that I'm saying that. But ultimately we know the consumer demand is there, and the restaurant industry has proven even more resilient than expected. If we also create better jobs for the workers, we will have a win-win-win — a more sustainable industry, where people are happy to work. And happy workers produce better food and a better experience for customers."

"Everyone has learned that they can run a more profitable four-walled business without the dining room — that they don't need 60 to 80 seats. That changes what development looks like going forward."

Rich Watson
Senior Vice President
Global Commercial Banking
Bank of America

Emerging industry themes

Operational adaptation

- Customer digital access
- Pickup and delivery options
- Floor plan redesign

Restaurant consolidation

- Moderating excess capacity
- Large chain growth
- Selective acquisitions



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