

Commerce Connected

Playbook

QSR Edition

NOVEMBER 2018



The PYMNTS Commerce Connected series, in partnership with First Data, is designed to give readers an overview of the latest developments, data and trends from around the connected commerce space. The Playbook will follow the debut of new tools that connect retailers with consumers, gauging how they drive conversion in-store and online. Each issue of the Playbook will cover the major news and trends from connected commerce players, present new data on shifting consumer behavior and preferences and will include a data-driven deep dive into various retail segments and industries.



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Executive Summary

Consumers aren't just turning to connected devices to pass the time checking social media or playing games. They're also using them to get their three square meals a day — and quick-service restaurants (QSRs) are reaping the rewards.

Revenues at QSRs are up in a big way. According to recent projections, consumers in the U.S. will have spent more than [\\$255 billion](#) at QSRs by the end of this year, marking a nearly 4 percent year-over-year growth in revenue, which has been ongoing for more than five years. Additionally, the number of workers employed grew by 3 percent from last year, and the number of QSR locations increased by 2 percent.

All of this growth isn't coming from more cars at the drive-through, or longer lines at the counter. Instead, it's largely the result of the creation, adoption and popularization of new, remote ordering options, such as mobile apps and web aggregators like Grubhub and DoorDash, which allow consumers to place and pay for an order anywhere, any time.

Until 2015, only 38 percent of consumers had used mobile or connected devices at least once to place food orders. Now, that number has risen to nearly three-quarters of all



consumers. What's more, [40 percent](#) of consumers now regularly use a mobile order-ahead app or online platform, up from just 11 percent three years ago.

As the spending power of millennials and other young consumers improves, remote ordering is projected to become a [\\$38 billion](#) industry in the U.S. by 2020. Industry giants like Starbucks have already made mobile ordering a focal point of their offerings — mobile orders account for one out of every 10 Starbucks purchases — and now, others are looking to do the same, hoping to capture a substantial piece of that growing QSR pie.

Starbucks' coffee competitor Dunkin' Donuts, for example, is enabling ordering through a new interface. Dunkin' recently [announced](#) that ordering is now available via Amazon's voice-activated digital assistant, Alexa. The integration allows DD Perks Rewards members to place a mobile order via voice on an Alexa-enabled device and skip the line when picking it up.

“ Until 2015,
only 38% of consumers
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Chick-fil-A pushing the right buttons with customers

Chick-fil-A also has its sights set on a new ordering method — one that brings options right to diners’ tables. The well-known chicken chain recently [added](#) Kallpod devices — a small button that allows users to reorder items, call for service or ask managers for assistance — to 600 locations around the U.S. Company representatives claimed that the devices have become a “core part” of the company’s messaging at counters and on tables and have led to increases in sales.

Wendy’s, meanwhile, is hoping that delivery can attract, and retain, new customers. The company recently began offering delivery at 40 percent of its 6,500 locations, and customers are responding. Todd Penegor, president and CEO of Wendy’s, said in a

recent [earnings call](#) that the company was seeing higher customer satisfaction scores on delivery orders than other orders, and that advertising the service has led to an increase in transactions.

Other companies are hoping to promote customer loyalty by investing in, well, loyalty programs. Chipotle recently [debuted](#) a new loyalty program, Chipotle Rewards, which is currently available on a trial basis in Phoenix, Kansas City — both of Missouri and Kansas — and Columbus, Ohio. The program, which is currently set for a nationwide launch in 2019, debuted roughly two years after the company’s last loyalty effort, Chiptopia, was shuttered. Members of the new loyalty program can sign up for rewards on the company’s website or mobile app and earn 10 points for every dollar spent, with 1,250 points resulting in a free entree.

As QSRs across the space improve loyalty and retention, they are also attracting the attention of fraudsters and cybercriminals. Fast food chain Burgerville, for instance, [confirmed](#) reports of a security breach last month, after being notified by the FBI that it had fallen victim to a “sophisticated cyberattack” in August. According to reports, the company is currently helping those who were potentially affected by the breach.

According to First Data’s recently announced results of its 2018 [Cybersecurity Survey on Personally Identifiable Information](#) (PII), consumers feel that while fraudulent activity is inevitable within any industry, food service and QSRs are among the least trustworthy merchants and least prepared to navigate the challenges of a data breach. First Data has recently launched a national advertising campaign promoting its Fraud Detect solution, which is helping some of the leading QSRs reduce card-not-present (CNP) fraud.

Chris Webb, CEO of ChowNow, [recommends](#) that small restaurants looking to avoid becoming victims of cybercrime partner with third-party ordering platforms. According to Webb, these platforms have a bird’s-eye view into transactions and can leverage data-driven insights to help keep customers and restaurants safe from fraud.

For more on these stories and other news items from around the space, check out the Playbook’s Headlines section (p. 7).



By the Numbers

Click on the  on to read more.

\$256B

Projected size of the QSR industry in the U.S. by 2020



1.8%

Total sales growth for American restaurants in August



2%

Decrease in the number of independent QSRs operating in the U.S. this year



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25,098 stores

Total number of Subway locations in the U.S. — more than any other QSR chain



660,755 restaurants

Total number of eateries in the U.S. as of Spring 2018



Engagement & Retention

Wendy's debuts delivery

Wendy's is hoping to make its experience more convenient and engaging with its new delivery service, which is currently being rolled out. According to president and CEO Todd Penegor, 40 percent of the chain's 6,500 restaurants in North America now offer delivery. That's up from the 25 percent of locations that offered delivery in Q1 2018, and the 20 percent that did at the end of 2017.

So far, the rollout has seen positive results. In a recent [earnings call](#), Penegor said that, in areas where the service has been advertised, the company has seen increases in delivery transactions. The company also claimed it was seeing higher customer satisfaction scores on delivery orders, confirming the growing demand for convenient dining options among its customer base.

Sweetgreen looks to help third-party delivery services

While Wendy's reaps the benefits of delivery, salad chain sweetgreen recently [announced](#) the launch of its Outpost system, which helps third-party delivery workers for services like DoorDash and Postmates easily pick up multiple orders and deliver them faster. The system is supported by an app that helps delivery workers deliver multiple orders at once to a single Outpost location — particularly during peak times. Sweetgreen has worked with several large companies, including WeWork, Nike, Headspace and MeUndies, to set up pickup locations where all employees can get their food.

The company currently has roughly 15 Outposts around the U.S., concentrated around large markets like New York and Los Angeles. An additional 85 Outposts will be added before the end of this year, and another 2,900 created in in 2019, bringing that number to 3,000 Outposts.



Voice Ordering



Dunkin' integrates Alexa-supported ordering

Wendy's and sweetgreen may be looking to boost delivery, but others in the space have their sights set on improving the ordering process itself. Dunkin' Donuts recently [announced](#) that ordering is now available via Amazon's voice-activated digital assistant, Alexa. According to a press release, the integration allows DD Perks Program members to place a voice order on an Alexa-enabled device and skip the line when picking up.

Customers can link their DD Perks accounts with their Amazon accounts in the Alexa app, and place and pay for orders via Dunkin's mobile platform. Customers can choose their pickup location, as well as the time they want the order to be ready.

Riding the smart speaker wave

Dunkin' Donuts, of course, isn't the only company investing in voice-based ordering — and with good reason. According to recently published [research](#) from PYMNTS, voice-activated speakers have become an important medium for commerce. The number of voice-controlled assistant units in use is projected to hit 100 million by the end of this year, and nearly 225 million will be in use by 2020, according to the most recent edition of the How We Will Pay report.

Many customers already use these devices to make purchases: At the time of the survey, more than one-quarter of surveyed consumers had used such a device to make a purchase in the past week, and 11 percent had used them to purchase a food order, PYMNTS research found. What's more, shoppers who do make purchases via smart speakers tend to spend more than the average consumer, meaning that QSRs and other merchants hoping to increase their revenues would be wise to offer voice-activated ordering.

Loyalty & Rewards



Donatos debuts rewards program

Pizza lovers, rejoice — in a move aimed at the [50 percent](#) of restaurant customers who are interested in loyalty programs, nationwide QSR chain Donatos Pizza recently [debuted](#) the Donatos Pizza Love Rewards program. The offering enables customers to earn one free pizza for every 10 orders they place, receive a free pizza on their birthday and be rewarded for customer referrals. Rewards points are applied to any purchase made at the chain, whether placed online, through a mobile app, over the phone or in a restaurant.

The program rewards customers without requiring extra effort, according to Kevin Myers, chief marketing and information officer for Donatos. In a statement, he said that the rewards program would collect data about customer habits and preferences, allowing Donatos to better connect with its customers and learn more about their experiences.

Chipotle serves up points-based rewards program

QSR giant Chipotle recently [unveiled](#) a loyalty program of its own. Chipotle Rewards is currently available on a trial basis in Phoenix, Kansas City — both of Missouri and Kansas — and Columbus. The loyalty program, which is currently set for a nationwide launch in 2019, debuted roughly two years after the company's last loyalty effort, Chiptopia, was shuttered.

The new program allows users to sign up for rewards on the company's website or mobile app and earn 10 points for every dollar spent. After earning 1,250 points, members receive one free entree. The program also includes a personalized customer relationship management (CRM) system that allows the company to target customers with marketing, messaging, nutrition information or other communications that will encourage them to try new items or explore the menu.

A loyalty program wasn't the QSR's only recent connected commerce move. Chipotle [introduced](#) delivery services in August and also rolled out a new [tagline](#) as an attempt to connect with health-conscious millennials.



Transact

Chick-fil-A experiments with table service

Well-known chicken QSR Chick-fil-A is [using](#) new technology to add tableside ordering to its restaurants. The device, called a Kallpod, is a small button that allows users to reorder items, call for service or ask managers for assistance. The devices are currently in use at more than 600 Chick-fil-A locations around the U.S., and company representatives indicated that the devices have become a “core part” of messaging at counters and on tables in brick-and-mortar locations.

So far, these devices have been a boon for Chick-fil-A, the chain said. Since they were first implemented in June, sales have increased. Tableside ordering grew by 500 percent, increasing from approximately \$30 per day to as much as \$350 per day. Steven Barlow, Kallpod’s chief operating officer, claimed the devices have led to a 35 percent increase in profit.

First Data brings Clover to Canada

QSRs in Canada now have access to a new transaction tool of their own. Commerce-enabling technology provider First Data recently [announced](#) that it would expand the availability of its Clover platform to Canada. The platform offers a mobile point-of-sale (mPOS) payment acceptance device along with a range of software features, including customer loyalty integrations, employee management functions, accounting programs and access to other third-party applications.

The platform also includes an online back-end portal that can be accessed from a smartphone, tablet or computer. The portal offers access to business management features, transaction monitoring, receipt data and other tools. According to a press release, the platform is already in use at many QSRs, including food trucks, coffee shops and concession outlets at major sports arenas.



Protect



Burgerville becomes latest breach victim

Elsewhere in the fast food space, Burgerville [confirmed](#) reports of a security breach last month after being notified by the FBI that it had fallen victim to a “sophisticated cyberattack” in August. According to reports, the company is currently helping consumers who may have been affected by the breach.

The chain said that anyone who used a credit card at any Burgerville location between Sept. 1, 2017, and Sept. 30, 2018, should “consider that their card information may have been compromised.” The company is recommending that customers who made purchases during this year-long span should review their card statements, report any unauthorized charges and obtain a copy of their credit card statement to search for any unauthorized activity.

ChowNow pushes order-ahead security forward

According Chris Webb, ChowNow CEO, preventing a breach like the one that victimized Burgerville is only half the battle. In a recent [interview](#) with PYMNTS, Webb explained how a host of security issues plague mobile ordering apps, from account takeovers (ATOs) to card-not-present (CNP) fraud and chargebacks.

Webb, however, believes third-party ordering platforms can help solve these authentication and security challenges, especially for SMBs. Platforms like ChowNow serve a large number of restaurants and customers, giving them a bird’s-eye view into different transactions. Those insights can be leveraged to keep customers and restaurants safe from fraud. For instance, if one consumer is placing orders in three different cities at the same time, it’s likely a sign of fraud activity.

Restaurants can also use machine learning (ML) to help identify fraud by rating each transaction based on various details, such as how recently the user’s email address was created and whether the credit card being used has been flagged in a fraud database. Webb also noted that third-party platforms tend to have access to resources that a restaurant might lack, such as time and staff dedicated to analyzing and fighting chargebacks, allowing them to focus on fighting fraud.

First Data: One-third of PII compromised in 2018

Breaches like the one that struck Burgerville may become more common in the coming years, according to a new study from First Data. The company’s [2018 Consumer Cybersecurity Study](#) found that 26 percent of consumers reported that their personally identifiable information (PII) had been compromised within the last month, and 34 percent were compromised within the last year. Most consumers, however, don’t know whether their information is available online. Just 12 percent of consumers over age 55, 33 percent of those between 24 and 34 years old and 35 percent of consumers between ages 18 and 23 had used a service to determine whether their PII was available on the deep web.

First Data has been helping QSRs and other merchants better protect customers and PII by unveiling new solutions. Last year, for example, the company [unveiled](#) Fraud Detect, a fraud solution that uses machine learning (ML), artificial intelligence (AI) and fraud scoring, among other tools, which allows merchants to detect fraudulent in-store, online, mobile and in-app transactions before they are completed. Additionally, the company partnered with Bank of America Merchant Services last month to [integrate](#) the BlueSnap all-in-one payment platform, which brings fraud protection and other commerce-centric features into BoA’s offering.

Analyze



Burger King unveils AI-powered advertising campaign

Burger King is [reportedly](#) beta testing a new artificial intelligence (AI) system that could help the company create marketing and communications campaigns using data on customer habits, preferences and other factors. According to QSR Magazine, the company is hoping that these pilot tests will help it prepare for an increasingly digital marketing ecosystem.

The platform trains a neural network to recognize and identify a wide range of patterns in thousands of fast food commercials to determine what is or isn't working in various marketing efforts. Burger King first debuted the platform's work in a series of television commercials created and tested by the AI system. These are reportedly the first ads to air on national television that were created and produced solely by AI.

IBM debuts data-driven marketing efforts

Tech giant IBM is also developing new offerings in data-driven analytics and marketing. The company recently [unveiled](#) a new software suite designed to help QSRs and other businesses analyze consumer data and market new products to potential customers. The suite, Watson Assistant for Marketing, includes solutions that streamline workflows, improve marketing campaigns and boost overall customer conversion rates by using data on customers and current conditions, along with AI and ML.

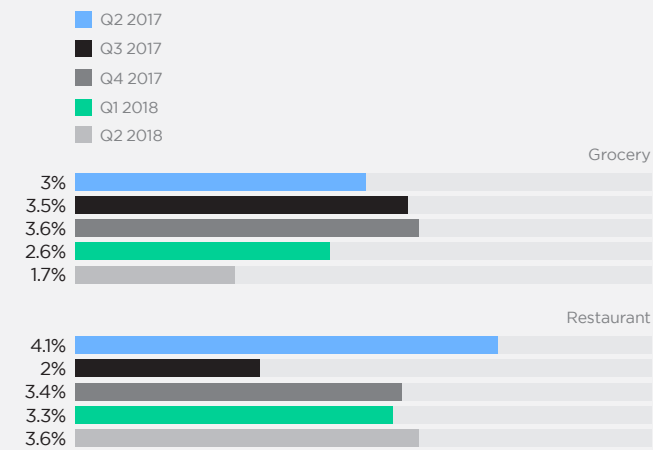
The platform can also be used to reduce the amount of time it takes for analysts to sift through data and identify key trends or developments. Watson Assistant for Marketing, along with WEATHERfx Football with Watson, is already being used by QSRs, including Subway, to boost in-store traffic and drive awareness of their marketing campaigns.

Deep Dive:

Where (And How) QSRs Are Growing The Fastest



Figure 1
YoY Growth In Grocery And Restaurant Spending



Consumer behaviors in the U.S. are shifting – especially when it comes to dining habits. Americans are going out to eat more often – and they’re using their smartphones, tablets and other mobile and connected devices to help them do so.

The amount consumers spend at restaurants is also on the rise, according to research from First Data’s “2018 Payments and Commerce Mid-Year Review.” Consumer spending at restaurants, including QSRs, rose by 3.6 percent in Q2 2018, outpacing grocery store spending. These increases were largely fueled by a rise in QSR sales, which have skyrocketed in recent months. All told, QSR spending marked a seven percent YoY growth and accounted for 38 percent of overall restaurant spend in the U.S., the largest shares of any restaurant category.

These skyrocketing QSR sales are mostly the result of increased interest in, and adoption of, mobile and remote ordering capabilities. According to recent reports, more consumers are picking up their smartphones when it comes time to satisfy their hunger. In fact, nearly [40 percent](#) of consumers told researchers earlier this year that they had placed a food order using their smartphone within the past 90 days. This is a notable

increase from 2015, when just 11 percent reported using mobile order-ahead offerings.

These changes in consumer behavior are causing shifts in how companies in the QSR sector receive orders, and where in the U.S. they're most successful. In this edition of the Commerce Connected Playbook™, in collaboration with First Data, PYMNTS takes a deep dive into the quickly growing QSR world, examining how, and in what region, the industry's sales are increasing most quickly.

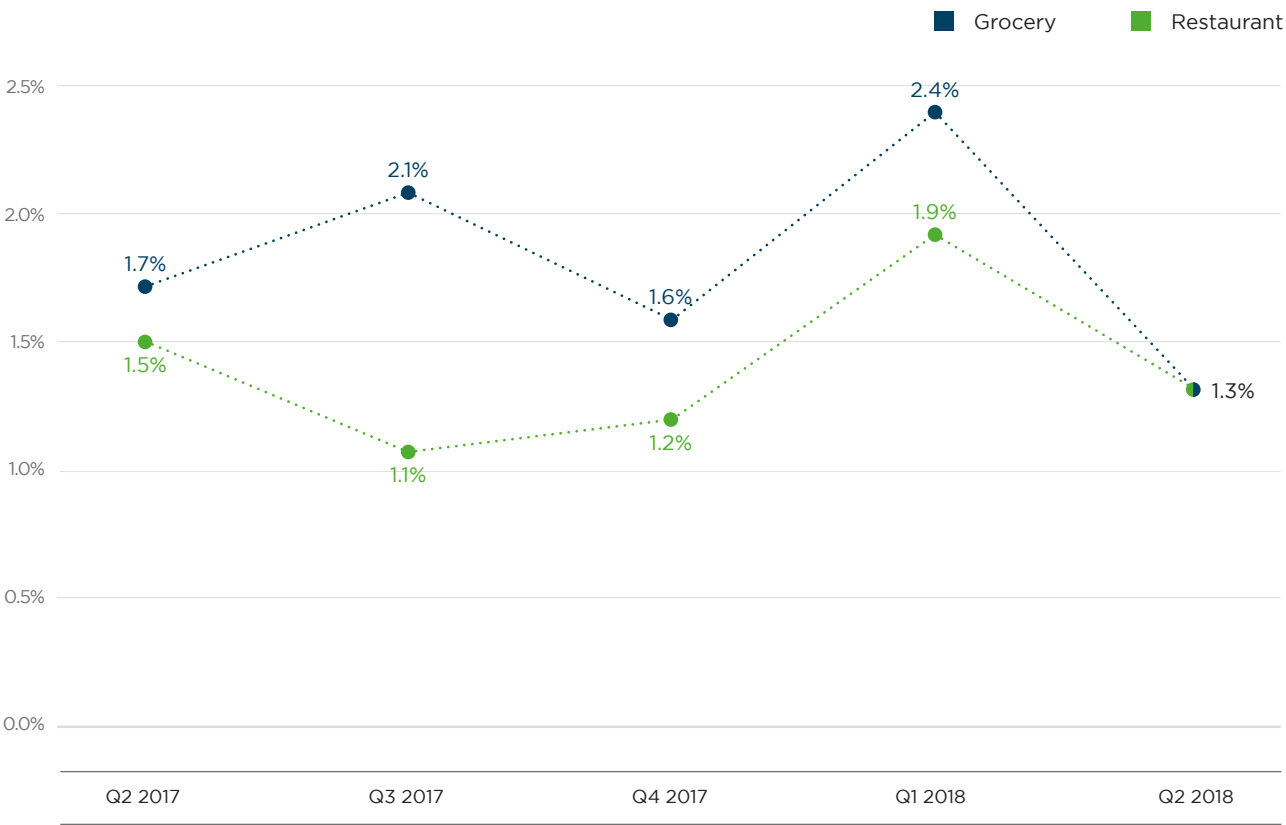
Growing ticket sizes

A substantial portion of QSR growth has come from increased ticket sizes.

According to First Data's SpendTrend Report, ticket size has been on the rise in recent years, particularly in 2018. Ticket sizes increased by 1.9 percent in Q1 of 2018, and by 1.3 percent in Q2 of 2018.

Ticket sales have continued to rise in recent months. Transaction size grew by 3.0 percent in

Figure 2
Average ticket growth YoY



July of this year, 2.6 percent in August and 1.9 percent in September. These increases helped fuel overall QSR growth of 6.2 percent, 6.3 percent and 5.5 percent, respectively.

Many players in the QSR space, including Portillo's, which operates 61 restaurants in mid-west U.S., credit these increases in ticket sizes to mobile ordering. In a [recent interview](#) with PYMNTS, Nick Scarapino, the company's vice president of marketing and public relations, credited the increase to customers' tendency to add on food for friends or colleagues in their orders, and said the company has looked to capitalize on this by offering group meal bundles and other features designed to boost ticket sizes.

Where QSRs are growing most quickly

QSR sales have grown by an average of 5.3 percent nationally over the past six months, and ticket sizes have increased by 2.7 percent in the same span.

While ticket sizes and QSR sales are on the rise across the U.S., certain geographic regions seem to have





outpaced the national average with a growing appetite for smartphone-based ordering. For example, consumers on the East Coast, the regions of New England, the Mid-Atlantic and the South seem to be the biggest adopters of mobile order-ahead offerings

Growth is most noticeable in New England, where overall sales have risen by an average of 8.2 percent over the past six months and ticket sales are up by an average of 3.7 percent in the same time frame. These figures led all regions in both categories.

In terms of overall sales growth, the South followed most closely behind New England, with sales rising by an average of 5.6 percent over the past six months. The Mid-Atlantic also saw strong growth in the past six months, with an average increase of 5.4 percent. Transaction size grew by an average of 1.8 percent in the Mid-Atlantic, compared to 2.5 percent in the South.

Consumers on the West Coast, meanwhile, do not seem to have the same affinity for mobile order-ahead, as the Midwest, Southwest and Western regions —trailing the national average in both overall sales growth and ticket growth.

The Western region saw the strongest overall sales growth of these regions, with sales climbing by an average of more than 5 percent over the past six months. The region's ticket sizes, however, did not fare as well, growing by just 3.4 percent in the time frame.

The Midwest, meanwhile, was last in terms of overall growth, boasting just 4.5 percent in overall increases and 2.9 percent ticket size increases over the past six months. In the Southwest, QSR sales grew by 4.8 percent overall and ticket sizes rose by 2.6 percent.

The increasingly remote future of QSRs

QSR revenues have been buoyed by the advent and adoption of mobile order-ahead offerings, and fortunately for the industry, these trends are unlikely to change any time soon.

According to [recent research](#), the smartphone penetration rate surpassed 80 percent in 2016, and it is projected to continue increasing. Furthermore the growth in adoption and use of other connected devices such as tablets and voice-activated speakers will propel online ordering even more.

Universal commerce solutions that make it easy for QSRs to bring mobile order and pay options to market are critical to enabling the broad availability of these services. Emerging trends are towards platforms that can be used as plug and play environments allowing third party solutions to seamlessly integrate into the merchant's ecosystem via APIs and deliver unique value to consumers such as loyalty and offers.

With consumers' increasing demand for convenience and simplicity in their purchasing and payments experience, QSR sales could see even greater growth in the near future. Mobile ordering is set to be worth [\\$38 billion](#) within the next two years, and the QSR space could be worth [\\$256 billion](#) by 2020.

As these trends continue to impact the industry, merchants large and small would be wise to invest in mobile and remote ordering methods if they hope to keep customers returning for more.



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