

Fast-food fallout: Health-conscious and cash poor consumers serve as an industry challenge

IBISWorld Industry Report 72221 Fast Food Restaurants in the US

April 2010

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2 About this Industry

2	Industry Definition
2	Main Activities
2	Similar Industries
2	Additional Resources	.....

3 Industry at a Glance

4 Industry Performance

4	Executive Summary	.....
4	Key External Drivers	.....
5	Current Performance	.....
7	Industry Outlook	.....
9	Industry Life Cycle	.....

11 Products & Markets

11	Supply Chain	.....
11	Products & Services	.....
12	Demand Determinants	.....
13	Major Markets	.....

14	International Trade	.....
15	Business Locations	.....

17 Competitive Landscape

17	Market Share Concentration	.....
17	Key Success Factors	.....
18	Cost Structure Benchmarks	.....
19	Basis of Competition	.....
19	Barriers to Entry	.....
20	Industry Globalization	.....

21 Major Companies

21	McDonald's Corporation	.....
23	Yum! Brands, Inc.	.....
25	Wendy's/Arby's Group, Inc.	.....
27	Starbucks Corporation	.....
28	Burger King Corporation	.....
30	Doctor's Associates Inc	.....

35 Operating Conditions

35	Structural Risk Index	.....
35	Investment Requirements	.....
36	Technology & Systems	.....
37	Industry Volatility	.....
37	Regulation & Policy	.....
38	Industry Assistance	.....
38	Taxation Issues	.....

39 Key Statistics

39	Industry Data	.....
39	Annual Change	.....
39	Key Ratios	.....
40	Historical Performance	.....

42 Jargon & Glossary

About this Industry

Industry Definition

At industry businesses, patrons pay before eating. Purchases may be consumed on-site, taken out or delivered. Some establishments also sell alcohol. Gross sales come from franchises and company-owned stores. Officially reported SEC

company revenue (net revenue) refers to revenue obtained only from company-owned stores and franchise fees. Franchised stores' gross sales revenue is not available to the franchisor. Net revenue is therefore always less than gross revenue.

Main Activities

The primary activities of this industry are

Operating drive-thru and take-out facilities
 Operating fast-food services
 Operating quick-service restaurants

The major products and services in this industry are

Cafeteria amenities
 Limited service restaurant amenities
 Other amenities inc – coffee shops, ice cream and donut shops

Similar Industries

44529 Candy, Bakery & Other Food Stores in the US

This industry primarily retails confectionery goods and nuts not packaged for immediate consumption.

72211 Full-Service Restaurants in the US

This industry primarily engages in full waiter service. They provide food to patrons who pay after eating.

72232 Caterers in the US

These establishments are primarily engage in catering.

72233 Street Vendors in the US

Establishments in this industry primarily sell snacks and nonalcoholic beverages from vehicles.

72241 Bars, Nightclubs & Drinking Establishments in the US

Establishments in this industry primarily prepare and serve alcoholic beverages.

Additional Resources

For additional information on this industry

www.restaurant.org
 National Restaurant Association
www.bls.gov
 U.S. Bureau of Labor Statistics
www.census.gov
 U.S. Census Bureau

Industry at a Glance

Fast Food Restaurants in 2010

Key Statistics Snapshot

Revenue	Annual Growth 05-10	Annual Growth 10-15
\$184.0bn	0.4%	2.5%
Profit	Wages	Businesses
\$8.3bn	\$48.0bn	300,645

Market Share

- McDonald's Corporation 12.7%
- Yum! Brands, Inc. 9.7%
- Wendy's/Arby's Group, Inc. 6.6%
- Starbucks Corporation 5.9%
- Burger King Corporation 5.1%

p. 21

Revenue vs. employment growth



Per capita disposable income



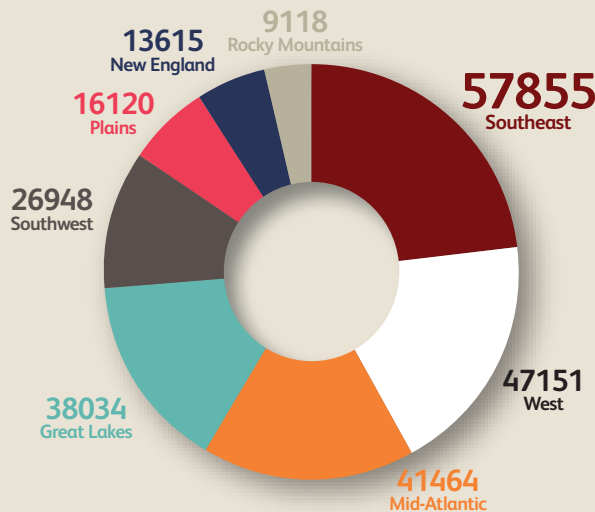
SOURCE: WWW.IBISWORLD.COM

Key External Drivers

- Per capita disposable income
- Health consciousness
- Consumer sentiment index
- Competition from full service restaurants

p. 4

Business locations



SOURCE: WWW.IBISWORLD.COM

Industry Structure

Life Cycle Stage	Mature	Regulation Level	Heavy
Revenue Volatility	Low	Technology Change	Medium
Investment Requirements	Low	Barriers to Entry	Low
Industry Assistance	None	Industry Globalization	High
Concentration Level	Low	Competition Level	High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 39

Industry Performance

Executive Summary | Key External Drivers | Current Performance
 Industry Outlook | Life Cycle Stage

Executive Summary

The fast food industry has experienced a major slowdown due to changing consumer tastes and a struggling economy. Over the five years to 2010 industry revenue is expected to grow at a rate of 0.4%, with revenue declining 3.3% in 2009 and starting its climb back up in 2010 with a forecast growth of 3.0%.

although major fast food retailers have responded by expanding the number of healthy options on their menus, the general trend toward healthy eating has hurt the often greasy fast food industry.

Over the last five years, both industry employment and industry establishments declined in response to the weak market conditions. There is, however, a long term trend of major fast food chains investing in ethnic food and other specialty chains, many of which have grown over the last few years and have outperformed the industry as a whole. International growth is also a large part of many major chains long term strategy. China, in particular, is viewed by fast food restaurants as a market that has huge potential for growth and long term profitability. Over the five years to 2015, industry revenue is forecast to grow at a rate of 2.5% per year.

Restaurants menus are changing due to society concerns with high fat, salt and sugar contents

The average consumer is spending less on luxuries like eating out and when they do they tend to purchase lower priced items. Fast food restaurants are increasingly losing to home cooked meals in the battle over peoples shrinking budgets. Consumers are also becoming increasingly health conscious and

Key External Drivers

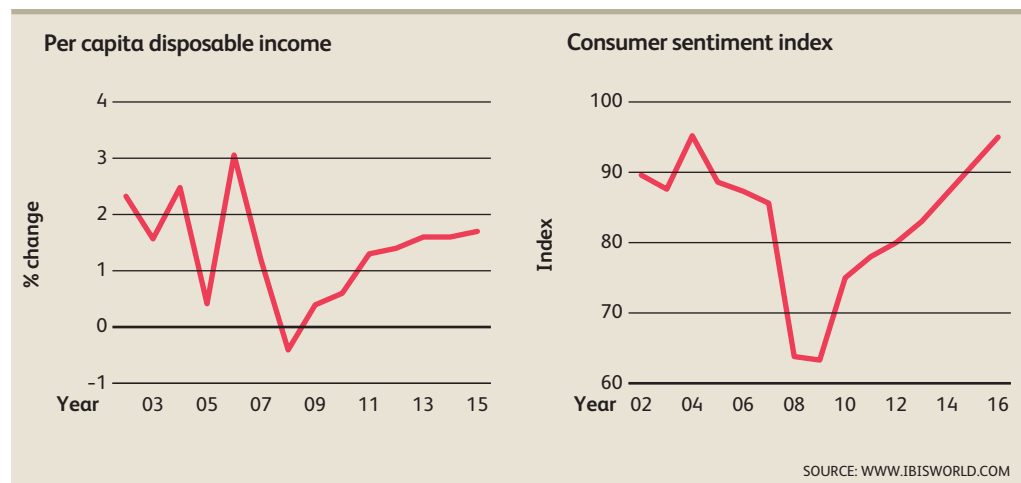
Per capita disposable income

The industry is affected by factors which affect the growth in real household disposable income (which are changes to tax and interest rates and changes in labor market growth). During economic recessions, the spike in unemployment, however, generally leads to more

subdued growth in household incomes. High and increasing gas prices also affects disposable income, and therefore, consumer expenditure on food, including take-out foods.

Health consciousness

There is increasing consumer awareness



Industry Performance

Key External Drivers continued

of issues related to weight and obesity, fatty food intake and food safety issues, which are impacting on this industry's growth, particularly for meat and hamburger products and any fried products.

Consumer sentiment index

Changes in consumer sentiment have a significant effect on household expenditure on discretionary items, including fast food. During recessions there is also an

increasing demand for lower priced, value products from operators.

Competition from full service restaurants

There are competitors to this industry, apart from continuing strong competition within the industry itself, operators from other foodservice providers, including full service restaurants, caterers and pre-prepared foods available from supermarkets, are also seeking their fair share of household expenditure on meals.

Current Performance

Over the past few years the fast food industry has been battered by a weakened economy, the rapid rise in unemployment, as well as society's increasing awareness of the health risks associated with a high fat, salt and sugar diet. Despite these obstacles, the industry has made strides to ensure it quickly responds to changes in consumer preferences. Over the five years to 2010 industry revenue is expected to grow at an average annual rate of 0.4% per year. Industry revenue declined 3.3% in 2009, though it is expected to partially bounce back in 2010 with revenue increasing 3.0%.

The general economic malaise and rising unemployment rates have resulted in household disposable income levels declining over the last few years. The average consumer is spending less on luxuries like eating out and when they do they tend to purchase lower priced items. This has forced fast food chains to compete with each other to convey to consumers that their restaurants are where you can get the most bang for your buck. The competition between operators has now become more intense, with a shift more toward taking market share from each other, rather than seeking a share of a growing market. Some revenue is also lost in the form of substitute competition, with certain consumers cutting out fast food altogether and instead saving money



by cooking themselves.

Consumers are becoming increasingly health conscious and major fast food retailers have responded by expanding the number of healthy options on their menus. For many fast food chains this has become a cornerstone of their marketing strategy and has enabled them to target a new segment of the market and renew interest in their products.

Although it has cooled to a certain extent with the onset of the recession, international growth is still a large part of many major chains long term strategy. China, in particular, is viewed by fast food restaurants as a market that has huge potential for growth and long term profitability.

Industry Performance

Barriers to future industry growth

The barriers to future industry growth are now largely due to total market saturation and by changes in the age structure of the population, a leaning toward healthy diets and some competition for both labor and store sites. There have been some concerns about mad cow disease among consumers

for certain meat quick service products and many have diversified into chicken and other products, including Italian- and Mexican-style foods. Some major operators have begun developing combined or multi-branded outlets in which they share these locations with own other brands or food styles.

Industry performance

Due to the changes in economic conditions and consumer tastes as described above, total revenue from the fast food industry is expected to increase by only 0.4% per year over the five years ending in 2010. The industry experienced two distinct growth and decline periods during the last five years, with the industry riding on the coattails of expanding economy in the first half and fighting through the declining demand in the second part.

From 2005 through 2006, industry revenue was driven by strong economic growth. Industry revenue grew 4.9% to \$180.6 billion in 2005 and 5% to \$189.5 billion in 2006, though there were indicators of the troubles around the corner. Operators competed ferociously in the domestic market and some further consolidation of underperforming sites occurred, as operators searched for better located and higher volume ones. Many launched new concepts and menus (that included more healthy items) and expanded internationally in order to grow overall revenue and profits.

In 2008 and 2009, lower levels of consumer expenditure resulted in people cutting their fast food spending. Rising unemployment also contributed to lower demand. This combined with an increased focus on healthy eating seemed to secure the industry's fate. In 2008, industry revenue declined 0.9% to \$184.8 billion. Revenue is forecast to fall an additional 3.3% to \$178.6 billion in

Lower levels of consumer expenditure, combined with healthy eating trends, hurt industry revenue

2009. In 2008, the industry was also directly affected by increased commodity and food prices that led to reducing margins or to untimely menu price rises, as store traffic declined. Fast-food meals are typically viewed by many as an area where potential expenditure savings can be made. Increasingly, price-based competition, value-added meal offerings and discounts spread. Consolidation of menus and underperforming sites occurred, as well as industry player consolidation, such as the Wendy's/Arby's merger. Major players also reviewed their international expansion plans, as the recession spread globally. In 2009, major players continued to consolidate some underperforming sites and launch new healthy menu items, as well as offering better value to customers. For major operators, stronger revenue and profit growth occurred from their expansion into China and other countries.

The industry is expected to turn the corner in 2010, with revenue growing 3.0% to \$184.0 billion.

Industry profit margins have been declining (and remaining flat at best)

Industry Performance

Industry performance continued

due to lower sales volume and customers opting for lower priced items (thereby reducing revenue), high levels

of competition in the domestic market, and with the industry reaching saturation levels.

Establishments, employment and wages

Over the last five years, industry employment will fall at an average annual rate of 0.3% to 3.9 million, directly relating to the recent decline in industry revenue and some underperforming location consolidation by major operators. Similarly, the number of establishments is expected to fall at a rate of 0.2% per year over the five years to 2010. Over the last decade, many operators also invested in and acquired ethnic food and other specialty chains, though over the last five years many have divested from them in order to focus on growing their core business. Examples of this include Wendy's selling its profitable Tim Horton's chain and Baja Fresh

Mexican Grill stores in 2006.

There has been a trend towards consolidation within the industry. In 2008, Wendy's and Arby's agreed to merge. The trend towards consolidation indicates that major players are realizing the benefits of economies of scale and attempting to gain a competitive advantage through acquisition and growth. IBISWorld estimates that on average, there will be 13 people employed per industry establishment, earning an average of \$47,100 each in 2010 (compared to 13.4 and \$45,400 in 2005). Competitive pressures and declines in demand are forcing companies to consolidate their operations and streamline employment.

Industry Outlook

Over the five years to 2015, industry revenue is expected to increase at an average annual rate of 2.5%. The industry will show its first signs of growth in 2010, and then the industry will resume its long term growth trend from 2011 onward.

Aggressive competition is likely to continue over the next five years. This will involve significant price-based competition; an increasing emphasis on the regular introduction of new products, including healthy-eating ones; a move away from standard products by allowing some menu and meal choices by customers.

Most fast food chains will introduce new healthy food alternatives and expand their current product line. The major operators will continue to seek to expand revenue, and especially profit by expanding their product offerings into non-red meat products (such as chicken

There will be significant price-based competition and regular healthy product introductions

burgers, Mexican, and pasta) and providing a variety of other meals, including fresh salads. They are also diversifying into areas, such as cafes and full service restaurants, but operating under different brands, through multi-branding concepts, at both existing and new locations.

Many domestic operators will continue to seek international expansion opportunities. International expansion is expected to be the largest source of revenue and profit growth for major players over the next five years.

Industry Performance

Industry Outlook continued

Over the next five years, there is expected to only be a marginal improvement in industry profitability due

to the on-going significant level of competition in the low growth, saturated domestic market.

Revenue

IBISWorld believes that the industry will turn the corner in 2010, as consumer spending begins to rebound and consumers parlay that flexibility in their pocket book into quick satisfying fixes such as fast food. In 2010, IBISWorld forecasts that industry revenue will grow by 3.0% to \$184.0 billion. Industry revenue growth will sustain in 2011 and 2012 as the US economy recovers from recession, demand for fast food increases, and the implementation of healthy options succeed in abating some of the concern over the health risks associated fast food. The resumption international growth will also improve the revenue of major fast food chains. IBISWorld forecasts that industry revenue will grow by 3.4% to \$190.2

Industry revenue growth will level off as the industry is forced to contend with market saturation

billion in 2011, and 2.6% to \$195.2 billion in 2012.

Industry revenue growth will level off as growth rates approach historical levels and the industry is forced to contend with the market saturation issues it has grappled with over the last 10 years. IBISWorld forecasts that industry revenue will grow by 2.2% in 2013 and 2.1% in 2014. Revenue is expected to grow 2.2% in 2015.

Establishments and employment

Despite the forecast improvement of the domestic economy, operators will still compete ferociously in the domestic market for their fair share of revenue. Consolidation among operators has been occurring for some time and is expected to continue, though new growth opportunities will offset those losses. Over the next five years the number of establishments is expected to increase at a rate of 1.7% per year. The number of enterprises is also forecast to increase at a rate of 1.3%. The difference in the rate of growth between establishment and enterprises indicates that existing fast food chains will be adding locations at a faster rate than new entrants entering the industry. This is likely due to the high rate of market saturation.

Over the same period, industry

employment is projected to grow at an average annual rate of 1.1%, to 4.13 million by 2015. This number will be partially inflated by the increasing use of casual employees to meet peak customer service periods.

As a result, the average number of employees per establishment is forecast to decrease from 13 in 2010 to 12.6 people in 2015. Average real wage is also forecast to increase from \$12,300 to \$12,600 per worker between 2010 and 2015. Despite the long term trend of declining wages due to automation of the food preparation process, over the next five years wages and employment are both expected to increase. This is partially due to the industry recovering from depressed wage and employment levels as a result of the recession.

Industry Performance

Life Cycle Stage

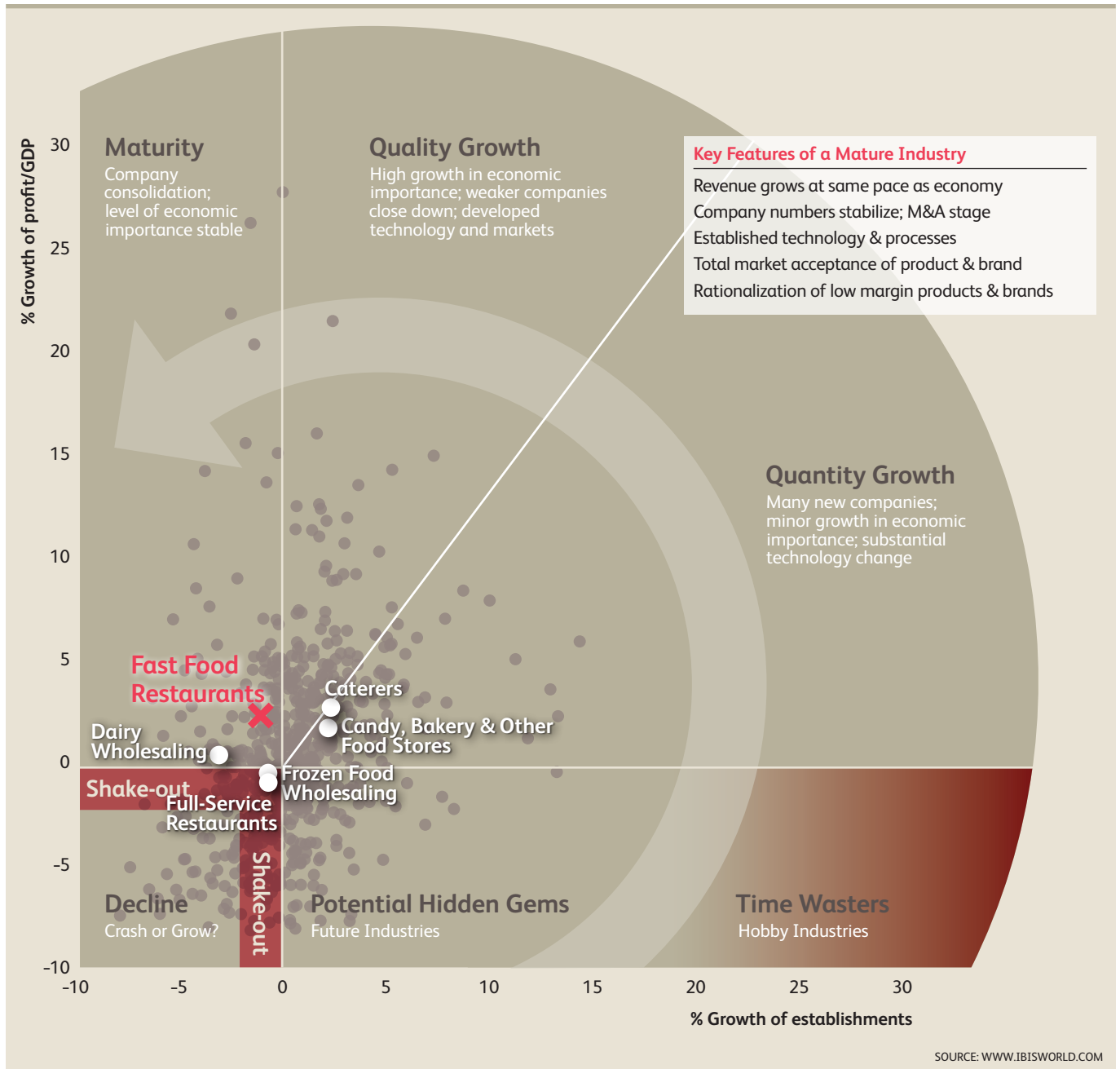
Some operations/stores are closing

The opening rate of new stores is slowing

There has been a movement toward international openings

Price-based competition is heavy

Profitability levels are low



Industry Performance

Industry Life Cycle

This industry is **Mature**

Life cycle measures the development phase of an industry. The Fast Food Restaurants industry is in the mature phase of its industry life cycle.

This industry is in a low growth phase currently and has possibly now reached saturation point, or is very close to it, in the domestic market. The limits of population size within a city or town which can profitably support a franchised or other outlet is starting to be reached and competition for high profile operating sites in other areas is significant.

Also, around a quarter of total industry revenue is controlled by seven multi-establishment and franchised operators, and the top four operators account for an even smaller percent of total industry revenue. The opening of new stores in the United States by the major operators has slowed recently.

There is significant consolidation

occurring (the latest being Wendy's in 2008), with major franchised operators taking over other multi-establishment or franchised stores in other quick service categories to their own to achieve growth.

There are also significant market and consumer changes, with increasing demand for healthy foods and choices; away from high fat, high salt and super-size meals, as the obesity epidemic continues to rise.

Significant price-based competition is continuing to occur, as operators strive to capture an increasing market share in a slow growth domestic market.

Also, major franchised operators are currently receiving most of their sales growth from expansion of their overseas operations or into new areas such as Mexican or Italian restaurants, cafe's and full service restaurants.

Products & Markets

Supply Chain | Products & Services | Demand Determinants
 Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

9901 Consumers in the US
 Households are the key driver of demand for this industry's products.

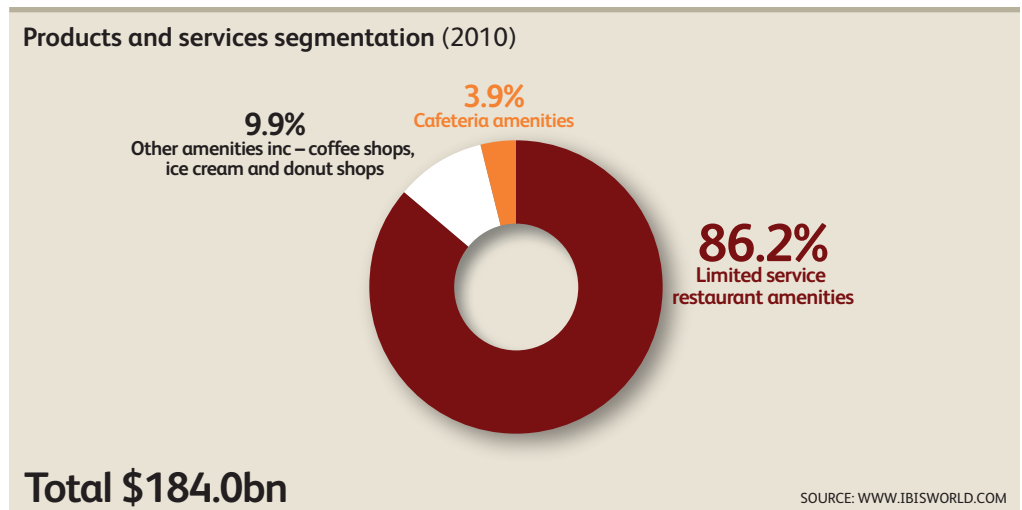
KEY SELLING INDUSTRIES

42242	Frozen Food Wholesaling in the US Supply of frozen foods
42243	Dairy Wholesaling in the US Supply of dairy products
42244	Egg & Poultry Wholesaling in the US Supply of poultry products
42246	Fish & Seafood Wholesaling in the US Supply of seafoods
42247	Beef & Pork Wholesaling in the US Supply of meat products
42248	Fruit & Vegetable Wholesaling in the US Supply of fruit and vegetables

Products & Services

Franchised and multi-establishment operators account for about 10.0% of establishments, but 65.0% of total revenue. The main foods offered by major franchised operators include pizzas, sandwiches (including hamburgers) and chicken. There has recently been a move by major franchised operators, particularly those selling meat product including hamburgers, to also offering

chicken burgers and other white meat products. As well, many are diversifying into providing other healthy foods (including salads) and even extending into cafes. Others have acquired or opened chains under different brands to offer pizzas and other Italian style foods, Mexican foods and other food styles. Over time, the industry has shifted from major operators offering a single food style, to



Products & Markets

Products & Services continued

offering diversity and health foods under their own or a variety of brands.

The above is a reflection of changes in consumer attitudes, needs and desires over time.

For 2002, the US Census Bureau indicated that in the Fast Food service restaurant component there were 187,019 locations, with total revenue of \$117.2 billion, there were 5,875 cafeteria locations with total revenue of \$5.3 billion, and 35,954 locations in the snack and nonalcoholic beverage bars with total revenue of \$13.6 billion.

This latter component, consisted of 9,022 ice cream and soft serve shops with

total revenue of \$2.2 billion (an average of \$245,510 each); 737 frozen yogurt shops with total revenue of \$156.5 million (an average of \$212,350 each); 6,228 doughnut shops with total revenue of \$2.9 billion (an average of \$467,250 each); 3,203 bagel shops with total revenue of \$1.4 billion (an average of \$421,170 each); 9,451 coffee shops with total revenue of \$4.2 billion (an average of \$439,000 each); 1,029 cookie shops with total revenue of \$231.5 million (an average of \$225,000 each); and 6,284 other snack and nonalcoholic beverages bars with total revenue of \$2.6 billion (an average of \$409,610 each).

Demand Determinants

Demand Determinants outlines the various factors which stimulate or reduce demand for services supplied by this industry.

Firstly, the industry is sensitive to factors which affect the growth in household disposable income from which restaurant and dining expenditure by consumers is financed. Household disposable income growth is affected by changes in labor market growth (i.e. unemployment), and in tax and interest rates, as well as high and increasing gas prices. It is also sensitive to changes in consumer sentiment, particularly currently associated with the subprime residential mortgage crisis.

The changing age structure of population is also influencing industry change. The "baby-boomers", aged between 35 and 55 years, is a major group which is affecting industry revenue growth, as this demographic has both the numbers and high disposable income to spend on fast food and restaurant meals.

US Census household expenditure data indicated that households with

Industry demand hinges on household income, but healthful eating's sway is growing strongly

income of more than \$50,000 account for about 70.0% of the total personal expenditure on food eaten away from the home. Of this group, those households in the highest income quintile provide about 30.0% of the total away from home food expenditure.

Convenience and value-for-money are also other important factors driving the growth of this industry from consumers is time (including convenience and quick service) and now value for money.

More recently, consumers have become far more health conscious, and this is currently impacting certain quick-service operators. In particular, there are concerns about fat content, fried foods, salt content and meat products, with some major international meat product scares recently.

Products & Markets

Major Markets

The markets for this industry includes most consumers from businesspeople, to the elderly and young (including for special event/birthday parties). In 1998, the U.S. Census Bureau reported that households with a pretax income of \$70,000 or more spent a total of 34.0% of total food expenditure away from

home, even though they comprised 17.0% of all households.

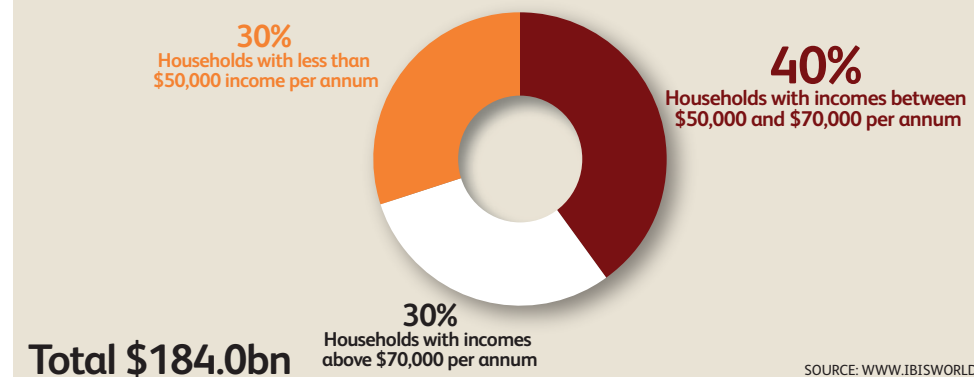
Convenience is the main factor attracting customers to quick service establishments. Value for money is also important, and health concerns are increasingly resulting in changes in consumer quick-service meals preferences.

Away-from-home food spending per income threshold

Household income (\$ '000)	Away-from-home food (\$)	Per capita (\$)	Proportion of total (%)
70 plus	4,328	1,396	50.5
50 to 70	2,834	945	43.7
40 to 50	2,401	889	43.3
30 to 40	1,979	792	40.9
20 to 30	1,574	645	38.0
15 to 20	1,253	570	35.6

SOURCE: US CENSUS BUREAU

Major market segmentation (2010)



Products & Markets

International Trade

In recent years exports have been accounting for an increasing share of total revenue of major operators. Many large operators have established franchised operations internationally. Given the very mature stage of this industry's life cycle in the domestic market, together with changes in customer profiles and tastes, many major operators are seeking to increase their growth in revenue and earnings through further global expansion. The demand for US services in global markets has led to numerous operators relying on foreign customers and subjecting them to vulnerable economic conditions outside of the United States.

In 2005, Yum Brands opened 409 new restaurants in China to make a total of 2,291 (of which 33.0% were

Exports are increasing as a direct result of domestic market saturation

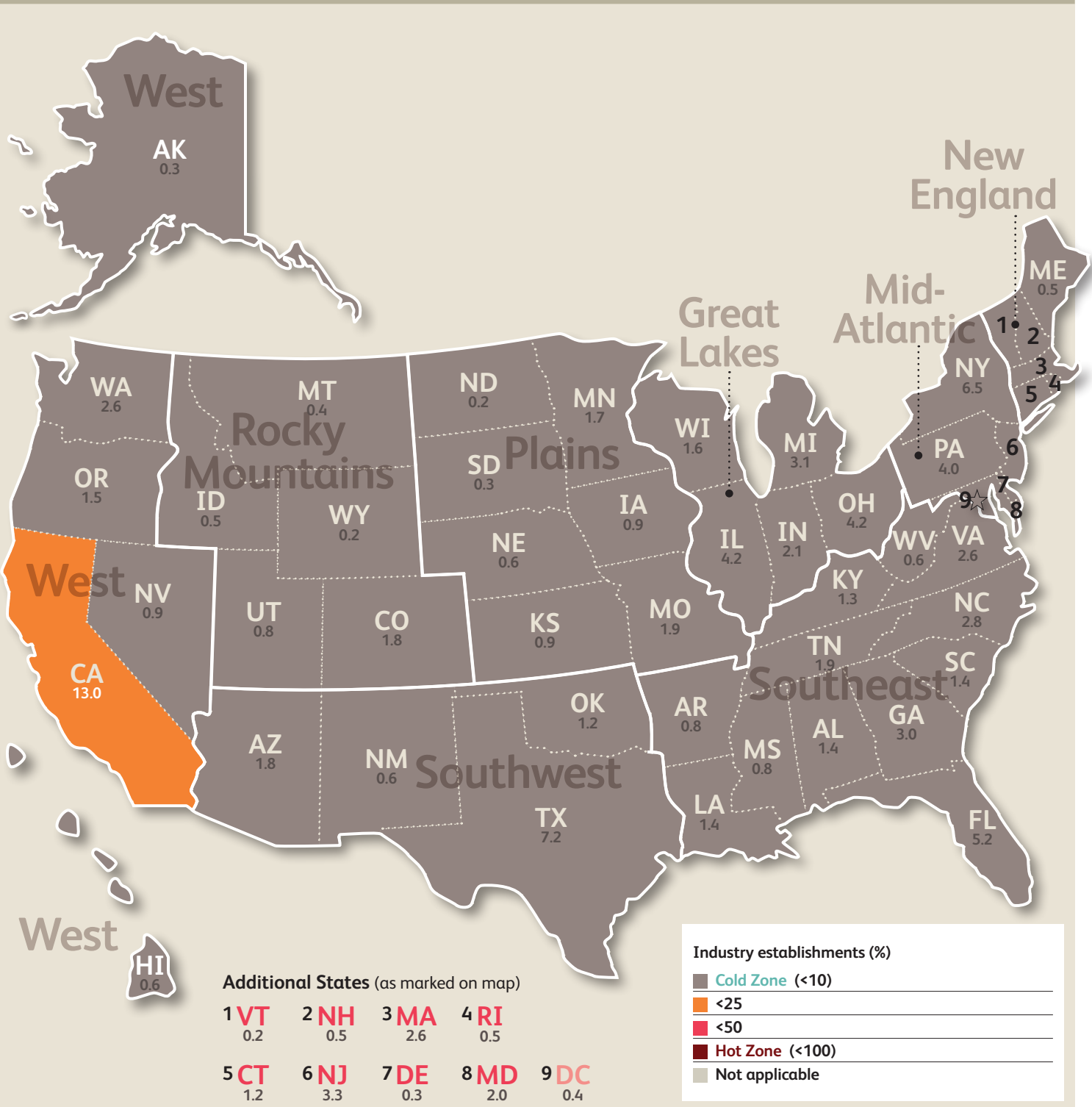
franchised). By mid-2009, store numbers increased to 3,208, or by a further 40%, with 2,670 KFC, 435 Pizza Hut Casual Dining and 81 Pizza Hut Home Service stores in that country.

Also as at June 2009, Domino's Inc. had 489 domestic company-owned stores, 4,498 domestic franchise stores as well as 3,742 international stores (42.9% of total stores), for a total of 8,729.

There are no reliable estimates of import and export flows for this industry over time.

Products & Markets

Business Locations 2010



Products & Markets

Business Locations

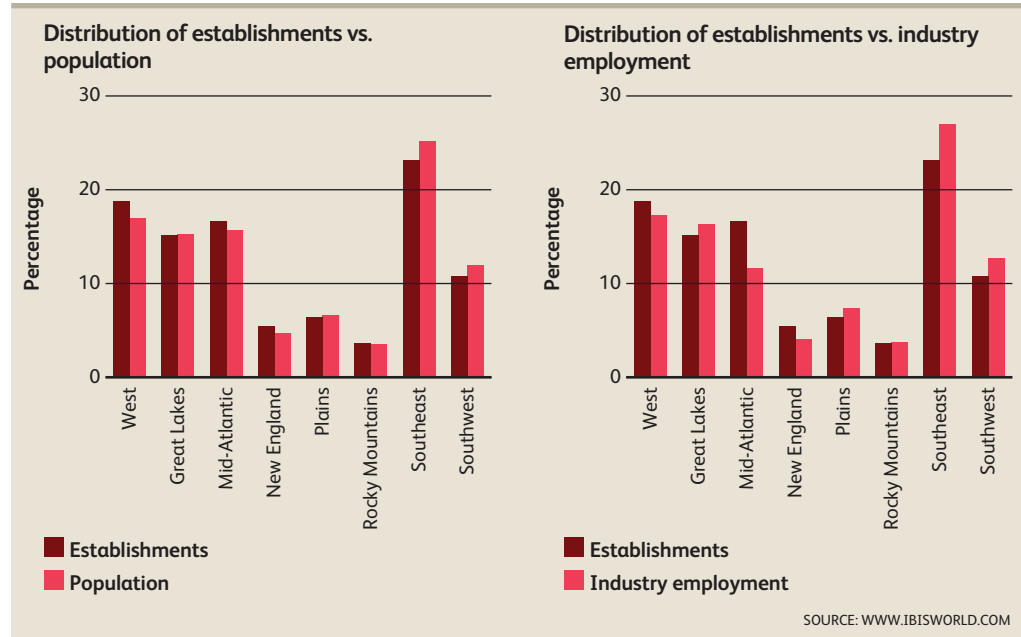
Given the very nature of this industry in delivering meals to the population on a quick basis, its current degree of market and geographic penetration and the mature stage of its development, the industry is generally distributed according to population.

There is a larger share of establishments in the Great Lakes, New England and Plains regions, with a smaller share in the Southeast and Southwest regions, which may be due to a higher concentration of

franchised establishments in the latter areas. This tends to be confirmed by these latter regions also having a higher share of employment and revenue.

Within regions and cities, however, the industry tends to have a higher concentration in areas where households have an annual income of at least \$50,000 per annum.

This level of geographic concentration is, therefore, not expected to change in the near future.



Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

Market Share Concentration

Level
Concentration in
this industry is **Low**

Industry Concentration measures the extent to which the top four players dominate an industry. IBISWorld estimates that in 2010, the top four players in this industry are expected to account for under 35% of the available market share, providing this industry with a low level of concentration.

Given the diversity of food styles and industry operations, it is not surprising that nearly 48.0% of establishments are small business operators with nine or fewer employees and almost an additional 52.0% have between 10 and 99 employees. There is also a very small number of extremely large and dominant chain and franchised operators.

By 2015, it is expected that the major operators will increase their existing domination of the industry and have a combined market share of about 30.0% to 35.0% share of total industry revenue,

Distribution of employer establishments by employment

Employees	Establishments (units)	(%)
1-4	81,491	32.6
5-9	38,354	15.3
10-19	54,012	21.6
20-49	64,951	25.9
50-99	10,394	4.2
100-249	1,003	0.4
250-499	80	N/A
500-999	17	N/A
1000 plus	3	N/A
Total	250,305	100

SOURCE: US CENSUS BUREAU COUNTY BUSINESS PATTERNS

with this mainly resulting from the acquisition of smaller operators and some expected further industry consolidation.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Business expertise of operators

Business expertise is required as this is a high turnover, but low margin industry, with losses easily made.

Having a clear market position

Clear market positioning against competitors in the limited service industry, as well as other foodservice operators.

Effective cost controls

Cost controls are important in this low margin industry, particularly related to food inputs, with minimal wastage.

Ability to franchise operations

Franchising both within US and overseas is now a significant component of this

industry, and can assist by providing necessary support to owners.

Product is sold at high profile outlets

Having high profile locations for stores, with easy access, parking and drive-through services for customer convenience and service.

Market research and understanding

Monitor market/consumer needs, wants and desires, particularly in relation to demand for more healthy foods.

Access to multiskilled and flexible workforce

Need to have access to a good supply of skilled, casual workers to meet peak service demand periods.

Competitive Landscape

Cost Structure Benchmarks

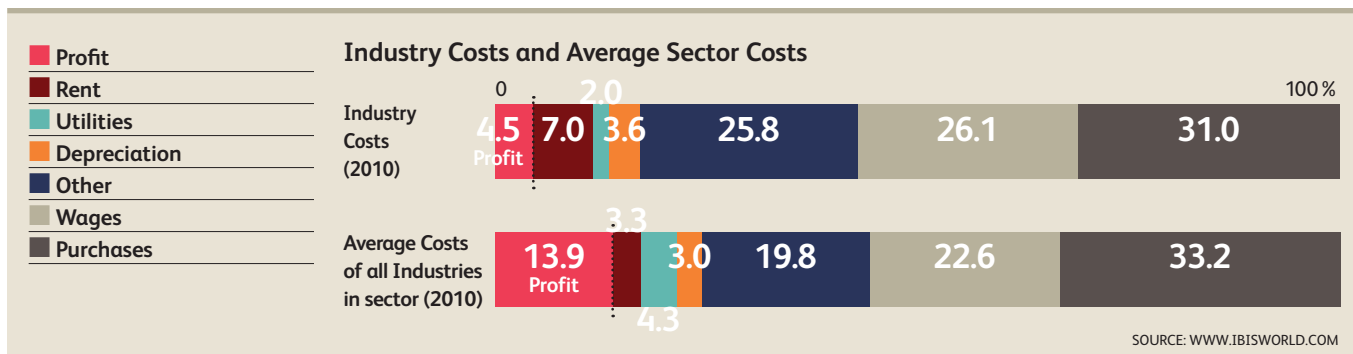
The industry is a high product turnaround, but with a low margin, which makes it susceptible to any adverse changes in demand, such as has been occurring since 2008 with the economic recession. Average returns/pretax income to operators is between 3% and 5% of revenue.

Also relevant to demand is changes in household preferences, in household disposable incomes and other health and food safety concerns.

Given the food-service nature of this industry, typically the major costs are

cost of food and beverages sold and wages paid. A significant labor input is required in all areas from cooking, order taking and serving and clean-up.

Over the last five years labor costs which included wages, as well as benefits, including health, workers' compensation and unemployment insurance. This had an effect on both menu prices and industry profitability, as not all of the cost increase could be passed onto directly in higher prices to consumers, as economic conditions continued to deteriorated, and unemployment spiked further.



INDUSTRY CODE AND TITLE	2005-2010	2011-2015
42242 Frozen Food Wholesaling	●	●
42243 Dairy Wholesaling	●	●
42244 Egg & Poultry Wholesaling	●	■
42246 Fish & Seafood Wholesaling	●	■
42247 Beef & Pork Wholesaling	●	■

Costs for operators in the Fast Food Restaurants industry are affected by the price of goods and services from supplier industries. IBISWorld has estimated the trends of key input prices over the previous five years and for the coming five years. ■ is good news for this industry as IBISWorld expects the price of key inputs to fall; ● shows where this industry is negatively affected as IBISWorld expects the price of key inputs to rise; ■ means price changes will not be a key issue for the industry.

SOURCE: WWW.IBISWORLD.COM

Competitive Landscape

Basis of Competition

Level & Trend
 Competition in this industry is **High** and the trend is **Increasing**

Basis of Competition outlines the factors which influence the level of rivalry between operators in a sector (internal competition) and operators in other sectors (external competition). IBISWorld analysis indicates that competition is currently high and increasing, and supported by the following:

Internal competition

There is significant price-based competition within this industry, but quick service establishments also compete on the basis of location, food quality and consistency, style and presentation, food range with new products, including for the more health conscious and older population, needing to be introduced regularly, variety and service (including availability of drive thru, staff training and attitudes etc).

There is significant competition between franchised and/or multi-establishment operators and other operators. Although franchised or

Industry competition is based on price and value, but increasingly consumers are looking for healthy meal choices

multi-establishment operators account for around 10.0% of establishments, they account for 65.0% of industry revenue.

There is, however, an increasing trend towards the co-location of several different quick service establishments in the same geographic area or in food courts at department stores and airports etc.

Health and nutrition value and information for customers is now of increasing importance.

External competition

Industry competition arises from other food service areas, including take out services offered by many full service restaurants.

Barriers to Entry

Level & Trend
 Barriers to Entry in this industry are **Low** and **Increasing**

The barriers to entry outlines the factors which prevent/limit a new operator from entering this industry. The barriers to entry are low, given that an operator can lease premises and equipment, furniture and fittings, which lowers the initial capital costs, outlays and borrowings.

The top four players are expected to have low market share of under 35% in 2009; this is an indication of the small business and fragmented nature of this industry. There is also no major player dominance within it. Entry can also occur through a franchise agreement, which includes fit out and equipment, as well as training and systems being in place.

There is significant competition among the major franchised companies to obtain

Barriers to Entry checklist	Level
Competition	High
Concentration	Low
Life Cycle Stage	Mature
Investment Requirements	Low
Technology Change	Medium
Regulation & Policy	Heavy
Industry Assistance	None

SOURCE: WWW.IBISWORLD.COM

suitable sites, which has increased the costs of prime sites. However, some major franchised operators are now co-locating within an area or single building to save costs or within shopping centers or malls.

Competitive Landscape

Industry Globalization

Level & Trend
Globalization in this industry is **High** and the trend is **Increasing**

Globalization measures the extent to which this industry operates on a global scale. Globalization is generally high and increasing. The level of globalization is determined by examining the following factors:

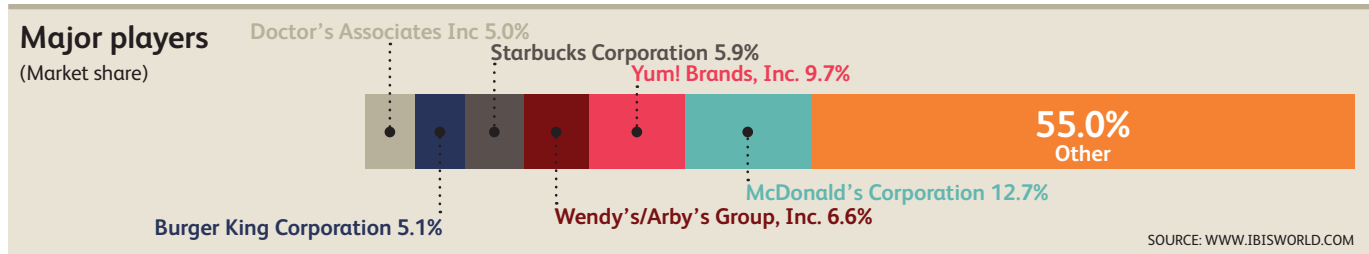
Many major operators have a high level of globalization due to the mature stage of the domestic industry, leading to expansion of activities international to increase revenue and earnings. These operators include: McDonalds Corp., Yum Brands Inc., Doctors Associates Inc., Domino's Inc., Starbucks Corp. and Burger King Corp. But IBISWorld analysis indicates that there are no major foreign controlled operators in this industry in the domestic market.

Globalization has increased due to domestic market saturation and spread of the franchising concept

The analysis suggests that this industry will be subject to an increasing level of globalization over the coming years. IBISWorld anticipates the continuing entry of US operators into the international market, particularly in the new growth countries/regions of Asia and China. These expansions are expected to occur across areas of expertise and offer players growth in sales, employment and earnings.

Major Companies

McDonald's Corporation | Yum! Brands, Inc. | Wendy's/Arby's Group, Inc.
 Starbucks Corporation | Burger King Corporation | Doctor's Associates Inc | Other



Player Performance

McDonald's Corporation
 Market share: 12.7 %
Industry Brand Names
 McDonalds

McDonald's is a leader in this industry. It opened its first store in 1948 in San Bernardino, CA, and in April 1954 signed its first franchise agreement. By 1957, McDonald's had 14 stores and in 1967, the first international store was opened in Canada. The company entered a high growth phase during the 1970s and opened around 500 new stores each year. Its first drive-thru site appeared in the mid-1970s, but during the 1980s, growth slowed as competition from other quick service operators increased. Competition became increasingly tougher during the 1990s. At that time, McDonald's investigated diversification within the quick service industry, purchasing other operators and increased its investment internationally. In 1998, the company purchased a minority shareholding in the Mexican style food chains, Chipotle Mexican Grill (but sold in 2007). In 1999, it purchased the Donatos Pizza chain; in

2000, it purchased Boston Market restaurants (sold in 2006); and in 2001, it announced a purchase of a one-third stake-holding in the 100-establishment, Pret a Manger, owned by a U.K. company, with the intention of opening new locations in the United States and Asia (sold in 2008). It also operated the Aroma Cafe stores. These are all termed Partner Brand stores. In 2009, the McDonald's sold its minority ownership interest in Redbox Automated Retail, LLC.

In January 2006, the company rejected a suggestion from a major shareholder to sell 1,000 stores, or 65.0% of its domestic stores, into an IPO and reinvest the proceeds into new growth markets in areas like Asia.

Of the 32,478 restaurants in 117 countries at year-end 2009, 26,216 were operated by franchisees (including 19,020 operated by conventional franchisees, 3,160 operated by

McDonald's (USA only) – financial performance

Year	Revenue		Operating income	
	(\$ million)	(% change)	(\$ million)	(% change)
2005	6,955.1	6.6	2,421.6	11.0
2006	7,464.1	7.3	2,657.0	9.7
2007	7,906.0	5.9	2,842.0	7.0
2008	8,078.3	2.2	3,059.7	7.7
2009	7,943.8	-1.7	2,841.9	-7.1
2010*	8,000.0	0.7	2,900.0	2.0

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

developmental licensees and 4,036 operated by foreign affiliated markets (affiliates) – primarily in Japan) and 6,262 were operated by the company.

Domestic market share

McDonald's market share is calculated by IBISWorld at 4.3% based on number of domestic franchised and company-owned stores and 12.7% based on total domestic franchised and company-owned gross system-wide revenue. The following information relates to company net revenue – that is revenue only derived from company-operated stores and franchise fees (not sales revenue).

The recent performance of the domestic company-owned and franchised stores, in terms of revenue, is provided in the following tables. It indicates similar revenue growth rates from company owned and franchised store revenue.

Recent fiscal year performance

Over the five years to 2010, global revenue is expected increase at a rate of 3.8% per year. In 2009, global sales fell 3.3% to \$22.7 billion and net income rose 5.5% to \$4.6 billion. An increasing emphasis was being placed on both taste and value to its customers. Strong global performance positively impacted cash from operations, which totaled \$5.8

billion in 2009.

Factors affecting previous years' performance

For fiscal 2008, total global system-wide revenue increased 3.2% to \$23,522.4 million, operating income rose 66.1% to \$6,442.9 million and net income was \$4,313.0 million. Global comparable sales rose 6.9% and guest counts rose 3.1%. In the US system-wide sales rose 5.0%, and 4.0% on a comparable store basis. US revenue rose 2.2% to \$8,078.3 million and operating income by 7.7% to \$3,059.7 million.

Total global capital expenditure was \$2,135.7 million, up from \$1,946.6 million in 2007. Of this \$837.4 million was spent in the United States. Total debt was about \$10.2 billion.

In the domestic market, it continued to trade on the basis of everyday affordability, menu variety and convenience. For the United States, the featured products included the Big Mac, Southern-Style chicken products and value-based beverages.

For 2007 McDonald's invested \$1.95 billion opening about 800 new stores as well as reinvesting in existing ones. It also indicated that it would continue to reduce its holding of company-owned stores. It reached agreement to franchise

McDonald's – financial performance

Year	Revenue (\$ million)	(% change)	Net income (\$ million)	(% change)
2005	19,117	N/C	2,602	N/C
2006	20,895	9.3	3,544	36.2
2007	22,787	9.1	2,395	-32.4
2008	23,522	3.2	4,313	80.1
2009	22,745	-3.3	4,551	5.5
2010*	23,000	1.1	4,800	5.5

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

nearly 1,600 existing stores across Brazil, Argentina, Mexico, Puerto Rico, Venezuela and 13 other countries in Latin America and the Caribbean to a developmental licensee, led by Woods Staton for about \$700 million in cash and a 20 year license agreement. An impairment charge of about \$1.6 billion resulted during the second quarter. In August 2007 it sold its investment in Boston Market.

During 2006, the company expected to invest \$1.8 billion in opening 800 new stores globally. It also sold its investment in Chipotle Mexican Grill. In the US comparable store sales increased for the fourth consecutive year, from a combination of new menu items,

premium products and value. Increased sales were driven by the increased popularity of its restaurants as breakfast venues, and continued success with the popular Happy Meal promotion. Sales in Europe also increased strongly

For fiscal 2005, the company achieved success with the sale of its affordable and new premium menu offerings and from the McCafe concept. Margins were affected by higher manager wages and beef costs in the US and Europe. It also responded to negative consumer perceptions by aggressive marketing its quality products and “to rebuild trust in our food”. Strong sales growth occurred in France and Russia, and with improved sales in Germany.

Player Performance

Yum! Brands, Inc.
Market share: 9.7 %
Industry Brand Names
KFC
Pizza Hut

In 2002, Tricon Global restaurants changed its name to Yum Brands Inc. Until 1997, these companies were owned by PepsiCo which floated its restaurant operations to improve its cash flow. PepsiCo purchased Pizza Hut in 1977, Taco Bell in 1978 and KFC in 1986 and used these operations as outlets for its drinks.

The company has around 33,000 company owned, franchised licensed international restaurants in more than 100 countries; with around 20,000 in the United States. The company has successfully established itself in China.

This company's strategy involves the opening of collocated, multi-brand but different food style stores (e.g. Long John Silver's with A&W or Taco Bell and Pizza Hut) in high-traffic areas. It has moved aggressively to open new stores in China, which has resulted in strong international revenue growth. Overall, it operates both company-owned and franchised stores.

Yum Brand's market share is calculated by IBISWorld at 2.5% based on number of domestic franchised and company owned stores and 9.7% based on total domestic franchised and

company owned gross system-wide revenue. The following information relates to company net revenue – that is revenue only derived from company-operated stores as well as from franchise fees (not sales revenue).

Recent performance

Over the five years to 2010, global revenue is forecast to increase at a rate of 3.3% per year. Worldwide system sales grew 1% prior to foreign currency translation in 2009. Worldwide revenue declined 3.9% due to the negative impact from foreign currency translation and refranchising. Excluding these items, revenue increased 5%. International development continued at a strong pace with 1,467 new restaurants including a record 509 new units in mainland China and 898 new units in Yum! Restaurants International (YRI). Worldwide operating profit grew 9% prior to foreign currency translation, including growth of 23% in China, 5% in YRI and 1% in the US After negative foreign currency translation, worldwide operating profit grew 6%. Worldwide restaurant margin improved

Major Companies

Player Performance continued

by 1.7 percentage points driven by China and the US EPS growth was negatively impacted by approximately \$0.07 per share due to foreign currency translation that was fully offset by lower interest expense and a lower tax rate.

Factors affecting performance

For fiscal 2008, total global revenue rose 8.0% to \$11.28 billion, and net income increased 6.0% to \$964 million. Revenue from the China division rose 46% to \$3.13 billion and operating profit increased 25% to \$469 million. For the international division (which excludes China), revenue fell 2.0% to \$3.03 billion, but operating profit increased 10% to \$528 million. Internationally the company opened 1,495 new units during the year.

For the US division, in fiscal 2008, total revenue fell 1.0% to \$5.13 billion, as restaurant revenue fell 2.0% to \$4.41 billion, but franchise and license fees rose 5.0% to \$715 million. Operating profit fell 6.0% to \$694 million. During the year a total of 700 stores were sold to franchises, with company store ownership now down to 19%. The restaurant margin was adversely affected by the rise in commodity costs, particularly for beef, chicken and cheese.

In early 2007, two incidents at Taco Bell in the domestic market (one

resulted from high E. coli count on lettuce and rodent infestation at one other store) had adverse effects on sales in that market. Both incidents were acted upon and resolved quickly, and improvements were made by changing the produce supplier. For the international segment, sales in China continued to increase strongly.

Through to 2008, the company intended to sell 1,500 company restaurants in the United States to franchisees, to increase franchise share to 83% of total restaurants (from 78% now). Company-owned stores will fall to 3,200 by the end of 2008, from 4,686 at the start of the program in 2006.

In November 2000, Tricon Global Restaurants Inc. announced the opening of its 400th KFC restaurant in China by its international division, Tricon Restaurants International.

In August 2006, Yum agreed to pay \$183 million, plus assume debt of \$25 million, for the remaining 50.0% interest in the 541 Pizza Hut stores in the United Kingdom and owned by Whitebread PLC, its joint venture partner.

For fiscal 2006, domestic revenue decreased. This was largely caused by reduced sales by Taco Bell stores and related to adverse publicity related to product sourcing which aired in December. However, international sales

Yum – financial performance

Year	Revenue (\$ million)	(% change)	Net income (\$ million)	(% change)
2005	9,349	3.8	762	3.0
2006	9,561	2.3	824	8.1
2007	10,416	8.9	909	10.3
2008	11,279	8.3	964	6.1
2009	10,836	-3.9	1,071	11.1
2010*	11,000	1.5	1,150	7.4

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

increased as it experienced strong sales growth of 26% from its China (Mainland China, Thailand and Taiwan stores) division. The company extended its previous two-year time frame to sell 1,000 stores to franchisees to 2007 and the three-year plan to 2008 was to sell 1,500 stores. In 2006, 453 company-owned stores in the United States were sold to franchisees.

For fiscal 2005, restaurants decreased 1.0% to 18,291, with 74.0% franchised, and with 3,096 being multi-brand. The company however achieved positive

same-store sales. Revenue growth resulted from the development of new, higher volume restaurants. Future costs were contained through the closure of some KFC and Long John Silver's stores, and the company was also affected by damage from Hurricane Katrina. Consistent same-store performance was achieved domestically from Taco Bell and by a turnaround at KFC. The company opened 409 new restaurants in China to make a total of 2,291 (of which 33.0% were franchised), and revenue from these stores increased 16.0% to \$1.30 billion.

Yum (USA only) – financial performance

Year	Revenue (\$ million)	(% change)	Operating income (\$ million)	(% change)
2005	5,929	2.9	760	-2.2
2006	5,603	-5.5	763	0.4
2007	5,197	-7.2	739	-3.1
2008	5,125	-1.4	694	-6.1
2009	4,473	-12.7	647	-6.8
2010*	4,600	2.8	675	4.3

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Player Performance

Wendy's/Arby's
Group, Inc.

Market share: 6.6 %

Industry Brand Names

Wendy's
Arby's

The company trades as Wendy's/Arby's Group Inc. Wendy's operates stores globally that trade as Wendy's Old Fashioned Hamburgers. During 2006, it sold both its Tim Hortons and Baja Fresh Mexican Grill stores. It is estimated to generate just over 70% of total revenue domestically, with restaurant sales accounting for 80% of revenue, and franchised revenue for the remainder.

At the end 2009, it is estimated to have around 10,259 stores globally, with 6,541 Wendy's restaurants and 3,718 Arby's stores.

In April 2008, Triarc Companies Inc., now the parent company, as well as the franchisor of Arby's restaurants system,

and Wendy's International Inc, signed a merger agreement that will provide a total of 10,365 restaurant units, with 9,640 in the domestic market, and annual system-wide sales estimated at \$11.2 billion. Both brands will trade autonomously. The transaction was completed in mid-2008.

Domestic market share

Wendy's/Arby's Group market share is calculated by IBISWorld at 1.4% based on number of domestic franchised and company owned stores and 6.6% based on total domestic franchised and company-owned gross system-wide revenue. The following information

Major Companies

Player Performance continued

relates to company net revenue – that is revenue only derived from company-operated stores and franchise fees (not sales revenue).

General company performance has been influenced by expansion of its domestic and international stores. It extended its food offerings, and acquired new brands, including Cafe Express and Baja Fresh Mexican Grills. This was designed to take advantage of ongoing changes in consumer tastes. However, during 2006, it sold its Cafe Express, Tim Hortons and Baja Fresh stores and, subsequently merged in 2008.

Recent performance

Wendy's revenue grew 96.8% in 2009. The increase in sales in 2009 was primarily due to the Wendy's Merger. In 2009, Arby's sales decrease was primarily attributable to the 8.2% decrease in Arby's North America Company-owned same-store sales. About 300 Wendy's stores ceased serving breakfast. Arby's operations were adversely affected by significant competition, discounting, including the offering of more value meals by its direct competitors. In addition, the 2009 Arby's same-store sales were negatively impacted by a decrease in the number of national advertising campaigns; however, certain aggressive Arby's value

promotions partially mitigated this negative impact.

Factors affecting performance

For fiscal 2008, total revenue was \$1,822.8 million and total costs and expenses was \$2,236.4 million. The net loss was \$479.7 million, mainly due to losses from continuing operations. The company indicated that its operations was adversely affected by the weak domestic economy, high gas prices and soaring commodity prices, but that it continued to highlight its quality value offerings.

In early 2007, the company announced that its hamburger business had return to profitability. It also indicated that a sale of Wendy's could raise about \$4 billion, but with a current market value of \$3.1 billion.

During the year, it introduced new Deluxe Value Meals and limited-time sandwiches and a 4-Alarm Spicy Chicken sandwich. The 2007 results were affected by restructuring charges, just like in 2006, with the sale of Tim Hortons. Over the year, comparable revenue for domestic company-owned stores increased 0.9%, with a 0.8% decline in the last quarter. For domestic franchised stores the annual increase was 1.4%, with a 0.2% increase in the 4th quarter, as economic conditions commenced to deteriorate.

Wendy's sold its Baja Fresh Mexican

Wendy's/Arby's – financial performance

Year	Revenue (\$ million)	(% change)	Net income (\$ million)	(% change)
2005	3,783.2	4.1	224.1	331.0
2006	2,439.3	-35.5	94.3	-57.9
2007	2,450.0	0.4	88.0	-6.7
2008	1,822.8	-25.6	-479.7	N/C
2009	3,580.8	96.4	5.1	N/C
2010*	3,700.0	3.3	50.0	880.4

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

Grill stores in the fourth quarter, 2006.

In mid-2005, sales and profitability fell, caused by strong competition and the ongoing negative impact of an

attempted consumer-fraud incident against Wendy's at a San Jose, CA, restaurant early in March 2005. Charges were laid against these fraudsters.

Player Performance

Starbucks Corporation
Market share: 5.9 %
Industry Brand Names
Starbucks

Starbucks commenced operations in 1971 and is both a specialist freshly ground coffee retailer as well as a coffee shop operator. It sells coffee, pastries and coffee accessories and is located in areas such as office blocks and airports. The company was publicly listed in 1992.

Since 2008, it has undergone significant rationalization, largely of its domestic company-owned ones, as the global economic recession hit its stores operations and finances hard.

At the end of fiscal 2008, total company stores numbered 16,680, compared with 15,011 in 2007, while by June 2009 it had a total of 16,729 stores, but with some more closures planned. While overall store numbers have not changed significantly.

For instance, the number of US company owned stores fell to 6,871 at June 2009, from 7,375 at June 2008. Licensed stores in that market, however, rose to 4,395, from 4,195. Total stores numbered 11,266 at June 2009, compared with 11,570 previously. Expansion of stores, however, continued internationally, with a total of 5,463 company-owned and licensed stores at June 2009, compared with 4,978 a year earlier.

Domestic market share

Starbucks market share is calculated by IBISWorld at 4.0% based on number of domestic franchised and company owned stores and 5.9% based on total domestic franchised and company owned gross system-wide revenue. The following information relates to company net revenue – that is revenue only derived from company-operated stores as well as from franchise fees (not sales revenue).

This company operates in the coffee shop niche, both domestically and internationally, on a franchised store basis. Prior to 2008, Starbucks undertook an aggressive global store expansion program, combined with more innovative food and beverage choices. But the recent performance of this company has been affected by a decrease in revenue and store traffic as the global economic recession has worsened. This has led to a significant closure of stores globally from late 2008. Increasing revenue in the past generally reflected the opening of new retail stores and higher store sales, together with higher gross margins. Profit growth in some years was also constrained by higher cost for some input products, particularly for coffee and dairy products, as well as increased distribution and rental expenses.

Recent fiscal performances

Over the five years to 2010, revenue is forecast to grow at a rate of 19.3% per year. In January 2009, the company announced that it would close more stores, with a total of 977 to put up their shutters. Another 200 will close in the United States and 100 in overseas locations. About 6,000 jobs will be lost at stores and 700 at head office, while 384 stores were already closed by January, with all stores closed by September 2009.

For fiscal 2009, total net revenue fell 5.9% to \$9.8 billion. Costs also fell 6.6%, but with some associated rises associated with restructuring and store closures and workforce reduction. Net earnings still rose 23.9% to \$390.8 million. By the end of 2009, it had closed 800 company-operated stores in the US, 61 stores in

Major Companies

Player Performance continued

Australia and 40 other internationally located stores. It expects to close further international stores during 2010.

For fiscal 2008, consolidated net revenue rose 10.3% to \$10.38 billion, with net revenue growth from company operated stores at 9.7% to \$8.77 billion and licensing fees and specialty sales rose 14.0% to \$1.61 billion. Costs of sales, including occupancy costs, rose 16.2% to \$4.65 billion and store operating expenses increased 16.5% to \$3.75 billion. Net earnings fell 53.1% to \$315.5 million, after restructuring costs of \$266.9 million. Domestic sales rose from company-owned stores rose 6.7% to \$7.00 billion, as licensing and food-service and specialty revenue rose 12.8% to \$889.3 million. Operating income fell

50.7% to \$528.1 million. International sales from all activities increased 24.0% to \$2,103.4 million and operating income fell 20.1% to \$110.0 million. Comparable same store sales fell 5.0% in the United States, but rose 2.0% internationally.

Its operations particularly felt the effects of the economic recession, especially in California and Florida which accounted for 32% and 31% respectively of total US store sales. These two states were hard hit in the first half-year by the downturn in residential property prices. It was also affected by rises in commodity prices, gas and other products. In June 2008, it took action to close 600 company-owned stores in the United States and 61 similar stores in Australia, and reduced about 1,000 permanent staff positions.

Starbuck's – financial performance

Year	Revenue (\$ million)	(% change)	Net income (\$ million)	(% change)
2005	6,369.3	20.3	494.5	26.2
2006	7,786.9	22.3	564.3	14.1
2007	9,411.5	20.9	672.6	19.2
2008	10,383.0	10.3	315.5	-53.1
2009	9,774.6	-5.9	390.8	23.9
2010*	9,850.0	0.8	400.0	2.4

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Player Performance

Burger King Corporation

Market share: 5.1 %

Industry Brand Names

Burger King

Burger King Corp. is mainly a hamburger chain (which now offers chicken sandwiches), based in Miami. It was founded in 1954. Toward the end of 2008, it had a total of 11,632 stores globally, with 7,508 in the United States.

In July 2002, Diageo Plc announced that it sold the Burger King operations to a consortium of US investors for \$2.26 billion, led by Texas Pacific Group, which included Bain Capital and Goldman Sachs

Capital Partners. Bain owns the Domino's Pizza Chain. In December 2002, revised sale terms led to the purchase price being reduced to \$1.50 billion, due to the difficult trading environment of the quick-service industry. Burger King franchising operations commenced in 1959. On May 18, 2006, the company became a publicly traded entity, after a \$392 million IPO, with the majority of funds raised used to retire debt.

Major Companies

Player Performance continued

Domestic market share

Burger King's market share is calculated by IBISWorld at 2.6% based on number of domestic franchised and company owned stores and 5.1% based on total domestic franchised and company owned gross system-wide revenue. The following information relates to company net revenue – that is revenue only derived from company-operated stores as well as from franchise fees (not sales revenue).

The recent financial performance of this company is contained in the following table and discussed further below.

Recent financial performance

For fiscal 2009, global revenue rose 3.0% to \$2,537.4 million and net income increased 6.0% to \$200.1 million, a margin of 7.9%. Global comparable sales grew 1.2%, compared to 5.4% in 2008, as the recession affected sales. It still opened 360 new restaurants, 28% higher than in the previous year, and 90% of this occurred outside of North America, with most throughout Asia and Latin America. It continued to offer value propositions to customers during the year, and special marketing promotions, some associated with movies, as well as new indulgent products. For the US & Canada segment, total company owned and franchised

store sales rose 10% to \$1,743 million, but comparable store sales was only 0.4%. Income from these operations fell 2% to \$348.2 million. The company was affected by higher unemployment and heavy discounting by competitors.

Overall it benefited from a changed menu structure, as well as its tie in with The Simpsons and the Transformers movies and promotion of its breakfast and late night offerings. In the domestic market it benefited from the Whopper Freakout media campaign, centered around the BBQ Bacon Tendercrisp sandwich, as well as the Spicy Chick'n Crisp, Whopper Jr. sandwiches and Snoopy and SpongeBob SquarePants offerings.

Factors affecting performance

Over the 12 months to the end of March 2008, there was a net rise of 14 stores and it acquired 20 franchised stores. At that time, the number of stores in the United States and Canada was 7,497 (with 918 company owned and 6,579 franchised).

In March 2007, it announced that the company awarded exclusive development rights for Hong Kong and Macau to a subsidiary of North Asia Strategic Holdings Ltd, a diversified industrial company. For 2007, success resulted as it

Burger King – financial performance

Year	Revenue (\$ million)	(% change)	Net income	(% change)
2005	1,940	10.6	47.3	N/C
2006	2,048	5.6	27.1	-42.7
2007	2,234	9.1	148.1	446.5
2008	2,455	9.9	189.6	28.0
2009	2,537	3.3	200.1	5.5
2010*	2,600	2.5	225.0	12.4

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

traded on its premium burger offerings for its Texas Double Whopper sandwich, the BK Stacker and Angus Cheesy Bacon sandwich. It also introduced a BK Breakfast Value Menu.

In 2006, in the United States and Canada, total revenue increased as it acquired a net 18 franchised restaurants during the year. However, the number of restaurants in this market fell 46, which

reflected 92 openings offset by 138 closures. Overall, it increased worldwide stores by 25 during the year, the first increase in overall store count for four years. Burger King had 878 company-owned stores (an increase of 34) in the United States and Canada at the end of 2006, plus an additional 6,656 franchised stores (220 less). Overall store numbers totaled 9,889.

Player Performance

Doctor's Associates Inc

Market share: 5.0 %

Industry Brand Names
Subway

Subway is privately owned by Doctor's Associates Inc. At the end of 2008, it had a total of 30,416 establishments across 83 countries, with about 25,000 in the United States. All stores are franchised; none are company owned, and it only has a small head office staff. However, it has an estimated up to 330,000 people working in its franchised stores globally, with up to 250,000 in its domestic stores. An estimated 2 billion sandwiches are served each year and global system-wide revenue in 2006 was \$10.05 billion and estimated at about \$11 billion for 2009.

The company is a sandwich maker and nearly all of its stores are franchised. It trades on providing a healthy alternative to fatty foods. The company commenced operations in 1965 and franchising commenced in 1974 and by 1984, it had opened its first international store in Bahrain. In 2000, the owners opened a co-branded store with Little Caesar, a pizza chain.

Domestic market share

Doctor's Associates (Subway) market share is calculated by IBISWorld at 8.6% based on number of domestic franchised and company owned stores and 5.0% based on total domestic franchised and company owned gross system-wide revenue. The following information relates to company net revenue – that is revenue only derived from company-operated stores as well as from franchise

Doctor's Associates – financial performance

Year	Revenue (\$ million)	(% change)
2005	550	8.5
2006	600	9.1
2007	700	16.7
2008	770	10.0
2009*	800	3.9
2010*	820	2.5

*Estimate

SOURCE: IBISWORLD

fees (not sales revenue).

Factors affecting performance

In April 2007, the company announced that from June it would serve thick crust, personal pizzas at its 13,000 domestic stores. It is installing speed ovens to streamline the process.

It opened its 20,000th establishment in November 2004, after starting in 1965. In January 2004 it was named as the number one franchise opportunity for 2004 by Entrepreneur magazine. In May 2004, the company announced that the number of stores outside of the United States had reached 2,000, thereby international locations accounted for 9.5% of the total, and with another 800 expected to open by the

Major Companies

Player Performance continued

end of 2004. By 2010 the aim was to have 7,500 restaurants internationally. It had 17,000 locations in the domestic market and locations now included shopping centers, colleges, amusement

and theme parks, airports, museums and zoos. About 70.0% of new Subway locations are purchased by existing franchises and the target for new openings in 2004 was 3,300.

Other Companies

Note differences in share of domestic stores and share of system wide domestic sales revenue is related to both volume of customers and the average check/spend per visit per customer. This is most evident with McDonald's which has an estimated 4.8% share of fast food stores in the US but a 12.7% share of system wide industry revenue.

Domino's, Inc.

Estimated market share: 1.9%

Domino's commenced operations in Michigan in 1960, in 1978 it had 200 stores. As at June 2009, it had 8,873 stores in the United States and across 60 other countries. During the 1980s, the company underwent significant expansion including to Canada in 1983. In 1999, 93.0% of the company was sold to investment company, Bain Capital. In July 2002, Diageo Plc sold the Burger King operations to a consortium of US investors for \$2,260.0 million. It was led by Texas Pacific Group and which included Bain Capital and Goldman Sachs Capital Partners.

Domestic market share

Domino's domestic market share is calculated by IBISWorld at 1.8% based on number of franchised and company owned stores and 1.9% based on total domestic franchised and company owned gross system-wide revenue. The following information relates to company net revenue – that is revenue only derived from company-operated stores as well as from franchise fees (not sales revenue).

The overall performance of this company is sensitive the opening of new

stores, adjusting menu items, prices, as food and other cost rise. Also important now is continuing to offering new value-offerings in line with changing customer budgets and needs. Overall revenue performance is linked to increasing store traffic and/or increasing the average check per customer. But performance has also been hampered recently by increasing wages and benefit cost, including for health benefits and unemployment. It has continued to expand its franchise concept internationally, but has sold out some of its operations in some countries recently.

Recent performance

For the fiscal 2009, total revenue fell 2.7%, as the economic recession hit domestic company-owned store where sales slumped and revenue from domestic franchised stores was static. International store segment sales also fell as the recession was felt globally.

For fiscal 2008, same store domestic, company owned sales fell 2.2%, while domestic franchise stores declined 5.2%, with an overall decrease for all same store domestic store sales of 4.9%. International store sales, however, increased 6.2%. Overall reported domestic store sales, excluding domestic supply chain revenue, fell 7.4%, but increased 12.3% for international stores. It had a total of 8,773 domestic and international stores at the end of December 2008.

Total revenue in 2008, fell 2.6% to \$1.43 billion, cost of sales also fell 2.1% to \$1.06 billion. The operating margin fell to 25.5%, from 25.9% previously. Net

Major Companies

Other Companies continued

income, however, rose to \$54.0 million, due to far lower general and administrative and interest expenses.

The company tested new menu additions and lower some prices to attract lower ticket customers. As well it was sold some weaker performing franchised stores to stronger operators.

Factors affecting performance

During 2006, Domino's sold its company-owned operations in France and the Netherlands. Domestically it indicated that its national marketing and promotional effort failed and many stores decided to reduce costs, which affected operations.

In 2005, about 91.3% of total revenue is derived domestically. At year end it had a total of 8,079 stores, with 322 new stores added. Same store sales increased 7.1%, with 4.6% for domestic franchised stores and a 4.9% increase in domestic stores and 6.1% for international stores.

Jack in the Box

Estimated market share: 1.5%

Jack in the Box operates and franchises two restaurant chains (Jack in the Box and Qdoba Mexican Grill) in 28 states. The company originally commenced operations in 1941 and is publicly listed. There 2722 total domestic stores.

Domestic market share

Jack in the Box market share is

calculated by IBISWorld at 0.9% based on number of domestic franchised and company owned stores and 1.5% based on total domestic franchised and company owned gross system-wide revenue. The following information relates to company net revenue – that is revenue only derived from company-operated stores and franchise fees (not sales revenue).

The overall performance of this company relates to the opening of new stores and the re-imaging of its existing stores. It operates both on a franchised and company-owned-store basis, but only domestically. During the early 2000s, it also expanded its operation with the acquisition of Qdoba restaurants and Quick Stuff convenience stores, both of which were expanded. However, in September 2008, it decided to sell its Quick Stuff business segment. It also regularly continues to adjust menu items and prices, as food and other cost rise. It has an ongoing program of introducing new menu items and offering new value choices as the economic situation and changes in customer demand and tastes dictate. Like others in this industry, overall revenue performance is linked to increasing store traffic and/or increasing the average check per customer. But performance can also be constrained by higher wages and benefit costs, as well as food and commodity prices. It has

Jack in the Box – financial performance

Year	Revenue (\$ million)	(% change)	Operating income (\$ million)	(% change)
2005	2,269.5	N/C	148.4	N/C
2006	2,381.2	4.9	177.3	19.5
2007	2,513.4	5.6	217.0	22.4
2008	2,539.6	1.0	215.9	-0.5
2009	2,471.1	-2.7	231.3	7.1
2010*	2,500.0	1.2	240.0	3.8

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Other Companies continued

continued to expand its franchise concept internationally, but has sold out some of its operations in some countries recently.

Recent performance

In 2009 total revenue fell 2.7% while net income rose 7.1%. The launch of the new concept, Teriyaki Bowls in western United States in October 2008, assisted to drive revenue. In 2009, there were 2212 Jack in the Box stores, which included 1022 franchised, and 510 Qdoba stores, of which 353 were franchised. .

Fiscal 2008

For fiscal 2008, same store sales rose only 0.2%, but only after a 2.2% full-year menu price rise. The company indicated that the economic crisis affected sales. However, as gas prices fell, unemployment has risen. System-wide same stores sales at Qdoba Restaurants rose 1.6%. Company performance was also affected by the impact of Hurricane Ike late in the year. It was also affected by rising commodity prices, particularly for beef, with an 18% rise, but also for bakery products and potatoes. It sold 109 company-owned stores to franchisees. Over the year it opened 38 Jack in the Box stores. It also opened new restaurants in Texas and Denver.

General factors affecting performance

Results in 2007 were attributed to the

reinvention of the Jack in the Box brand through sweeping changes in menu, improved service and restaurant enhancements. This involved a complete redesign of the dining rooms and common areas. It re-imaged 187 restaurants during 2007. For the year, Jack in the Box opened 58 new restaurants, which included 16 franchised locations. It continued to reinvent its brands with the addition of new products and initiatives. It introduced a 100% Sirloin Burger. It also introduced Steak 'n' Mushroom Ciabatta Sandwich, Jack's Sampler Trio, grilled cheese sandwiches and Andes Mint Shake.

During 2006, Jack in the Box introduced two new premium sandwiches that included a sourdough cheeseburger, Outlaw Burger and Outlaw Spicy Chicken, a new the Big Deal Combo which included a chicken sandwich, two beef tacos and a drink for \$2.59, expanded its desert and biscuits menu, new staff training programs and undertook a market test of a new re-imaging program, that included new interior and exterior paint scheme and decor. It also locked in some of its debt into fixed interest rates, from variable ones.

Early in 2005, the company introduced reloadable gift cards and new products, which included a Chicken Cordon Bleu sandwich, a Chicken Caesar entree sandwich and two seasonal ice creams. It

Domino's – financial performance

Year	Revenue (\$ million)	(% change)	Net income (\$ million)	(% change)
2005	1,511.6	N/C	108.3	N/C
2006	1,437.3	-4.9	106.2	-1.9
2007	1,462.9	1.8	37.9	-64.3
2008	1,425.1	-2.6	54.0	42.5
2009	1,404.1	-1.5	79.7	47.6
2010*	1,425.0	1.5	85.0	6.6

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Other Companies continued

also commenced offering all of its hourly employees a health-care program, and for crews with more than a year's service it would pay a portion of the premium, as well as an automated telephone and internet customer survey.

In September, it outlined that its future strategic focus in the future would be on profitably growing the business, re-inventing the Jack in the Box brand, driving product innovation and building customer loyalty for all its brands. It would continue to growth both the Jack

in the Box and Quick Stuff convenience stores, increase the number of Jack in the Box stores and aggressively franchise the Qdoba Mexican Grill brand. It would also evaluate new color schemes for stores, introduce menu innovations and develop the JBX Grill brand within existing stores rather than develop it separately.

In late 2005, 200 stores were temporarily closed due to Hurricane Katrina and the associated destruction, which equated to a loss of 0.1% on annual same-store sales.

Operating Conditions

Structural Risk Index | Investment Requirements | Technology & Systems
 Industry Volatility | Regulation & Policy | Industry Assistance | Taxation Issues

Structural Risk Index

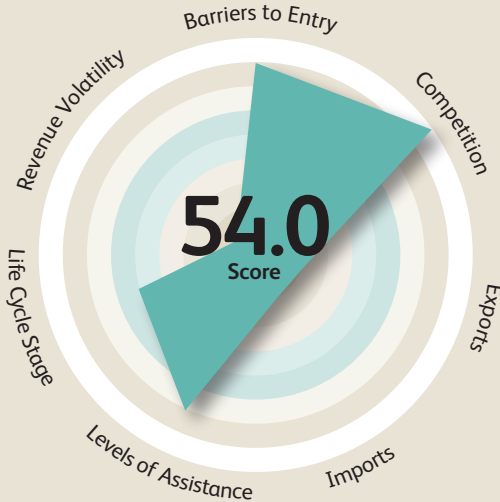
Industry Relax Points

Exports
 Imports
 Revenue Volatility

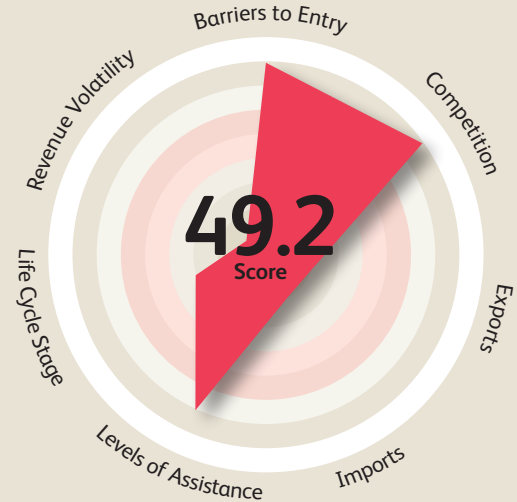
Industry Pressure Points

Barriers to Entry
 Competition
 Levels of Assistance

Fast Food Restaurants



Accommodation and Food Services



IBISWorld has scored key elements of industry structure on a scale of 1 to 9 – the higher the figure, the greater the risks to businesses operating in the industry.

Operating conditions in the Fast Food Restaurants industry are more risky than in other industries in the

Accommodation and Food Services division. The industry structural risk index totals 54.0 points compared to 49.2 points for the Accommodation and Food Services division as a whole (100 points equates to extremely poor operating conditions).

SOURCE: WWW.IBISWORLD.COM

Investment Requirements

Level

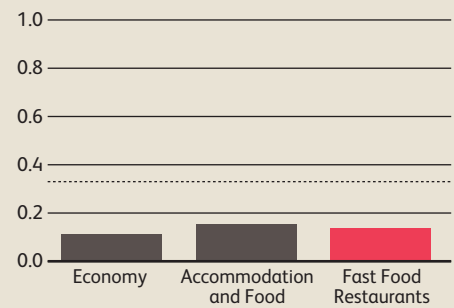
The level of investment required is **Low**

The labor intensity of this industry is determined by the ratio of capital to labor costs. To calculate the ratio, wages and depreciation and costs, from cost structure, are used as proxies. The ratio is calculated by IBISWorld as 1:0.14. This implies that for every dollar spent on wages, around \$0.14 is spent on the use and replacement of buildings and equipment. As such, this industry is deemed to have a high level of labor intensity

The industry is labor intensive given the need for personal, face-to-face service and labor input in all areas from acceptance of deliveries, order-taking, serving and cleaning, as well as in the management of each store.

Capital intensity

Capital units per labor unit

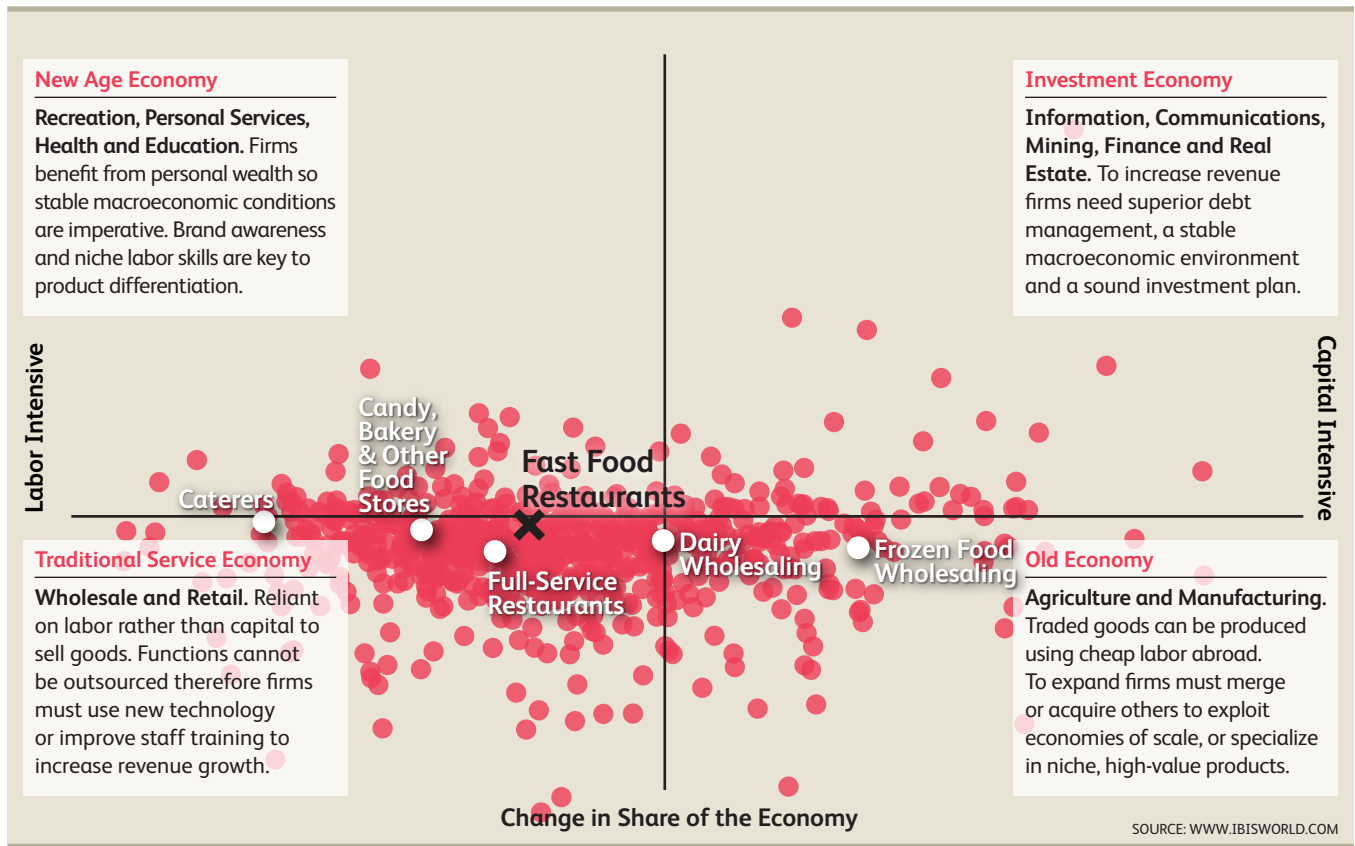


Dotted line shows a high level of capital intensity
 SOURCE: WWW.IBISWORLD.COM

Operating Conditions

Investment Requirements continued

Tools of the Trade: Growth Strategies for Success



Technology & Systems

Level
The level of Technology Change is **Medium**

According to the 2005 Restaurant Technology Study undertaken jointly by Hospitality Technology and Deloitte & Touche LLP, the current use made of technology by operators in this industry is to reduce labor costs, reduce food cost/waste and increase sales. Also important is to improve business processes, support anticipated growth, maintain current operations, improve the meal experience and deliver a competitive advantage. For the operators it is necessary to taking a leadership role and establishing a

foothold on e-commerce.

The major system in operation in this industry is franchising. Within this component the use of technology and systems in designed to ensure quality service and customer waiting time. Redesigning kitchen layouts, ordering systems by customers have been attempted to reduce waiting time. This has also included connecting the customer drive through ordering to kitchens to allow cooks to hear what orders are coming through.

Operating Conditions

Technology & Systems continued

Improvements in drive through service and correct delivery of orders have resulted from the use of LED displays to confirm orders and going back to face-to-face ordering. Most quick-service operators are installing POS systems in their stores after research showed that it quickens service and leads to larger purchases, on average.

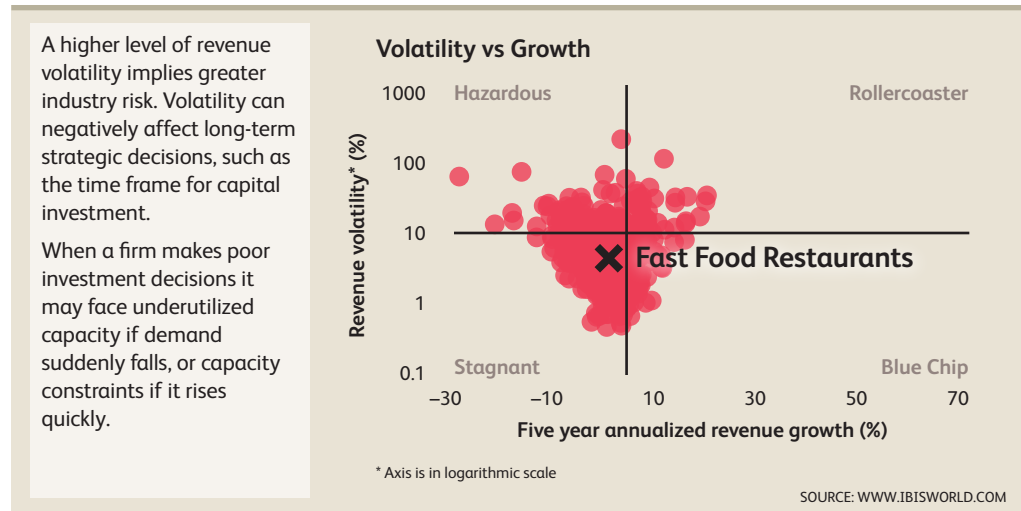
Technology is focused on improving customer service, food technology, as well as labor productivity

Revenue Volatility

Level
The level of Volatility is **Low**

Revenue volatility is low due to the very high household penetration rate for quick-service meals. The industry also

covers a wide variety of food styles, of appeal to changing consumer tastes and demand.



Regulation & Policy

Level & Trend
The level of Regulation is **Heavy** and the trend is **Steady**

Regulations outlines the legislative requirements for operators in this industry. IBISWorld analysis indicates that this industry is subject to a medium, and increasing, level of regulation. For example; franchise promotions and sales regulations by the Federal and State Governments, minimum wage regulations (particularly since this industry is a low-skilled one with many persons being paid at hourly rates), employee benefits and conditions, workers' insurance and payment of

health insurance coverage. Also, smoking bans in restaurants is slowly being legislated across the States.

The US Food and Drug Administration's (FDA) Model Food Code, which is a "best practice" guide to food handling and presentation, applies to this industry and it is updated each year. These are codes only, and, therefore, States are not compelled to use it, but many have introduced part or all of them already. Also the FDA Nutritional Value: Since 1996, the FDA regulations

Operating Conditions

Regulation & Policy continued

have also set standards for nutritional values of individual foods and meals. If claims such as “low fat” or “heart healthy” are made on a menu then the owner must be able to demonstrate to officials, when requested, that there is a

reasonable basis for the owner to claim this. For instance, the meal may be based on a recipe from a health association or a recognized dietary group. However complete nutritional information need not be supplied on menus.

Industry Assistance

The industry receives no assistance from government.

Taxation Issues

Level

The level of Tax Burden is **Medium**

A state-based (and, in some areas, a separate city or county) sales tax (or use or consumption tax) applies in most jurisdictions and varies from zero per cent (only in five states) to 7.0%, with most being in the 6.0% to 6.5% range. The sales tax is added to the selling price of all

immediate consumption foods, whether on an eat-in or take-out or to go meals (including sandwiches etc). There may be some local state exemptions, such as on ice cream or ice milk sold for take-out. All prices quoted exclude the sales tax component, which is added on payment.

Key Statistics

Industry Data

	Industry Value								
	Revenue (\$m)	Added (\$m)	Establishments	Enterprises	Employment	Exports	Imports	Wages (\$m)	Domestic Demand
2001	138,548.8	36,527.8	256,373	179,654	3,447,914	--	--	34,789.3	n/a
2002	138,302	36,455.6	265,608	186,614	3,505,919	--	--	35,932.8	n/a
2003	151,218.4	36,683.9	280,237	200,048	3,686,507	--	--	38,071.3	n/a
2004	172,102.7	39,202.1	290,520	210,650	3,820,184	--	--	40,403.6	n/a
2005	180,582.1	40,973.9	297,545	215,738	3,974,444	--	--	42,788.7	n/a
2006	189,537.3	42,901.2	304,114	219,060	4,121,549	--	--	45,348.6	n/a
2007	186,497	44,482.5	315,883	219,936	4,154,522	--	--	47,113.5	n/a
2008	184,766.7	43,615.8	311,145	217,077	4,063,123	--	--	47,590.6	n/a
2009	178,593.9	42,114	303,989	212,952	3,949,355	--	--	47,159.2	n/a
2010	183,989.1	43,172	300,645	210,823	3,909,861	--	--	48,008.1	n/a
2011	190,244.9	45,028	306,958	214,407	3,991,968	--	--	49,160.6	n/a
2012	195,191.6	45,974	311,869	217,194	4,027,896	--	--	50,045.7	n/a
2013	199,485.6	46,848	317,171	219,800	4,064,147	--	--	50,745.4	n/a
2014	203,675.2	47,691	322,246	222,438	4,100,725	--	--	51,405.2	n/a
2015	208,156.4	48,597	327,402	225,107	4,130,058	--	--	52,125.4	n/a
Sector Rank	2/12	3/12	1/12	1/12	2/12	n/a	n/a	2/12	n/a
Economy Rank	46/758	67/758	24/725	33/710	7/739	n/a	n/a	25/718	n/a

Annual Change

	Industry Value								
	Revenue (%)	Added (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)
2002	-0.2	-0.2	3.6	3.9	1.7	n/a	n/a	3.3	n/a
2003	9.3	0.6	5.5	7.2	5.2	n/a	n/a	6.0	n/a
2004	13.8	6.9	3.7	5.3	3.6	n/a	n/a	6.1	n/a
2005	4.9	4.5	2.4	2.4	4.0	n/a	n/a	5.9	n/a
2006	5.0	4.7	2.2	1.5	3.7	n/a	n/a	6.0	n/a
2007	-1.6	3.7	3.9	0.4	0.8	n/a	n/a	3.9	n/a
2008	-0.9	-1.9	-1.5	-1.3	-2.2	n/a	n/a	1.0	n/a
2009	-3.3	-3.4	-2.3	-1.9	-2.8	n/a	n/a	-0.9	n/a
2010	3.0	2.5	-1.1	-1.0	-1.0	n/a	n/a	1.8	n/a
2011	3.4	4.3	2.1	1.7	2.1	n/a	n/a	2.4	n/a
2012	2.6	2.1	1.6	1.3	0.9	n/a	n/a	1.8	n/a
2013	2.2	1.9	1.7	1.2	0.9	n/a	n/a	1.4	n/a
2014	2.1	1.8	1.6	1.2	0.9	n/a	n/a	1.3	n/a
2015	2.2	1.9	1.6	1.2	0.7	n/a	n/a	1.4	n/a
Sector Rank	7/12	7/12	6/12	10/12	7/12	n/a	n/a	8/12	n/a
Economy Rank	398/757	421/758	463/725	432/710	447/739	n/a	n/a	380/718	n/a

Key Ratios

	IVA/Revenue	Imports/Demand	Exports/Revenue	Revenue per Employee	Wages/Revenue	Employees per Est.	Average Wage	Share of the Economy
	(\$)	(%)	(%)	(\$'000)	(%)		(\$)	(%)
2001	0.27	n/a	n/a	45.96	25.57	13.18	11,751.87	0.40
2002	0.27	n/a	n/a	45.60	26.33	13.18	12,004.33	0.38
2003	0.27	n/a	n/a	44.48	27.02	13.06	12,016.31	0.37
2004	0.27	n/a	n/a	45.28	26.96	12.93	12,208.63	0.37
2005	0.27	n/a	n/a	45.61	26.60	12.89	12,130.41	0.36
2006	0.27	n/a	n/a	46.15	26.34	12.83	12,154.42	0.36
2007	0.27	n/a	n/a	46.33	26.28	12.79	12,178.45	0.35
2008	0.26	n/a	n/a	45.95	26.80	12.70	12,315.41	0.34
2009	0.26	n/a	n/a	45.06	27.47	12.64	12,378.85	0.33
2010	0.26	n/a	n/a	46.06	27.15	12.65	12,503.89	0.33
2011	0.27	n/a	n/a	46.64	26.89	12.65	12,540.70	0.33
2012	0.26	n/a	n/a	47.43	26.68	12.56	12,652.62	0.33
2013	0.26	n/a	n/a	48.04	26.47	12.46	12,715.08	0.33
2014	0.26	n/a	n/a	48.61	26.26	12.38	12,765.52	0.32
2015	0.26	n/a	n/a	n/a	26.05	n/a	n/a	0.32
Sector Rank	11/12	n/a	n/a	11/12	7/12	5/12	12/12	3/12
Economy Rank	555/758	n/a	n/a	703/739	216/718	373/725	697/718	67/758

Figures are inflation-adjusted 2010 dollars. Rank refers to 2010 data.

SOURCE: WWW.IBISWORLD.COM

Key Statistics

Historical Performance

Quick-service restaurants have always been a high revenue, low margin industry. The industry started to enter its high-growth phase during the 1970s, and franchising allowed the industry to expand rapidly. The industry also serviced the changing needs of households, with both partners working and having limited time and more income and seeking quality convenience foods. It grew rapidly through to the early 1980s, but competition in the domestic market was intense from a number of large franchised and chain operators that continued to invest heavily in new stores and support them through having extensive advertising and promotional expenditures.

In 1980, the industry was estimated by the National Restaurant Association to have recorded sales revenue of \$28.7 billion. By 1985 revenue had increased to \$47.5 billion (by 65.5%) and then to \$69.8 billion by 1990. Within a decade, therefore, the industry had shown growth of 143.0%. In real terms, the growth of this industry was around 5.1% per annum between 1980 to 1985, and then about 4.5% per annum from 1985 to 1990. The industry was, however, affected by the economic recession of the early 1990s, and both revenue and employment declined in 1990, and then increased slowly.

During the first half of the 1990s, it was estimated that this industry's real revenue was about 3.3% per annum. From the early 1990s, the industry commenced to feel the effects of significant competition due to the past strong growth of both franchised and chain operators. The quick-service industry was estimated to be close to reaching saturation point. This has been evident from the significant price-based competition, with value or bundle meal packages being sold and with significant marketing and promotional costs being incurred, some of which is ineffective. The 1990s also witnessed many large franchised operators diverting more

resources to expanding internationally.

By the end of the 1990s, some large franchised operators were purchasing other chain operators that offered other or complementary food styles to their own (including Mexican, Italian, seafood or chicken outlets), in an attempt to expand their sales and share of the wider restaurant market. Consolidation of underperforming sites also occurred. This process led the number of new establishments built to fall to below 2.0% per annum (around 4,000 stores in total per annum), both in the United States and internationally, and with most of this occurring overseas. During the 1970s, one major operator was opening 500 stores a year in the United States, but by the late 1990s most of its investment was being undertaken overseas.

It was estimated by IBISWorld that the real industry revenue growth was about 2.7% per annum during the second half of the 1990s, which was half the rate achieved during the early 1980s. The slowdown was estimated to have been mainly felt in the domestic market, as internationally generated sales expanded rapidly, however, the average margin on sales was still about 5.0%. While during the late 1990s and into 2000, McDonald's achieved a margin of about 14.0%, most others were at or below this level. McDonald's margin subsequently decreased significantly, as health concerns among the population increased (particularly with fried and meat products).

Early 2000s

During the early 2000s, the industry was affected by significantly lower economic growth and the associated reduction in business and consumer sentiment, related to the events of September 11, 2001. Other factors, such as increased health concerns associated with obesity, also had an effect on some industry segments. An industry survey undertaken

Key Statistics

Historical Performance continued

by the National Restaurant Association confirmed the above. It indicated that traffic through quick service restaurants increased by only 1.0% in both 2000 and 2001. The industry had been experiencing a shortage of labor during most of the late 1990s, in all occupational categories, and more emphasis was being placed on training and holding experienced staff. The demand for staff in 2001 and 2002 was reduced as real industry revenue fell.

From the second half of 2003, however, major operators reported that domestic revenue growth had improved and many reported increased same-store revenue. More robust domestic industry growth was assisted by increased household disposable income from previous income tax reductions, reduced geopolitical tensions and increased consumer sentiment and expenditure. Major operators continued to diversify their product offerings and range to include more chicken meals and fresh and healthy food styles, as well as expand their multi-branding strategy.

The robust economic recovery in 2004 was estimated by IBISWorld to have led to increased sales and improvement in margins, but not to a significant extent, due to market saturation and the mature stage of this industry's life cycle. Operators continued to compete strongly with each

Historical growth followed economic growth and increased consumer expenditure on fast foods

other for an increased share of the slow-growth market. Many moved into newer concepts, purchased operators in growth segments that traded under different brands and even continued with multi-branding in certain locations. They also sought to provide more fresh and healthy menu choices. Others continued to expand internationally, particularly in China, in an attempt to increase revenue and net income margins. Competition increased significantly from October, due to the increased uncertainty associated with the outcome of the presidential election. Also significant was the increased interest rates, which reduced household disposable income growth, and therefore consumer expenditure. Some operators were also affected by the severe hurricane season in the Southeast that caused both damage and short term store closures. As well, many were affected by increased commodity costs, some of which could not be totally passed on in price rises. Overall, while revenue expanded, profit margins remained under pressure.

Jargon & Glossary

Industry Jargon

GROSS SALES Revenue from franchised and company-owned store sales.

NET REVENUE Revenue from company-owned stores and franchise fees, but not franchised stores' total sales.

POINT-OF-SALE (POS) Systems used at checkout points at retail stores to capture data at the time of sale.

IBISWorld Glossary

BARRIERS TO ENTRY Barriers to entry can be High, Medium or Low. High means new companies struggle to enter an industry, while Low means it is easy for a firm to enter an industry.

CAPITAL/LABOR INTENSITY An indicator of how much capital is used in production as opposed to labor. Level is stated as High, Medium or Low. High is a ratio of less than \$3 of wage costs for every \$1 of depreciation; Medium is \$3 – \$8 of wage costs to \$1 of depreciation; Low is greater than \$8 of wage costs for every \$1 of depreciation.

DOMESTIC DEMAND The use of goods and services within the US; the sum of imports and domestic production minus exports.

EMPLOYMENT The number of working proprietors, partners, permanent, part-time, temporary and casual employees, and managerial and executive employees.

ENTERPRISE A division that is separately managed and keeps management accounts. The most relevant measure of the number of firms in an industry.

ESTABLISHMENT The smallest type of accounting unit within an Enterprise; usually consists of one or more locations in a state or territory of the country in which it operates.

EXPORTS The total sales and transfers of goods produced by an industry that are exported.

IMPORTS The value of goods and services imported with the amount payable to non-residents.

INDUSTRY CONCENTRATION IBISWorld bases concentration on the top four firms. Concentration is identified as High, Medium or Low. High means the top four players account for over 70 % of revenue; Medium is 40–70 % of revenue; Low is less than 40 %.

INDUSTRY REVENUE The total sales revenue of the industry, including sales (exclusive of excise and sales tax) of goods and services; plus transfers to other firms of the same business; plus subsidies on production; plus all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); plus capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED The market value of goods and services produced by an industry minus the cost of goods and services used in the production process, which leaves the gross product of the industry (also called its Value Added).

INTERNATIONAL TRADE The level is determined by: Exports/Revenue: Low is 0–5 %; Medium is 5–20 %; High is over 20 % . Imports/Domestic Demand: Low is 0–5 %; Medium is 5–35 %; and High is over 35 % .

LIFE CYCLE All industries go through periods of Growth, Maturity and Decline. An average life cycle lasts 70 years. Maturity is the longest stage at 40 years with Growth and Decline at 15 years each.

NON-EMPLOYING ESTABLISHMENT Businesses with no paid employment and payroll are known as non-employing establishments. These are mostly set-up by self employed individuals.

VOLATILITY The level of volatility is determined by the percentage change in revenue over the past five years. Volatility levels: Very High is greater than $\pm 20\%$; High Volatility is between $\pm 10\%$ and $\pm 20\%$; Moderate Volatility is between $\pm 3\%$ and $\pm 10\%$; and Low Volatility is less than $\pm 3\%$.

WAGES The gross total wages and salaries of all employees of the establishment.

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