



June 30, 2015

ACSI Restaurant Report 2015

Industry Results for:

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Full-Service Restaurants
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Limited-Service Restaurants
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American
Customer
Satisfaction
Index®

Customer Satisfaction Steady for Full-Service Restaurants; Widespread Declines for Fast Food

Customer satisfaction with the Accommodation and Food Services sector drops 0.3% to 78.3 on the American Customer Satisfaction Index (ACSI) 100-point scale, contributing to the decline in overall customer satisfaction in the U.S. economy. Total aggregate customer satisfaction, as indicated in the national ACSI score, is down for a fifth consecutive quarter to 74.7. Customer satisfaction with full-service restaurants is steady at 82, but fast food outlets are dragging with a 3.8% decline to 77, the category's lowest point since 2010.

According to ACSI data, consumers report no change in the frequency of eating out, continuing at an average of four meals per week. As the economy improves and consumers have more money in their pocket, this should create greater demand for restaurant services. But as diner satisfaction stagnates—or falls, as is the case with limited-service restaurants—consumers aren't likely to spend more.

Full-Service Restaurants

Smaller companies that make up ACSI's "all others" category in each industry tend to be leaders in customer satisfaction. Full-service restaurants are not an exception. The aggregate of small chains and restaurants, which represent well over half of the industry, remains at the top with an ACSI score of 83.

About ACSI

The American Customer Satisfaction Index (ACSI) is an independent national measure of customer satisfaction with the quality of products and services available to household consumers in the United States.

Each year, 70,000 customers are surveyed about the products and services they use the most. The data serve as inputs to an econometric model that benchmarks customer satisfaction with more than 300 companies, 43 industries and 10 economic sectors, as well as over 100 services, programs, and websites of federal government agencies.

The ACSI's time-tested, scientific model provides key insights across the entire customer experience. ACSI results are strongly related to a number of essential indicators of micro and macroeconomic performance.

At the micro level, companies with high levels of customer satisfaction tend to have higher earnings and stock returns relative to competitors. At the macro level, customer satisfaction has been shown to be predictive of both consumer spending and GDP growth.

Texas Roadhouse, in its first ACSI appearance, also leads the full-service restaurant industry, tying the small chains at 83. Despite rising beef prices, the Southern-style steakhouse has not increased prices much, opting not to pass on this cost to customers in an effort to retain them—an approach that seems to be appreciated by diners. Another beef competitor, Darden’s LongHorn Steakhouse, enters the Index with the second-highest ACSI score (81), while Outback Steakhouse lags its peers after dropping 3% to 78.

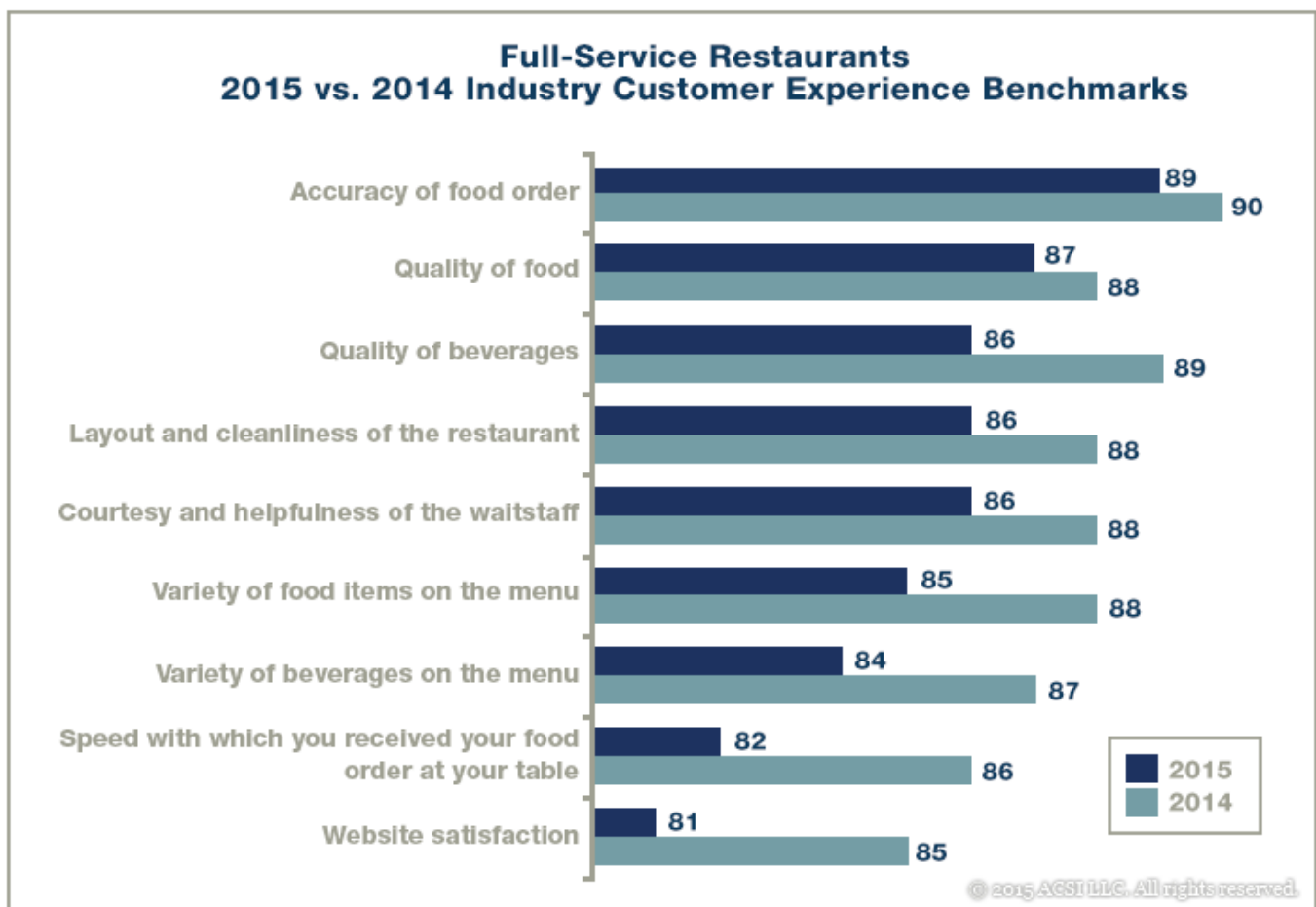
Full-Service Restaurants ACSI Scores			
Company	2014	2015	%Change
Full-Service Restaurants	82	82	0.0%
All Others	83	83	0%
Texas Roadhouse	NM	83	NA
LongHorn Steakhouse (Darden)	NM	81	NA
Cracker Barrel	NM	80	NA
Olive Garden (Darden)	80	79	-1%
Outback Steakhouse	80	78	-3%
Applebee’s	78	78	0%
Red Lobster	78	77	-1%
Red Robin	NM	77	NA
TGI Fridays	NM	76	NA
Denny’s	NM	75	NA
Chili’s	74	74	0%
Ruby Tuesday	NM	73	NA

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While full-service restaurants once relied on expansive menus aimed at satisfying a variety of tastes, the trend is now towards menu simplification and a concentration on core offerings. For the major sit-down chains, the objective is to reinforce the brand and streamline operations. Darden’s Olive Garden (-1% to 79), Red Lobster (-1% to 77), and Chili’s (unchanged at 74) are all shedding menu

items to help speed up service. After splitting from Darden, Red Lobster is returning to its origins by eliminating items that don't mesh with a seafood focus. Likewise, Tex-Mex chain Chili's has reduced offerings not in line with Southwestern-style cooking and pasta-oriented Olive Garden has ditched hummus and chicken skewers. As of yet, these changes do not seem to have had much of an impact as ACSI scores for all three chains are flat or slightly down.

Cracker Barrel Old Country Store, another new entrant to ACSI's full-service restaurant industry, does fairly well with its nostalgic approach to American cooking, although a score of 80 is shy of the industry's average. Further down the line, Red Robin Gourmet Burgers, TGI Fridays, and Denny's all score in the mid-70s, while Ruby Tuesday anchors the bottom at 73.



According to customers, the sit-down dining experience has deteriorated. For the industry, the trend of tightening menus is causing diners to rate the variety of food and beverages lower than a year

ago. While it is too early to tell how less menu variety will impact the customer satisfaction level of individual chains such as Red Lobster or Chili's, there could be some benefit if simpler menus speed up service. At the industry level, the speed of food-to-table has declined 5% over the past year.

While diners give lower ratings across all customer experience elements, the industry benchmarks remain relatively high. According to guests, full-service restaurants excel at getting food orders right (89). Food and beverage quality is high (87 and 86, respectively) and restaurants are clean with a good layout and courteous waitstaff (both 86). Full-service restaurants receive their lowest score for website satisfaction, down from 85 to 81. Nevertheless, the industry's user satisfaction still far exceeds the ACSI average for all websites (77.9).

Limited-Service Restaurants

As unemployment dips and wages rise, albeit slowly, customers of limited-service restaurants are proving harder to satisfy. During economic slumps, consumers prioritize price over quality. But as the economy recovers, quality becomes more salient. Customer satisfaction with fast food restaurants falls 3.8% to an ACSI score of 77 and the gap to full-service restaurants widens to its largest in five years.

Among the individual chains, the deterioration in customer satisfaction is both broad and deep. Even the aggregate of smaller fast food restaurants—including In-N-Out Burger, Peet's Coffee & Tea, and local or regional quick service outlets—shows a considerable ACSI decline. Small chains slide 4% to 81, although the group remains near the top of the category.

Two newcomers to the Index supplant the small chains for industry leadership: Chick-fil-A and Chipotle Mexican Grill. Chick-fil-A debuts with an ACSI score of 86—outpacing the other chains with the highest level of customer satisfaction ever recorded by a fast food restaurant. Fast casual restaurants, which typically offer better ingredients, freshness, and more developed décor, make a strong showing as Chipotle takes second place in its first ACSI appearance at 83. Fast casual brand Panera Bread enters the study at 80, rounding out the industry's top tier.

As the economy improves, consumers with more disposable income—but squeezed for time—want higher-quality ingredients, freshness, and better service at a reasonable price. They also are willing to pay a bit more. High scores for Chipotle and Panera Bread suggest that consumers think they're getting a reasonable value for money.

Limited-Service Restaurants ACSI Scores

Company	2014	2015	%Change
Limited-Service Restaurants	80	77	-3.8%
Chick-fil-A	NM	86	NA
Chipotle Mexican Grill	NM	83	NA
All Others	84	81	-4%
Panera Bread	NM	80	NA
Papa John's	82	78	-5%
Pizza Hut (Yum! Brands)	82	78	-5%
Dunkin' Donuts	75	78	4%
Subway	78	77	-1%
Domino's	80	75	-6%
Little Caesar	80	74	-8%
Starbucks	76	74	-3%
Arby's	NM	74	NA
Wendy's	78	73	-6%
KFC (Yum! Brands)	74	73	-1%
Burger King	76	72	-5%
Taco Bell (Yum! Brands)	72	72	0%
Jack in the Box	NM	72	NA
McDonald's	71	67	-6%

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The biggest losers, according to ACSI data, are the pizza chains. The four major pizza purveyors all suffer big drops. Papa John's and Pizza Hut (Yum! Brands) each plummet 5% to 78, while Domino's tumbles 6% to 75. Little Caesar loses the most, diving 8% to 74. Over the past several years, pizza chains have increasingly competed on price, sometimes at the expense of quality ingredients, and that is now beginning to have a negative effect on customer satisfaction.

Despite the drops in customer satisfaction with pizza chains, they score higher than established entities like McDonald's, Burger King, KFC, Taco Bell, or Wendy's that are in the lower tier of the industry. In particular, customers seem to perceive the traditional burger chains as increasingly tired brands—industry competition is fierce, and shifting consumer preferences for healthier foods is taking a toll.

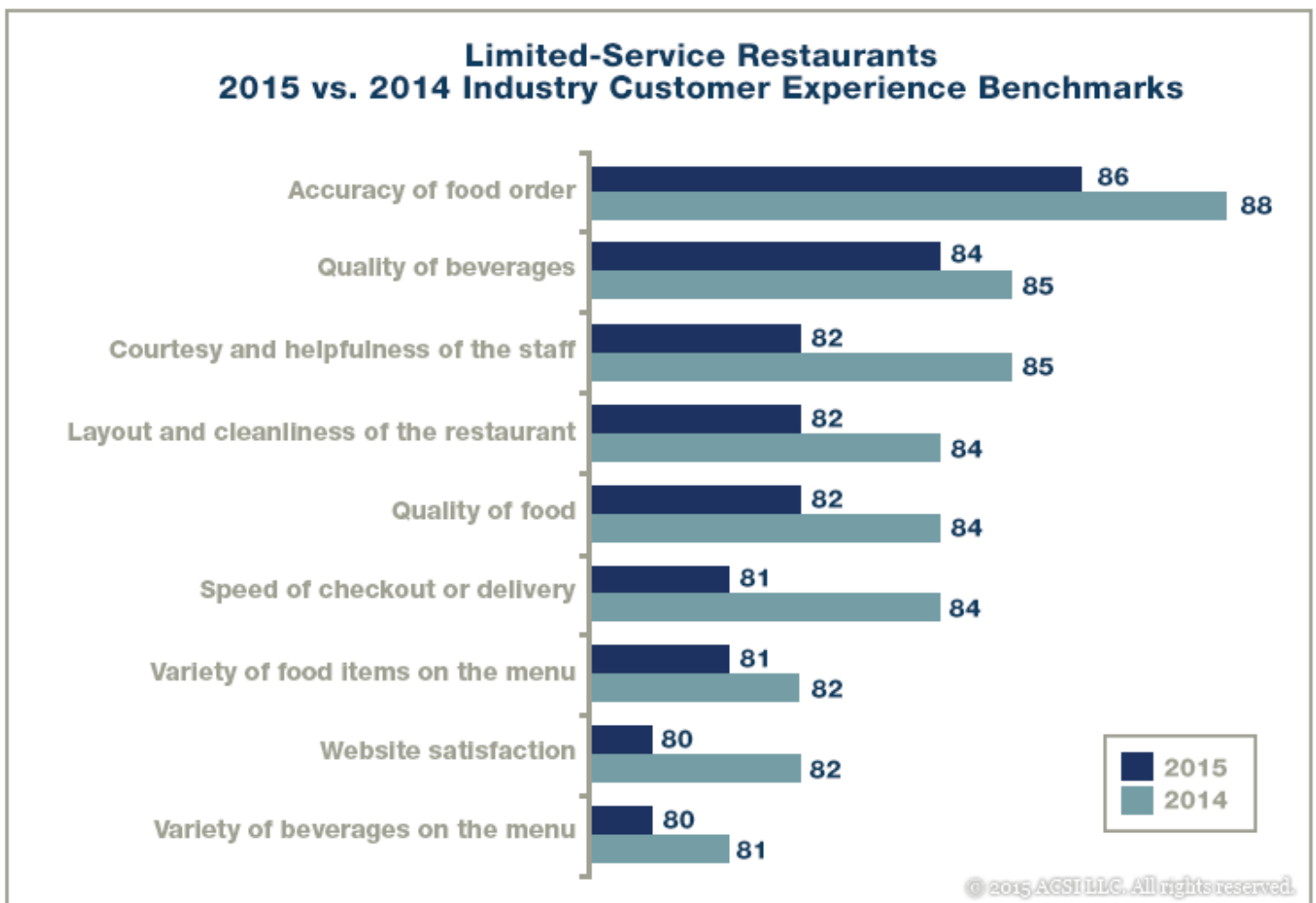
Fast casual burger chains like Five Guys, In-N-Out Burger, and Shake Shack are drawing customers. These companies are significantly younger than the fast food stalwarts that have been household names for more than a half-century. Newer brands like Chipotle also benefit from consumer preferences for organic foods, non-GMO ingredients, and healthier alternatives by making these factors part of their mission.

McDonald's continues to struggle in last place, falling 6% to 67. Because of its size and market share, McDonald's weak customer satisfaction brings the overall industry ACSI score down. The world's largest fast food chain has posted six straight quarters of decreasing U.S. sales and has announced plans to turn around its slump. For the past few years, McDonald's added healthier options and premium coffee to broaden its appeal. Now, McDonald's is trimming menu items to simplify ordering and speed up service, but it is losing customers to other chains, especially the higher-end burger outlets. This is also the case for Burger King, which retreats 5% to 72, and Wendy's, which falls 6% to 73. Both chains are further behind the industry average than a year ago.

Yum! Brands' non-pizza chains also remain entrenched in the lower tier of the industry. Taco Bell holds at 72, while KFC slips 1% to 73. Jack in the Box and Arby's make first-time appearances in the Index at 72 and 74, respectively.

Dunkin' Donuts is the only fast food chain to improve customer satisfaction in 2015, climbing 4% to 78. At the beginning of 2014, Dunkin' Donuts rolled out a beverage rewards program and also tied it to the company's mobile app, apparently with good results. Although Dunkin' Donuts is most dominant in the Northeast, the company is expanding throughout the country in order to compete with coffee chains like Starbucks. Meanwhile, Starbucks drops 3% to 74—well behind Dunkin' Donuts. Starbucks brought premium coffee into the mainstream, but is now challenged on several fronts—from independent coffee shops and high-end roasters to Dunkin' Donuts, McDonald's, and other non-premium brands that offer coffee which can compete on quality at a better price.

As with the full-service category, all customer experience benchmarks for limited-service restaurants are down from last year. Fast food lags full-service restaurants for quality of food and beverages (82 and 84, respectively) and for food and drink variety (81 and 80), although the downturns in these elements are relatively small. The trade-off for fast food is that adding menu variety can slow down checkout and delivery speed—a hallmark of the industry that is deteriorating and falls 4% to 81. Likewise, courtesy and helpfulness of staff recedes 4% to 82, which may reflect the difficulty the industry is having with recruiting and retaining motivated and qualified staff as the job market is getting stronger.



According to customers, food orders are quite accurate (86) and restaurants are reasonably clean and well laid out (82). Website satisfaction slips a notch to 80, but stays above average compared to the ACSI benchmark for all websites (77.9).

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About This Report

The *ACSI Restaurant Report 2015* is based on interviews with 5,023 customers, chosen at random and contacted via email between January 19 and February 9, 2015. Customers are asked to evaluate their recent purchase and consumption experiences with the largest companies by market share within each of the measured industries, plus an aggregate of all other smaller brands not measured individually by name in the ACSI.

Coming in July 2015

Next month, the ACSI will release its annual results for e-business in three categories: portals and search engines, news and opinion, and social media, publishing customer satisfaction benchmarks for the most trafficked websites in these categories.



Appendix: ACSI Industry Scores

