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Starbucks, Yum Brands, McDonald's see similar trend in their latest results: cautious consumer spending

Article

The trend: Consumers' growing stinginess is taking a bite out of quick-service restaurant (QSR) earnings as **Starbucks**, **McDonald's**, and **Yum Brands** all delivered disappointing results in their most recent quarters.

- Starbucks reported weaker-than-expected results, as same-store sales fell 4% and traffic declined 6%. Same-store sales fell 3% in the US and traffic sank 7%, while international same-store sales dipped 6%.
- Yum Brands, which owns **KFC**, **Pizza Hut**, and **Taco Bell**, missed analysts' top- and bottom-line expectations. Both KFC and Pizza Hut had same-store sales declines, while Taco Bell same-store sales rose just 1%.
- McDonald's fell short of analysts' bottom-line expectations for the first time in two years. Comparable sales growth was slower than analysts expected in each of the company's geographic segments.

The landscape: While supply chain disruptions and higher labor costs drove QSRs to hike prices, those increases have caught up to them.

- **Inflation's impact:** While QSRs benefited in 2022 and early 2023 from rising grocery prices driving shoppers to look for an affordable meal, the landscape changed over the past year as grocery prices stabilized and restaurant prices continued to rise. That led a sizable segment of consumers—particularly those who are lower-income—to pull back.
- **Economic vibes influence consumer spending patterns.** The labor market remains strong with an unemployment rate under 4% for 26 straight months and wages up 4.2% year-over-year in March, but consumers don't feel great. US consumer confidence fell in April to the lowest level since July 2022, per The Conference Board.
- **The Middle East conflict weighs on international sales.** The war in the Middle East is also impacting the companies' results, with McDonald's and Starbucks struggling to shake off controversies.

A good deal: Two QSR companies that delivered solid results during the quarter—**Restaurant Brands International** (parent company of **Burger King**, **Popeyes**, and **Tim Hortons**) and **Domino's**—attributed their successes to a sharp focus on value.

- Burger King's US comparable sales rose 3.9%, outpacing the industry, thanks to offers such as a $5 duo that allowed consumers to choose two sandwiches for $5, the $5 Your Way meal deal, and $2.99 chicken wraps, said CEO **Joshua Kobza**, during the company's earnings call.

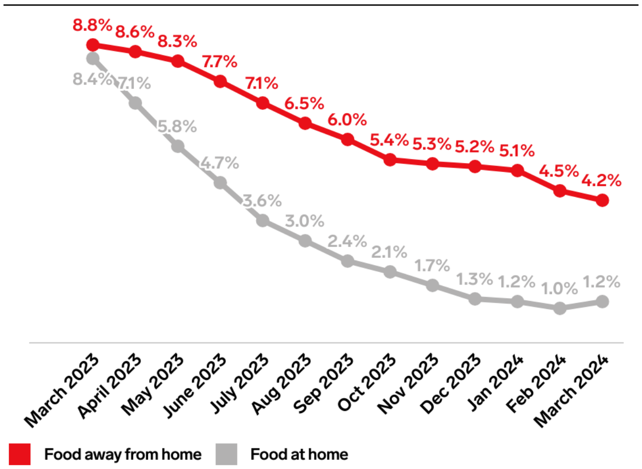
- Domino's grew its US same-store sales 5.6%, well ahead of the 4.04% analysts expected, by offering memorable, compelling deals, said CEO **Russell Weiner**, during the company's earnings call.
- "It's not about just having the lowest price in the market, it's about providing value that's innovative and that's memorable," he said. The company's "emergency pizza" offering, for example, put a fresh spin on the proven buy one, get one free tactic. The net result was a promotion that significantly outperformed buy one, get one, while also helping the chain boost membership in its loyalty program.

The big takeaway: QSRs face intense competition for consumer spending, not only with each other but also with the grocery store. They need to find unique ways to deliver compelling offers that persuade customers to open their wallets—or consumers will venture elsewhere.

Go further: *Read our Restaurant Digitization 2024 report for a deeper look at the issues facing the restaurant industry.*

The Cost of Eating Out Continues to Rise Faster Than the Cost of Food at Home

% change in US consumer price index, March 2023-March 2024



Note: unadjusted indexes; food at home refers to the total expenditures for food at grocery stores (or other food stores) and food prepared by the consumer unit on trips; excludes the purchase of nonfood items; food away from home includes all meals (breakfast, brunch, lunch, dinner, snacks, and nonalcoholic beverages) including tips at fast food, take-out, delivery, concession stands, buffet, and cafeteria, at full-service restaurants, and at vending machines and mobile vendors; also included are board (including at school), meals as pay, special catered affairs, such as weddings, bar mitzvahs/confirmations, school lunches, and meals away from home on trips
Source: US Bureau of Labor Statistics, April 2023

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