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Winning the Hearts (and Wallets) of QSR Consumers

The modern consumer is savvy, informed and empowered. They are surrounded by an ever-expanding array of choices and seemingly have the ability to "consume" exactly what they want, anytime and anywhere. This makes buying decisions more complex than ever, and delivering "good" or better value, quality, and convenience alone are no longer enough for brands to consistently win with consumers.

Brands today have to be the "best" at these dimensions. They also must stack-up against a much broader set of attributes that drive consumers' decision-making – including truly superior product and service, customization around specific wants and needs, health benefits, style, advocacy from sources they trust, and respect for environmental, ethical and natural virtues, to name a few. Nowhere is this modern dynamic in sharper reveal than in the quick service restaurant (QSR) industry.

L.E.K. Consulting surveyed more than 1,300 consumers across the United States about their QSR preferences. We asked a broad range of questions, from which brands they favor in head-to-head comparisons, to what factors influence these preferences. L.E.K.'s analysis serves to draw implications for what will drive success for QSR brands going forward.

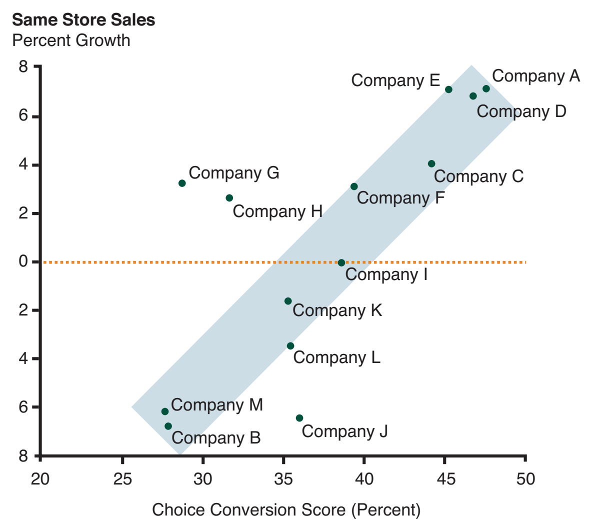
Being a Consumer's Favorite

Convenience has historically been well recognized as a key success factor in the QSR industry, with ubiquity of location serving as a core strategy for many major players. However, in this discerning world where choice is myriad, success requires QSR brands to break through a high wall of clutter to connect meaningfully with consumers and earn their loyalty.

L.E.K.'s Choice Conversion Score (CCS) measures the strength of a brand's connection with what consumers are looking for, based on whether the brand earns top consideration during their decision-making process. Specifically, CCS represents the proportion of times that a brand is viewed as a top-three favorite when it is in a consumer's consideration set.

Figure 1

L.E.K.'s Choice Conversion Score Correlates Brand Preference to Sales



Source: L.E.K. Consulting

Winning the Hearts (and Wallets) of QSR Consumers was written by **Jon Weber**, Vice President and head of L.E.K.'s Restaurant practice, and **Alan Lewis**, Vice President of L.E.K. Consulting. Please contact us at retail@lek.com for additional information.

Our analysis shows that a brand's CCS is highly associated with its actual performance, which indicates that better consumer conversion directly impacts the bottom line (see Figure 1). We see that chains with a higher CCS have been able to realize higher same-store sales growth – the dynamic is very similar when we compare CCS to total average unit volume (AUV).

A chain cannot authentically be all things to all people. Every brand needs to know its target consumer(s) and ensure that its value proposition remains relevant and sufficiently differentiated to drive customer conversion. To this end, tracking CCS can help reveal when a QSR brand is on- or off-track with consumers in a way that is likely to impact sales performance. Other common metrics like customer satisfaction, for example, fail to capture preference relative to viable alternatives, and generally have inconsistent correlations to actual performance.

The CCS measure, of course, is only a starting point. Digging further below the surface can help to create a sharper view of where QSR brands are winning or losing. Of particular note, consumers' age appears to be a meaningful distinguisher of brand choice. And while we strongly argue for a robust attitudinal and behavioral consumer segmentation to get to the essence of how and why consumer segments behave differently, we have focused this report on understanding what is driving younger QSR consumers to behave differently than older age groups. (For more information on our market segmentation model, please see the L.E.K. *Executive Insights*, "Do You Really Know Your Customers or is Your Business Flying Blind?")

What's Appetizing for Generation Y?

We have chosen to spotlight the habits of Generation Y (16- to 24-year-olds) because they are heavy users of QSRs and will become an increasingly critical source of QSR spend. Consider that today nearly 20% of Gen Y purchases from a QSR almost every other day. By contrast, less than half as many Baby Boomers (ages 45 to 64) visit QSRs as frequently and only approximately one-third as many of the Silent Generation (age 65 and older) eat fast food as often. Further, as Gen Y's purchasing power and QSR spend grow with age, earning their loyalty today is critical to building a strong base of customers that can deliver the next generation of sales. Thus, capturing your fair share of Gen Y'ers should be on every QSR's agenda.

To start, peer influence on restaurant selection differs notably for Gen Y compared to other generations. More than 40% of Gen Y consumers are swayed by their friends, which is nearly twice the level of any other age group. Friends steer the meal or snack selection choices for only slightly more than one-quarter of Gen X consumers, 16% of Baby Boomers and just over one-fifth of the Silent Generation.

While it is tempting to dismiss this observation as merely reflective that younger people spend more time with their friends than older generations, this finding coincides with L.E.K.'s research on the impact that social networks are having on younger consumers' behavior. L.E.K. finds that Gen Y values their friends' opinions more than any other form of media, and therefore has a pronounced influence on their behaviors – something to consider when planning your next marketing budget!

In making their QSR selections, Gen Y's decision criteria are also different from the average consumer. Some notable differences of Gen Y consumers include:

- Placing greater value on "pleasant experience" and ability to "socialize"
- Considering amenities such as Wi-Fi more important
- Viewing high-quality ingredients as less important
- Having a greater need to feel "comfortable being seen" in a specific QSR
- Evaluating many factors in deciding among QSRs, whereas other consumers consider a narrower set of attributes

Beyond these decision-making differences, our research also shows that Gen Y tends to be more aligned as a group toward their favored QSRs. To illustrate, Gen Y's CCS scores for the top brands are on average 12% higher than those of the general population. If these stronger connections to favorite brands persist, as Gen Y'ers gain purchasing power, the performance difference between QSRs at the top and bottom of the preference spectrum is likely to widen. Further, the laggards will find it increasingly difficult to improve their position as they will need to unseat strongly entrenched brands to do so.

Which Brands Win and Lose with Gen Y?

Gen Y and other age groups agree on three of their top-four QSR choices (see Figure 2). Chick-fil-A, Dunkin' Donuts and Chipotle all earn high marks across the board for appetizing food, value and convenience. However, there are notable differences as we move further down the preference list. Subway falls outside of Gen Y's top-10 favorites primarily because this group is less concerned with health and quality ingredients than other demographics. Boston Market struggles with Gen Y for the same reason.

McDonald's also illustrates how the Gen Y mindset contrasts from other ages. Its low prices and ubiquity drive high preference levels across older consumers. However, McDonald's has failed to entrench itself among Gen Y, where its preference level is uninspiring, placing only in the middle of the pack. Instead, this younger audience gravitates toward the likes of Wendy's and Burger King for their "tastier" menu items.

Figure 2

Ranking QSRs by CCS Score: Gen Y vs. All Other Ages

Restaurant	All Ages Except Gen Y Rank	Gen Y Rank
Chick-fil-A	1	4
Dunkin' Donuts	2	3
McDonald's	3	11
Chipotle Mexican Grill	4	1
Boston Market	5	20
SUBWAY	6	14
Panda Express	7	2
Hardee's	8	7
Wendy's	9	5
Sonic	10	10
KFC	11	13
Burger King	12	6
Starbucks	13	18
Qdoba	14	8
Arby's	15	16
Taco Bell	16	9
Jack in the Box	17	12
Popeye's	18	19
Potbelly Sandwich Works	19	15
Quizno's	20	17

Source: L.E.K. Consulting

Implications

L.E.K.'s research demonstrates the importance of placing among the top brands within consumers' consideration set in driving QSR sales performance. Achieving mediocre or "satisfactory" levels of preference simply is not good enough to generate high customer conversion, which leads to superior sales performance.

Because low brand preference levels are highly associated with lower sales performance (and vice versa), we believe tracking a brand's CCS is critical and can identify both opportunities and risks; which often requires probing for variability in preference among different consumer segments. Strong scores can point to competitive advantages that should be exploited to maximize productivity, while low scores can spotlight key gaps that represent vulnerability, or alternatively, pockets of upside if they can be improved.

For sure, we have seen brands that, while seemingly entrenched with high overall preference, have failed to cultivate consumer connectivity among certain consumer groups, which could spell trouble in the future if not addressed. This is most apparent in the disparity of preference levels among Gen Y and older consumer segments, which is based on fundamental differences in their decision-making priorities.

Brands that fail to adapt their value proposition and messaging to build loyalty among younger consumers could face major challenges as these consumers gain purchasing power and more spend is diverted to their preferred brands. Mature QSR brands are perhaps the most at risk, as they can fall into the trap of relying on long-established connectivity with older consumers at the expense of simultaneously cultivating new consumer relationships to fuel the next phase of company growth.

For further information contact:

Boston
28 State Street
16th Floor
Boston, MA 02109
Telephone: 617.951.9500
Facsimile: 617.951.9392

Chicago
One North Wacker Drive
39th Floor
Chicago, IL 60606
Telephone: 312.913.6400
Facsimile: 312.782.4583

Los Angeles
1100 Glendon Avenue
21st Floor
Los Angeles, CA 90024
Telephone: 310.209.9800
Facsimile: 310.209.9125

New York
650 Fifth Avenue
25th Floor
New York, NY 10019
Telephone: 212.582.2499
Facsimile: 212.582.8505

San Francisco
100 Pine Street
Suite 2000
San Francisco, CA 94111
Telephone: 415.676.5500
Facsimile: 415.627.9071

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