

Taco Bell's sales soar, while Chipotle misses expectations as consumers focus on value

Article

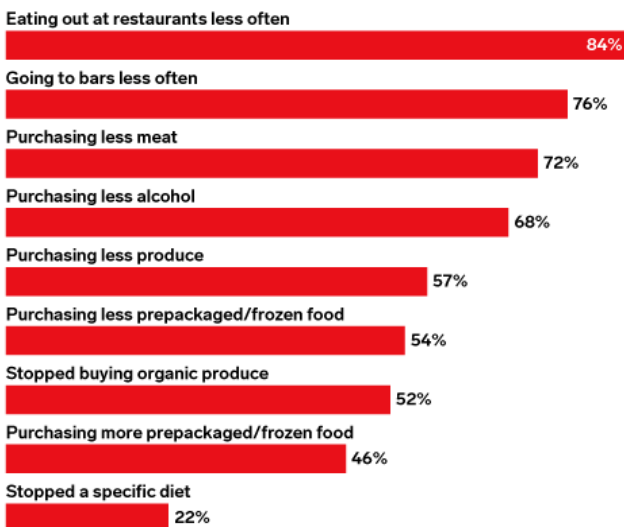
The trend: Economic uncertainty is driving higher-income people to trade down to lower-priced quick-service restaurant (QSR) options and lower-income consumers to seek a deal

when they're looking for a quick meal.

- **Those trends helped Yum Brands**—owner of **Taco Bell, Pizza Hut, KFC, and The Habit Burger Grill**—beat analysts' expectations thanks to 11% year-over-year (YoY) same-store sales growth at Taco Bell in Q4.
- **The same factors drove a 7.8% YoY increase in North American same-store sales at Subway**, which doesn't typically release quarterly earnings but **shared** its finances because it is exploring a **sale**. The sandwich chain noted that the roughly 17,000 restaurants in its three highest-performing quartiles saw same-store sales rise 12.5% YoY in Q4.
- **Meanwhile, Chipotle**—which has a higher price point and raised menu prices 13.5% compared with Q4 2021—**fell short of analysts' forecasts for both earnings and revenues for the first time since Q3 2017**, per CNBC. The restaurant noted that delivery transactions during the quarter fell 15% as consumers decided that the added convenience wasn't worth the increased cost.

Purchase Behavior Changes That US Adults Have Made Due to Inflation, June 2022

% of respondents



Note: n=1,169 who have made changes to their eating/drinking habits as a result of inflation
Source: Morning Consult as cited in company article, June 21, 2022

277535

eMarketer | InsiderIntelligence.com

Making the right bet: Both Taco Bell and Chipotle introduced special menu items during the quarter. But while Taco Bell's reintroduction of the Mexican pizza menu item helped propel the

company's growth, Chipotle's launch of the garlic guajillo steak menu item failed to meet the company's expectations, which it attributed to the challenging economic landscape.

- “We tested [garlic guajillo steak] in a very different environment than when we rolled it out,” CEO **Brian Niccol** said during the company's earnings call. While it drove some consumers to spend more, it didn't lead more people to order it.
- Yum CEO **David Gibbs** noted that throughout the quarter the company saw increased interest in value-oriented menu items across its brands, such as Taco Bell's cravings menu and \$2 burritos, Pizza Hut's melts products, and KFC's wraps.

Rewarding customers: Looking ahead, **Chipotle aims to drive growth by bolstering its rewards program** with more targeted offers and gamified badges.

- The program, which grew 20% to 31.6 million people last year, in January **began** offering each member 10 personalized rewards throughout the year.
- The push aims to drive more people to engage with the rewards program and to use personalization to boost order frequency.
- That's a good bet given that many QSR chains have found that **loyalty programs** are more effective at driving traffic than broad-based deals or promotions.

The big takeaway: QSRs that can effectively communicate the value of their offerings stand to benefit from consumers trading down from more expensive restaurants. But that's easier said than done given that food and labor prices continue to rise.

- QSRs need to be judicious when they consider raising prices to avoid dampening demand.

*This article originally appeared in Insider Intelligence's **Retail & Ecommerce Briefing**—a daily recap of top stories reshaping the retail industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

- *Are you a client? [Click here to subscribe.](#)*
- *Want to learn more about how you can benefit from our expert analysis? [Click here.](#)*