

# What's On The Menu For Restaurants in 2015?

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The restaurant business was in transition in 2014.

Fast-food restaurants faltered and longtime leader **McDonald's** (NYSE: [MCD](#)) struggled in the face of fast-casual competitors such as **Chipotle** (NYSE: [CMG](#)) and **Panera Bread** (NASDAQ: [PNRA](#)). In general, the concept of dining out remained less popular than it once was; even in the improving economy, the industry failed to win back customers lost during the recession.

While the final numbers for the year have not been released, the third quarter showed an evolving market. Total traffic to U.S. restaurants for the quarter ended in September was flat, according to [NPD Group](#). Fast-casual restaurants (including Chipotle and Panera) posted an 8% increase in traffic, while coffee/doughnut/bagel concepts grew by 5% and the hamburger category dropped by 3%.

On the positive side, overall customer spending rose 3% for the quarter due to larger checks, NPD reported.

"Although total traffic is flat, the visit growth in the fast casual, coffee/donut/bagel, and Mexican QSR shows that consumers still have an interest in going out to restaurants," said Bonnie Riggs, restaurant industry analyst.

"Those restaurant concepts that are meeting the needs of today's food-service consumers will win their visits."

Meeting those needs will be the challenge for 2015, a year that should bring more changes.



Chipotle has grown its business partly by letting people customize their burritos. Source: Chipotle.

## Chicken is the new beef

In 2014, chicken consumption was higher than beef consumption in the U.S. for the first time ever, according to the [USDA](#). This is likely to continue in 2015 as

prices for chicken -- along with cheese, wheat, pork, and other commodities -- are expected to drop thanks to lower costs for corn used in feed and gas used for transport, [Nation's Restaurant News](#) reported. Beef, on the other hand, "is expected to continue a run of record high pricing for at least two more years." That could push the cost of beef 4 to 8% higher, making it a pricier choice for eateries and their customers.

Lower costs and increasing consumer demand powered limited-service chicken chains to a 4% sales increase in 2013, while comparable burger chains saw less than half that growth, according to [Adweek](#). That led to an explosion of chicken offerings from chains known for other food, such as **Domino's** (NYSE: [DPZ](#)) (which has been phasing the word "pizza" out of its name) Specialty Chicken, launched in April, the new product is fried chicken chunks with pizza-like toppings. **Burger King** (NYSE: [BKW](#)) has also ramped up and heavily promoted its chicken offerings, while chicken-driven brands including **Popeye's Louisiana Kitchen** (NASDAQ: [PLKI](#)) and Chick-fil-A, which plans to market chicken as a breakfast item in 2015, have grown in popularity.

If the pricing issues persist, restaurant menus at all levels of the industry will increasingly feature chicken.

### **Prices are unlikely to go down**

While restaurants might pay less for food in 2015 -- perhaps significantly less if gas prices stay low -- rising labor costs are likely to eat up any savings. In some cases, employee expenses are being driven up by costs associated with the Affordable Care Act.

"A lot of smaller and mid-sized chains are just now coming to grips with the impact of the ACA on their financials," David Schnitt, CEO of IQ BackOffice, which automates back-office functions for many businesses, including restaurants, told *Nation's Restaurant News*.

In addition, eateries could face increased costs in a number of states where minimum wages are rising. On Jan. 1, 21 states and Washington, D.C., will implement higher minimum wages, according to [CNN Money](#).

### **More choice, more customization**

Chipotle increased [sales](#) from roughly from \$2.37 billion in the first nine months of 2013 to \$3.3 billion for the same period in 2014. It did that largely by offering not just the perception (and in many cases the reality) of a higher-end product than other quick-serve establishments, but also by giving customers the opportunity to customize their meals. These resources have enabled the Mexican chain to avoid competing on price to attract customers.

While discount deals, dollar menus, and other pricing-based gimmicks have been a hallmark of fast food, family sit-down chains, and even higher-priced establishments, Chipotle has focused on delivering value without being cheap.

Other companies have been slow to adopt this tactic, but more brands might try to mimic at least part of the Chipotle model in 2015. **Yum! Brands'** (NYSE: [YUM](#)) Pizza Hut got a head start on the new year with its "Flavor of Now" menu, a Chipotle-style offering that gives customers more choice in crusts, sauces, toppings, and other add-ons.

McDonald's also plans to roll out a build-your-own burger concept in 2015.

"Customization represents another important opportunity for our business." Kevin Newell, McDonald's chief brand and strategy officer for the U.S. told [MarketWatch](#). Tests of the concept in 2014 not only led to increased sales, he said, but attracted a different clientele, more of a dinner crowd.

### **It's all about you**

One thing that is very clear about the restaurant business going forward is that customers have more power than ever before. The recession forced people to eat

out less and reminded them that restaurants are nice, but not necessary.

To get back on a growth curve, eateries must do more to get people to open up their wallets. That means delivering more of what they want -- be that customization, better pricing, or anything else.

In 2015, restaurants' increased focus on customers means they will be more likely to change faster to accommodate changing tastes, needs, and desires.

### **1 great stock to buy for 2015 and beyond**

2015 is shaping up to be another great year for stocks. But if you want to make sure that 2015 is *your* best investing year ever, you need to know where to start. That's why The Motley Fool's chief investment officer just published a brand-new research report that reveals his top stock for the year ahead. To get the full story on this year's stock -- *completely free* -- [simply click here](#).

*[Daniel Kline](#) has no position in any stocks mentioned. He eats at Chipotle a lot. The Motley Fool recommends Chipotle Mexican Grill, McDonald's, and Panera Bread. The Motley Fool owns shares of Chipotle Mexican Grill and Panera Bread. Try any of our Foolish newsletter services [free for 30 days](#). We Fools may not all hold the same opinions, but we all believe that [considering a diverse range of insights](#) makes us better investors. The Motley Fool has a [disclosure policy](#).*

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