

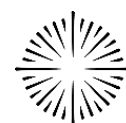


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7 Things to Know About Value

From Subject Matter Expert, [Lori Rakoczy, Associate Principal](#)

With restaurant traffic continuing to struggle and value deals failing to bring in expected sales or customers, operators are questioning whether the value equation has shifted. Here, we explore seven key insights about value and why "knowing your customer" is more critical than ever.



After inflation started its relentless climb in March 2021, restaurant operators braced themselves for the inevitable drop in traffic that would surely come with menu price increases. Instead, many operators experienced a boost in sales with little negative impact on traffic, at least for a little while. Restaurants had been benefitting from an even higher surge in retail prices, as well as lingering effects of pent-up demand, extra cash from 2020 and an expectation that inflation rate increases would be short-lived.

As we now know, inflation proved to be stubborn. Operators continued to incrementally raise prices to cover the rising food and labor costs, just as food-at-home price increases began to decline (See Exhibit 1).

Restaurants lost the short-lived advantage they appeared to have over retail, and customers, feeling squeezed from all sides, pushed back. Traffic began to slide as consumers shifted to retail, leaving restaurants wondering how to entice customers back in stores. Enter the great value wars of 2024.

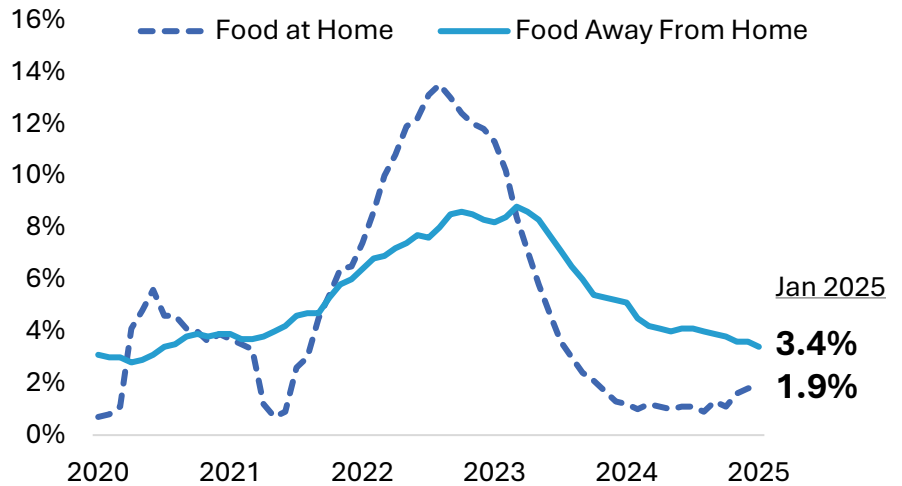
Perhaps most famously, McDonald's kicked off its "summer of value," introducing the \$5 Meal Deal. Burger King, Taco Bell and Carl's Jr., just to name a few, also joined the battle for customer dollars. While these deals may have initially boosted traffic,

particularly from the most price-sensitive consumers, the value deals didn't have the intended impact (See Exhibit 2).

With traffic still struggling, operators are now questioning if consumers' perception of

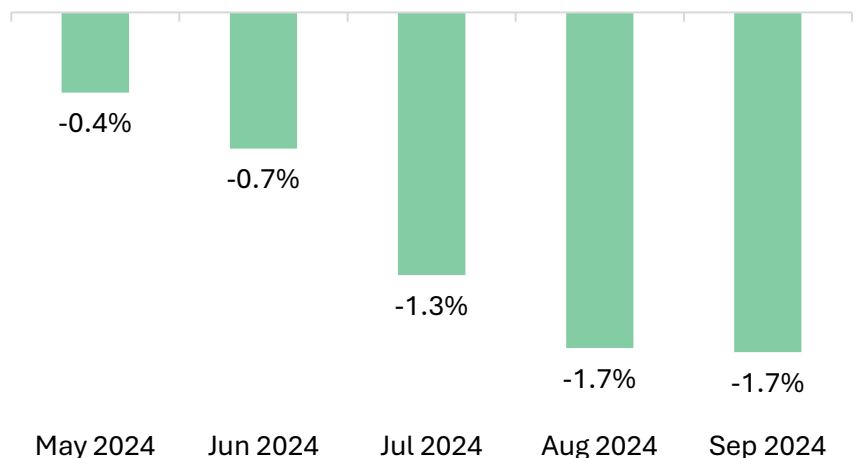
value has changed and what they should be doing to boost their brand's value proposition. Here are seven things you should know about the current state of value in the restaurant industry.

EXHIBIT 1: U.S. CONSUMER PRICE INDICES (INFLATION)
12-MONTH CHANGE



Source: U.S. Bureau of Labor Statistics

EXHIBIT 2: LIMITED-SERVICE SYSTEMWIDE TRAFFIC PERFORMANCE ROLLING THREE MONTHS



Source: Technomic September 2024 Consumer Visit Tracker

1. Consumer demand for value deals has peaked

The demand for value deals has peaked, with 59% of consumers saying that value deals are becoming more important, down from 72% in Q2 2024. Similarly, fewer restaurant operators are planning to add value deals in the future.

31% of restaurant operators are very unlikely to offer a value deal in the future, up 10 points since Q3 2024

Base: 205 restaurant operators who do not currently offer value deals
Source: Technomic Q4 2024 Consumer and Operator Outlook Report

2. Value is everything

Despite the decline in demand for value deals, value itself remains extremely important to consumers. Value drives every choice a consumer makes. Whether at restaurants, retail or in everyday situations, consumers are making tradeoffs to maximize the value they receive. In other words, value is everything to a consumer. While the definition of value is hard to pin down, because its individualistic, value is ultimately measured by the benefits someone receives balanced against the price paid.

Simply put, consumers are asking themselves, “is it worth it?”

3. Value is personal and dynamic

A consumer’s definition of value is personal because the benefits derived are relative to each individual. The value equation is also dynamic—not just over time but even by the hour. What someone values in foodservice on their way to work (speed/convenience) is most certainly different than what’s important for a special weekend occasion (experience/quality/service). Therefore, it’s critical that operators understand their customers’ personal value equation (need states and occasions) and what they expect from their dining experience to increase value perceptions.

4. Value beyond price breaks the law of demand

To be sure, consumers have not been desensitized to rising prices. Price remains the key variable in the value equation. However, that variable has become dependent when it comes to menus and consumer behavior.

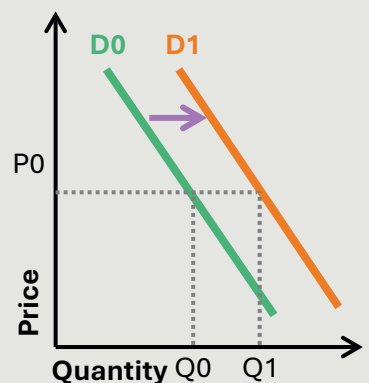
According to the law of demand, price is always the independent variable, meaning that manipulating price will impact demand for an item. In

other words, if you lower the price of an item, you’ll sell more. Operators know all too well that the law is too simplistic in the foodservice industry where consumer preferences play an outsized role.

Price in foodservice is highly dependent on other variables, such as quality, taste and experience. In the current environment, consumers are tapped out, and even a small price increase can push them to other brands or retail. Conversely, as we’ve seen with the value wars, lowering prices has its limits when expectations on other factors aren’t met.

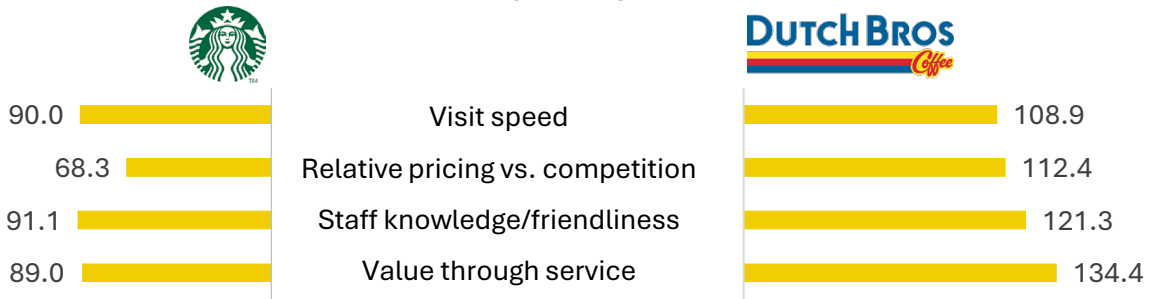
So, how can an operator shift the demand curve to the right to boost the quantity sold? Operators can achieve this by focusing on the other factors most important to their consumers. (See Exhibit 3)

EXHIBIT 3: DEMAND



With price fixed, increasing demand from D0 to D1 requires a focus on other attributes. For example, increasing quality shifts the demand curve to the right, and boost quantity sold.

EXHIBIT 4: PERFORMANCE INDEX



Source: Ignite Consumer

Note: Performance index represents consumer ratings on each brand against peer set average; Peer set includes Bojangles, Popeyes, KFC, Church’s Texas Chicken, El Pollo Loco and Golden Chick

The importance of factors outside of price is apparent in brands that are winning in a tough environment. For example, according to Technomic 2024 forecasts, Dutch Bros Coffee grew 25%, while Starbucks stalled at 0% growth. While prices between the two brands are similar, Dutch Bros is perceived as a better value (See Exhibit 4).

5. Value drivers remain the same, despite price-sensitivity

Consumers may be more price-sensitive, but they fundamentally haven’t changed where they want to order from based on menu price. According to

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Technomic’s Ignite Consumer research, **value through quality and service remain the most important value attributes**, followed by comparative menu prices and low prices.

Notably, the importance of “value through low prices” as a driver has not changed over the past two years. Instead, other factors have become more important like atmosphere, technology, loyalty rewards and relative competitor prices. This indicates that low prices as a driving factor when choosing a restaurant hasn’t shifted despite significant inflation.

Consumers are weighing the benefits they receive (e.g., quality food, friendly service, atmosphere, loyalty rewards, etc.) against the prices at restaurants, and when prices are elevated, the other components of value become more important and must be a focus for operators. Further, as it has become extremely easy to comparison shop prices online, particularly through third-party ordering platforms, it’s imperative that operators are not only in line on price but differentiate their brand through other measures of value. (See Exhibit 5).

EXHIBIT 5: VALUE ATTRIBUTES—LOCATION DECISION DRIVERS*	Q4 2022	Q4 2024
Menu prices are in line with other, similar restaurants/retailers	83%	85%
Offers a good value through atmosphere/ambiance	75%	77%
Offers a good value through high-quality items	87%	87%
Offers a good value through low prices	85%	85%
Offers a good value through quick, high-quality service	88%	87%
Offers a good value through use of technology	56%	57%
Offers loyalty program rewards	50%	54%

Source: Ignite Consumer

*Note: Top two box

Consumers are most likely to find value through quality from casual-dining restaurants, with 49% of consumers rating this attribute as very good, up 2 points since Q4 2023 (See Exhibit 6).

EXHIBIT 6: VALUE THROUGH HIGH-QUALITY MENU ITEMS (Q4 2024, % VERY GOOD)	
Quick service	45%
Fast casual	48%
Midscale	47%
Casual dining	49%

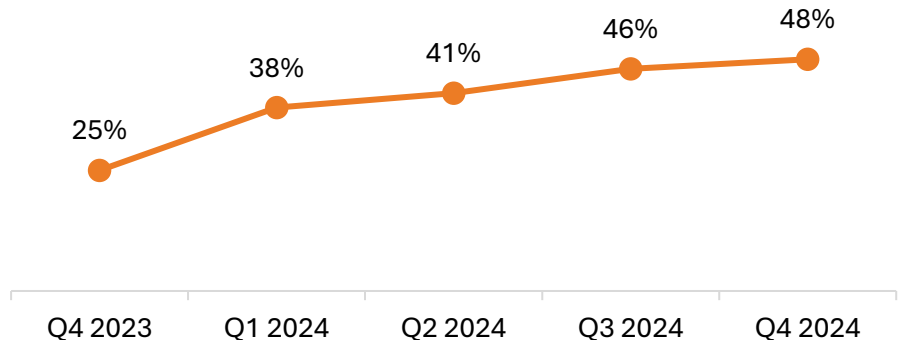
Source: Ignite Consumer

6. Innovation replacing value deals

Even in the current environment, winners will be focused on quality, experience and innovation. With fewer operators adding deals, more are creating innovative, craveable dishes and boosting limited-time offers (LTO) to add value for their customers. Nearly half of operators (48%) say they plan to add an LTO in the next six months, almost double the number who planned on adding LTOs a year ago (See Exhibit 7).

To create value, innovation must be coupled with craveability, as that is a top need state driving consumer visits. Chili's Grill & Bar, for example, has seen traffic growth promoting value through craveable items that contribute to the overall

EXHIBIT 7: % OF OPERATORS WHO PLAN TO ADD LIMITED-TIME OFFERS WITHIN THE NEXT SIX MONTHS



Base: 500 operators

Source: Technomic Q4 2024 Consumer and Operator Outlook Report

experience like the shareable Triple Dipper. Traffic at Chili's from January to October 2024 rose 5 points, whereas casual-dining traffic on average dropped a point.

7. To solve the value equation, know your customers

If value is personal, relative and dynamic, how do operators and supplier partners home their focus on what matters? The answer lies in those three simple, but not so simple, words: "know your customers." A variety of research approaches exist to help operators understand their current and potential customers, ranging from attitudes and usage (AAU) studies and qualitative interviews to more complex pricing studies that also incorporate measures of value into the analysis.

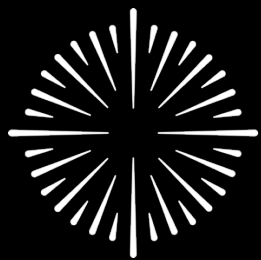
AAU studies with consumer segmentation allow operators to create user profiles of current and potential customers to better target their customers' ideas of value. When it comes to pricing analysis, layering in analytics that measure personal value perceptions at a given price can more effectively target price points that will maximize revenue.

Given the challenging environment that is persisting into 2025, what should operators do to create compelling value propositions?

To Create Compelling Value Propositions:

- Move beyond relying only on price-based promotions
- Focus on delivering quality, experience and service that justifies your pricing
- Highlight the benefits of your menu beyond price, such as high-quality ingredients, signature menu items or unique preparation methods
- Conduct periodic research to understand and adapt to the dynamic value perceptions of your targeted customers
- Prioritize innovation and develop unique, craveable menu items to add value and differentiate your brand
- Implement a loyalty program that not only offers discounts but also experiential or exclusive rewards so customers feel valued





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