The Restaurant Readiness Index, a PYMNTS and Paytronix collaboration, provides an overview of how consumers' continued shift toward digital commerce is changing how they order food online and on site. We surveyed 2,123 U.S. consumers about the types of restaurants from which they make purchases, whether they use loyalty programs and the types of loyalty programs they would like to use to understand how restaurants can customize their loyalty and rewards offerings to enhance customer satisfaction and boost engagement.

DECEMBER 2020

Restaurant Readiness Index

RESTAURANT READINESS INDEX

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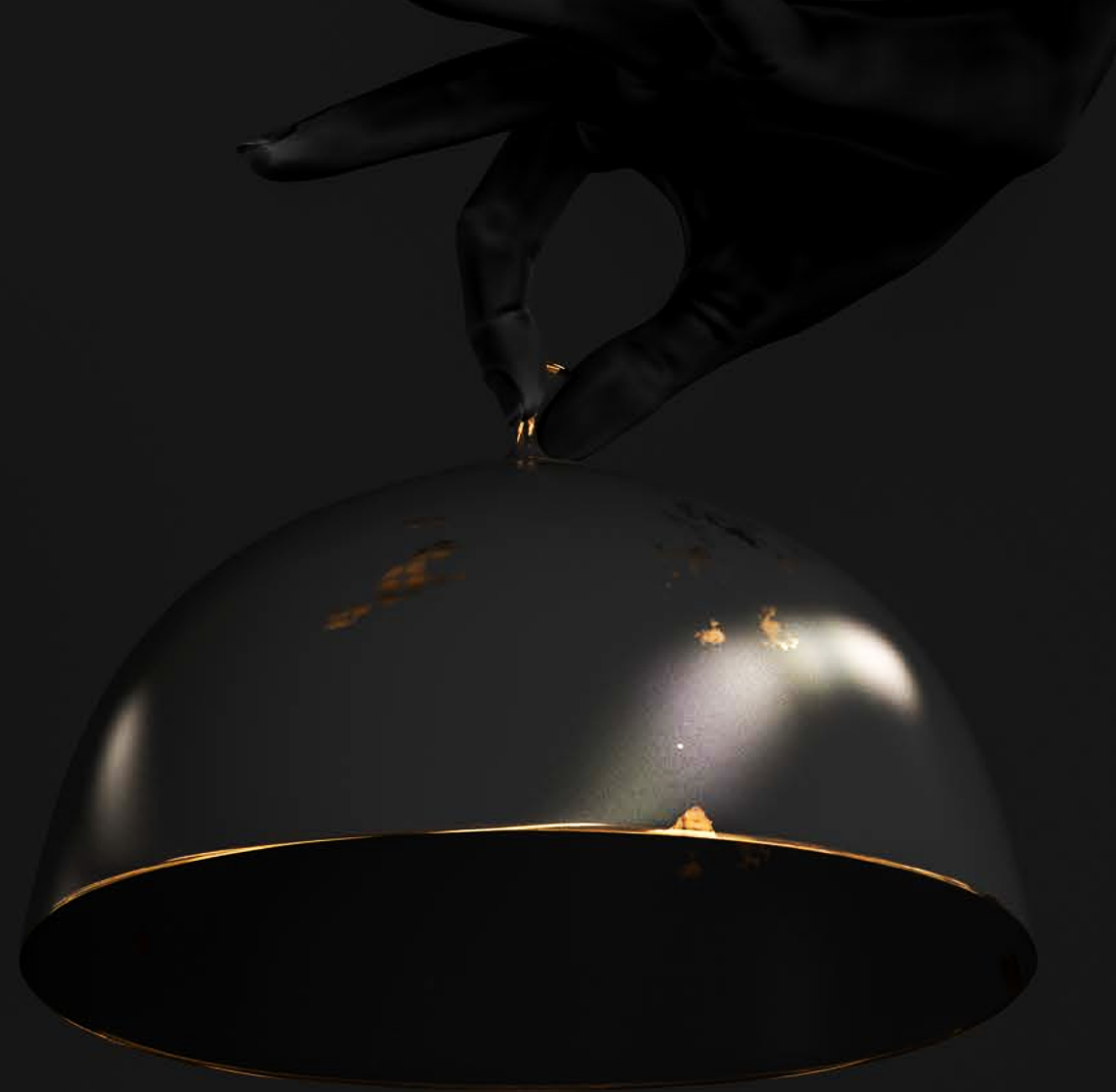
INTRODUCTION

Quick-service restaurant (QSR) chain Chipotle opened its first digital-only restaurant location in Highland Falls, New York, on November 14, 2020. The location lacks the usual sit-in dining area, featuring instead a modest counter where customers can pick up the food they purchase in advance. Orders can only be placed using Chipotle's app, through the Chipotle website or via third-party aggregators.[1] The move marks a first, drastic step in Chipotle's larger business strategy shift, allowing the QSR chain to reduce the overhead costs associated with full-service restaurant locations while also catering to customers' heightened demand for digital service.

Chipotle is not the only restaurant expanding its digital offerings in the face of the pandemic. Thousands of restaurants across the United States have been dialing up their digital engagement efforts, adopting a diverse array of digital purchasing options as their customers continue to shift away from dining at restaurant locations to ordering food to eat at home. New PYMNTS research shows that 23.3 percent of all restaurants are observing less brick-and-mortar foot traffic and more digital engagement than they did before the pandemic began.

Not all restaurants are succeeding in their drive to convert these new, digital-first consumers, however. Some restaurants are being held back by misperceptions about the types of digital options their customers want, with decision-makers often overestimating their customers' interest in technologies like in-store kiosks while overlooking the features

and services that can help drive customer spend. What digital innovations should restaurants prioritize to boost their customer engagement, and which solutions can help them generate more revenue as widespread uncertainty sweeps across the restaurant industry at large?

The Restaurant Readiness Index, a PYMNTS and Paytronix collaboration, assesses how restaurants' customer engagement strategies have evolved since the pandemic's onset. We surveyed a census-balanced panel of 2,123 U.S. consumers and 490 restaurant operators to identify the key digital innovations that can help restaurants deliver improved user experiences and boost their average unit volumes (AUVs).

This report takes a three-point approach to analyzing the restaurant industry,

drawing not only from our consumer and restaurant manager surveys but also from our research into restaurants' digital readiness with our new Restaurant Readiness Index. This Index score offers a quantitative measurement of restaurants' digital feature offerings and their readiness to serve their customers in the digital-first economy that has arisen in response to the pandemic, with a 0 indicating a complete lack of digital readiness and a 100 signaling that a restaurant is perfectly capable of meeting all their customers' ordering needs.

This is what we learned.

1. Lucas, A. Chipotle to open its first digital-only restaurant as online orders soar. CNBC. 2020. https://www.cnbc.com/2020/11/11/chipotle-to-open-its-first-digital-only-restaurant-as-online-orders-soar.html. Accessed November 2020.

INTRODUCTION

60%

of small restaurant operators have had their revenues decline since the pandemic began.

Sixty percent of small restaurant operators have had their revenues decline since the pandemic began.

Widespread closures and capacity restrictions have hit the restaurant industry hard — roughly four in 10 restaurants have seen their revenues decrease since the pandemic was first declared in March. This figure is even higher among restaurants that generate lower AUVs. Our research shows that 60 percent of restaurants with less than $250,000 in AUV had revenue decreases since the pandemic began compared to 55 percent of restaurants generating between $250,000 and $1 million in AUV. Restaurants with more than $1 million in AUV have managed to weather this financial storm more effectively, as only 32 percent have seen their revenues decrease since the pandemic began.

More than half of restaurants that have experienced revenue increases have benefited from a surge in mobile ordering.

Many cash-strapped restaurants are finding refuge in digital ordering channels and features. Restaurants that have seen their customers' usage of digital purchasing options increase since the pandemic began are also more likely than others to have had their AUVs increase in that time frame. Our research shows that 56 percent of restaurants with customers who are using mobile order-ahead features more often have experienced increased revenues since the pandemic began, in fact. Just 13 percent of them have had their revenues decrease.

Ninety-two percent of top performers provide mobile order-ahead options, and an equally large share also offer loyalty programs.

The combined use of both mobile order-ahead options and loyalty programs serves as a key differentiator separating top performing restaurants from the rest. Top performers provide a greater variety of ordering and payment options as well as loyalty and rewards programs than either middle performers or bottom performers. Our research shows that 92 percent of top performers allow their customers to place mobile orders ahead of time, and the same share also provide access to loyalty and rewards programs. This makes mobile order-ahead and loyalty programs the two most common offerings among those companies that earned the highest Restaurant Readiness Index scores. These features are only offered by 32 percent and 21 percent of bottom performers, by comparison.

Restaurant managers underestimate their customers' interest in loyalty programs, and they overestimate their customers' interest in self-service kiosks.

A disconnect often exists between what restaurant customers want and what restaurant managers think customers want, and this misunderstanding is at the core of restaurants' underutilization of loyalty and rewards programs. Our research shows that only 32 percent of restaurant managers believe that loyalty and rewards programs will be integral to businesses' future successes, even though 51 percent of customers who think restaurants can improve their feature offerings believe loyalty and rewards programs will be key to that success. This helps shed light on why so many restaurants are not providing loyalty and rewards programs that can help bolster their revenues.

Restaurant managers are underestimating the importance their customers place on loyalty and rewards programs and they are also overestimating their customers' interest in self-service kiosks. Our survey findings show that only 19 percent of restaurant customers say

they believe it will be critical for restaurants to provide self-service kiosks going forward, but 37 percent of restaurant managers believe restaurants will need self-service kiosks, underscoring another way in which restaurants must change their priories if they wish to accurately keep up with customers' demands.

Customers would spend more if they had access to loyalty and rewards programs, yet nearly 40 percent of restaurants do not offer such programs.

Loyalty and rewards programs are the most important feature that prompts consumers to spend more. Our research shows that 39 percent of all restaurant customers would likely spend more if their usual restaurants offered loyalty and rewards programs. Thirty-eight percent and 37 percent say the same for the ability to order online and the ability to pay online, respectively.

Only 62 percent of restaurants offer loyalty and rewards programs, however, despite it being the most likely feature to boost customers' spending. Loyalty and rewards programs are even rarer among restaurants that generate less

than $1 million in AUV. Our research shows that only 51.3 percent of restaurants with $250,000 to $1 million in AUV and 41.3 percent of restaurants with less than $250,000 in AUV provide loyalty and rewards programs. This signals that loyalty and rewards programs are a significant yet underutilized tool in restaurants' efforts to improve their revenues amidst the economic downturn, especially among the very restaurants that are in greatest need of a boost.

4 IN 10

customers would spend more if they had access to loyalty and rewards programs.
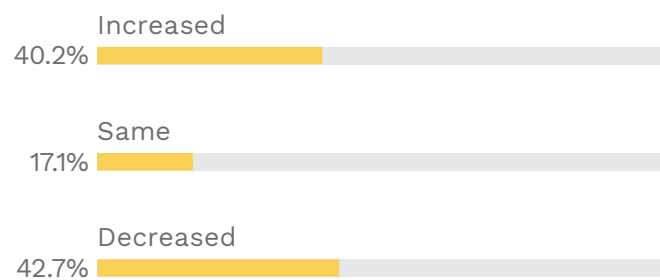
THE DIGITAL SHIFT:

Engaging customers online to
boost revenue

Restaurants have had to navigate a particularly difficult economic situation since the start of the pandemic. The crisis has forced many businesses to close or limit their brick-and-mortar seating capacities, which has had drastic impact on revenues — especially among restaurants that generate less than $250,000 in AUV. Our research shows that 60 percent of restaurants in this bracket have had their revenues decrease since the pandemic began, in fact — a sharp boost from the restaurant industry average of 43 percent.

Restaurants that make $250,000 to $1 million in AUVs are the second-most likely group to have had their revenues drop since the initial outbreak: 55 percent report a decline in revenue. Those with AUVs of more than $1 million have gone by relatively unscathed. Our research shows that a significant share of restaurants in this group are actually more likely to have seen their revenues increase: 49 percent say their revenues have increased since the pandemic began.

Figure 1:

How the COVID-19 pandemic has affected restaurants' revenues

1a: Share of restaurants reporting that the pandemic has had select impacts on their revenues

Increased
40.2%

Same
17.1%

Decreased
42.7%

1b: Share of restaurants reporting that the pandemic has had select impacts on their revenues, by AUV

Increased
48.7%
30.0%
27.0%

Same
19.1%
15.3%
12.7%

Decreased
32.1%
54.7%
60.3%

■ **More than $1M**
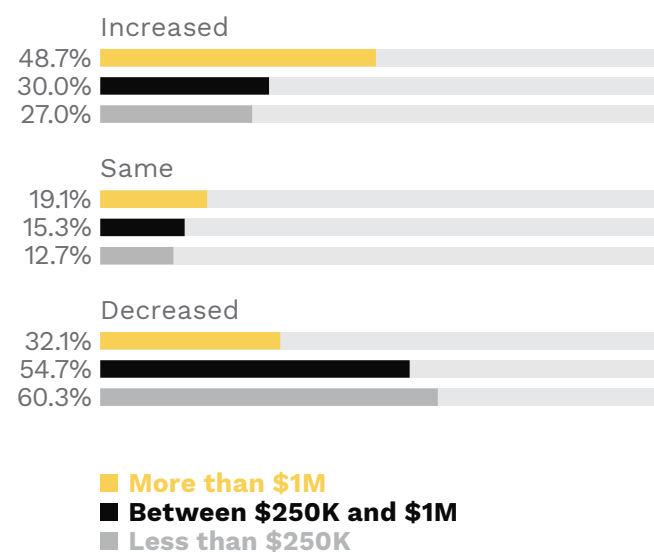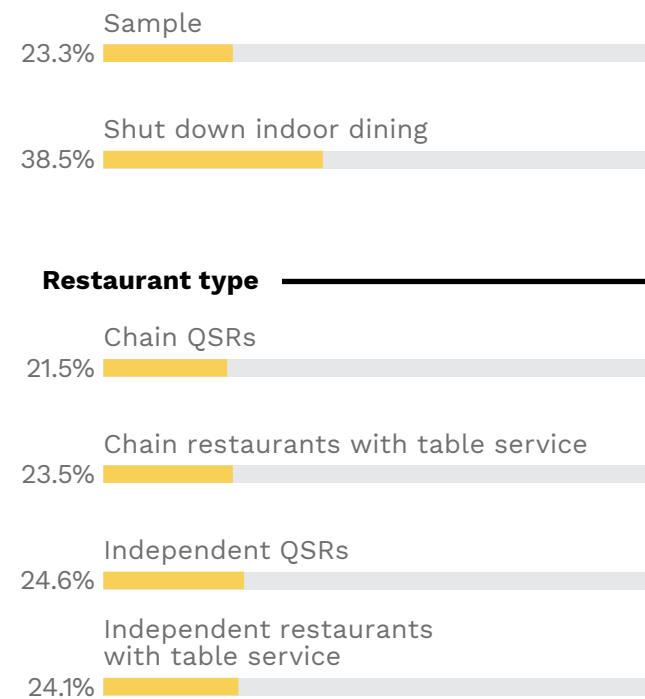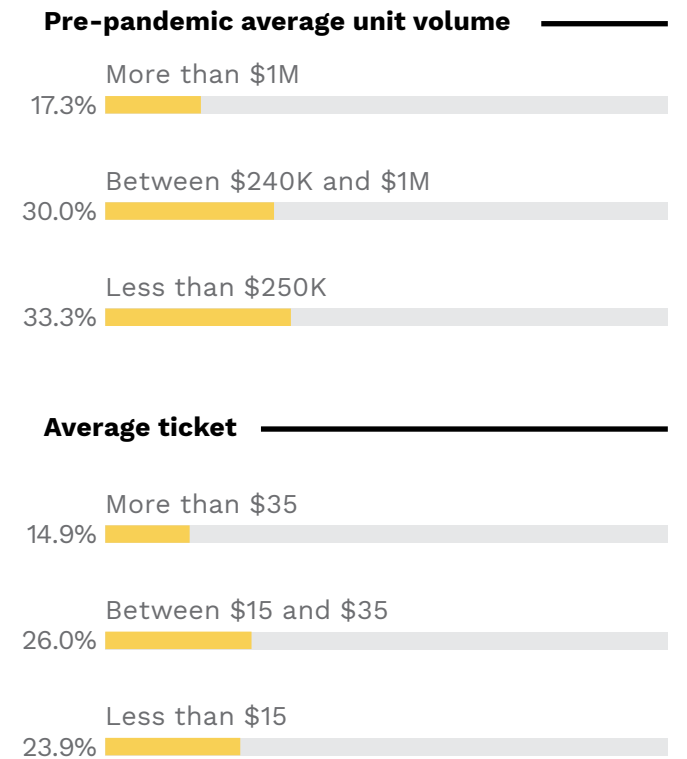■ **Between $250K and $1M**
■ **Less than $250K**

Figure 2:

How the COVID-19 pandemic is changing how consumers order

Share of restaurants that have seen both an increase in digital engagement and a decrease in brick-and-mortar engagement since the pandemic began

Sample
23.3%

Shut down indoor dining
38.5%

Restaurant type ────────

Chain QSRs
21.5%

Chain restaurants with table service
23.5%

Independent QSRs
24.6%

Independent restaurants with table service
24.1%

Pre-pandemic average unit volume ────────

More than $1M
17.3%

Between $240K and $1M
30.0%

Less than $250K
33.3%

Average ticket ────────

More than $35
14.9%

Between $15 and $35
26.0%

Less than $15
23.9%

Widespread brick-and-mortar closures and capacity restrictions have significantly changed the restaurant landscape but have not necessarily ruined all restaurant businesses. Many have been quick to adapt by offering their customers digital purchasing and delivery options that meet the increasing demand for digital commerce. Our survey reveals that 23 percent of all restaurants say their customers are engaging more now with their online purchasing channels and digital options than they did before the pandemic, underscoring the broader market shift toward digital commerce.

56%

of restaurants that have observed lower AUVs have experienced mobile ordering increases since the pandemic began.
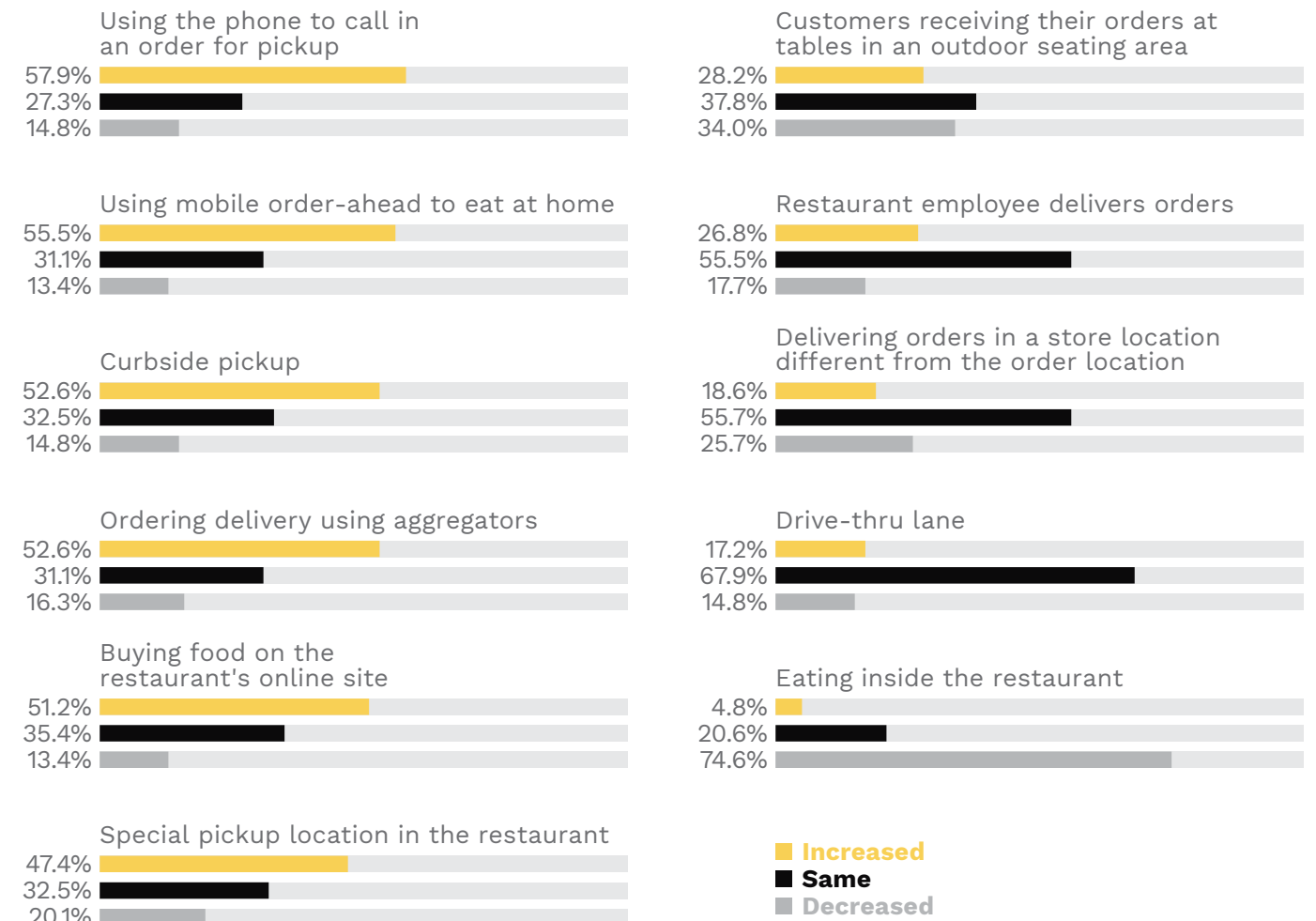
Many cash-strapped restaurants are finding relief in these digital purchasing channels and options. Our research shows that 56 percent of restaurants that have observed lower AUVs have experienced mobile ordering increases since the pandemic began, for example. Just 13 percent of restaurants that have experienced decreased AUVs have found consumers are using mobile order-ahead less often. This underscores the power that digital ordering and payment experiences can have in helping restaurants enhance their engagement and boosting their revenues.

Figure 3:

How restaurants are using digital channels to boost their revenues

Share of restaurants with decreased AUVs as a result of the pandemic, by change in channel engagement

Using the phone to call in an order for pickup
57.9%
27.3%
14.8%

Using mobile order-ahead to eat at home
55.5%
31.1%
13.4%

Curbside pickup
52.6%
32.5%
14.8%

Ordering delivery using aggregators
52.6%
31.1%
16.3%

Buying food on the restaurant's online site
51.2%
35.4%
13.4%

Special pickup location in the restaurant
47.4%
32.5%
20.1%

Customers receiving their orders at tables in an outdoor seating area
28.2%
37.8%
34.0%

Restaurant employee delivers orders
26.8%
55.5%
17.7%

Delivering orders in a store location different from the order location
18.6%
55.7%
25.7%

Drive-thru lane
17.2%
67.9%
14.8%

Eating inside the restaurant
4.8%
20.6%
74.6%

■ **Increased**
■ **Same**
■ **Decreased**

CHECKING ALL THE BOXES:
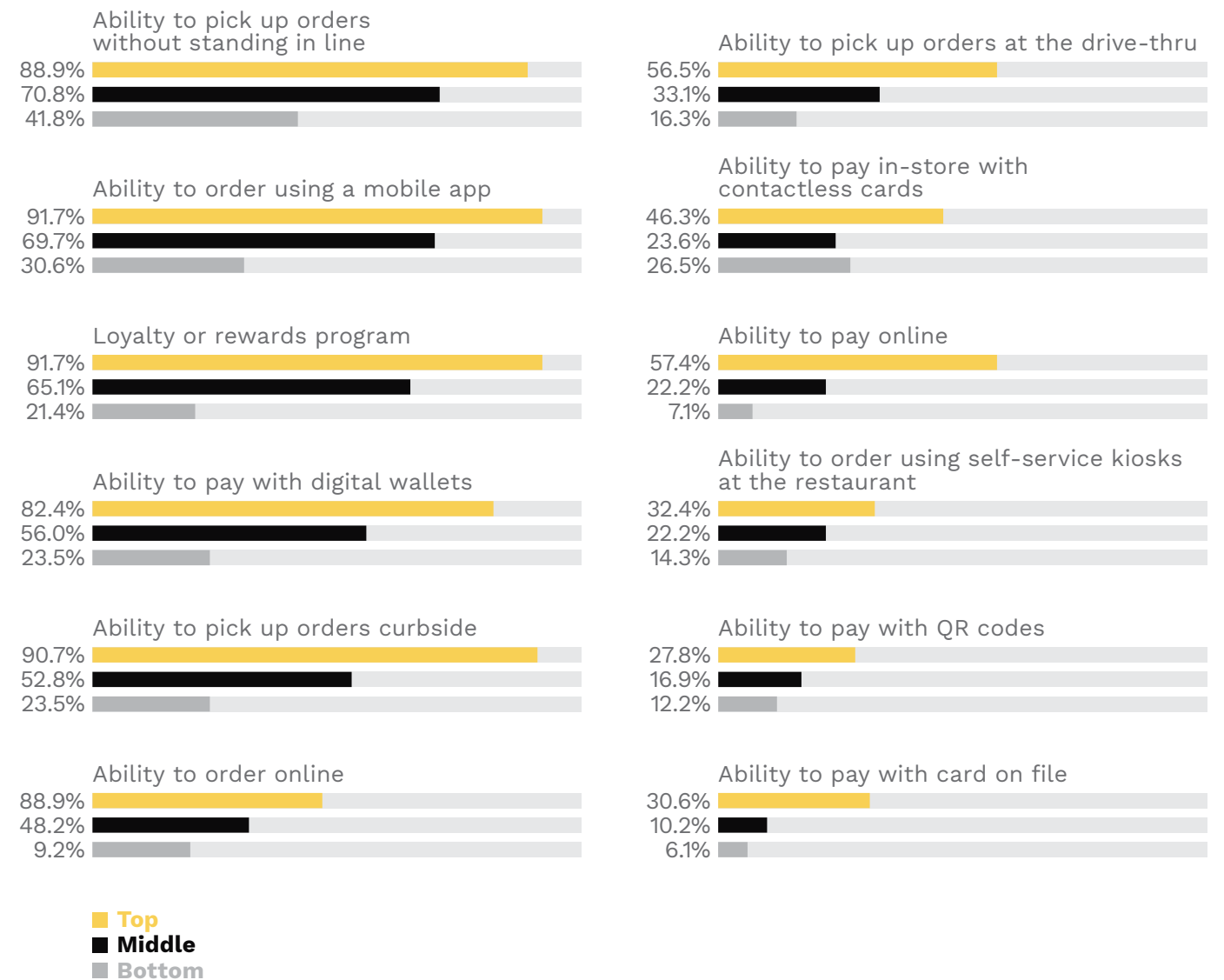
Top performers deliver variety

92%

of all top performers
offer these two features:
1) loyalty and rewards programs
2) the ability to pay via mobile app

Offering ordering and payment choices in digital and brick-and-mortar purchasing channels is a key differentiator separating top-performing restaurants from the rest of the pack.

Two standout features are particularly common among top performers: loyalty and rewards programs and the ability to pay via mobile app. Our research shows that 92 percent of all top performers offer these features, making them the two most commonly offered purchasing options among digital-first restaurants.

Figure 4:

What feature offerings make top performers stand apart from the rest

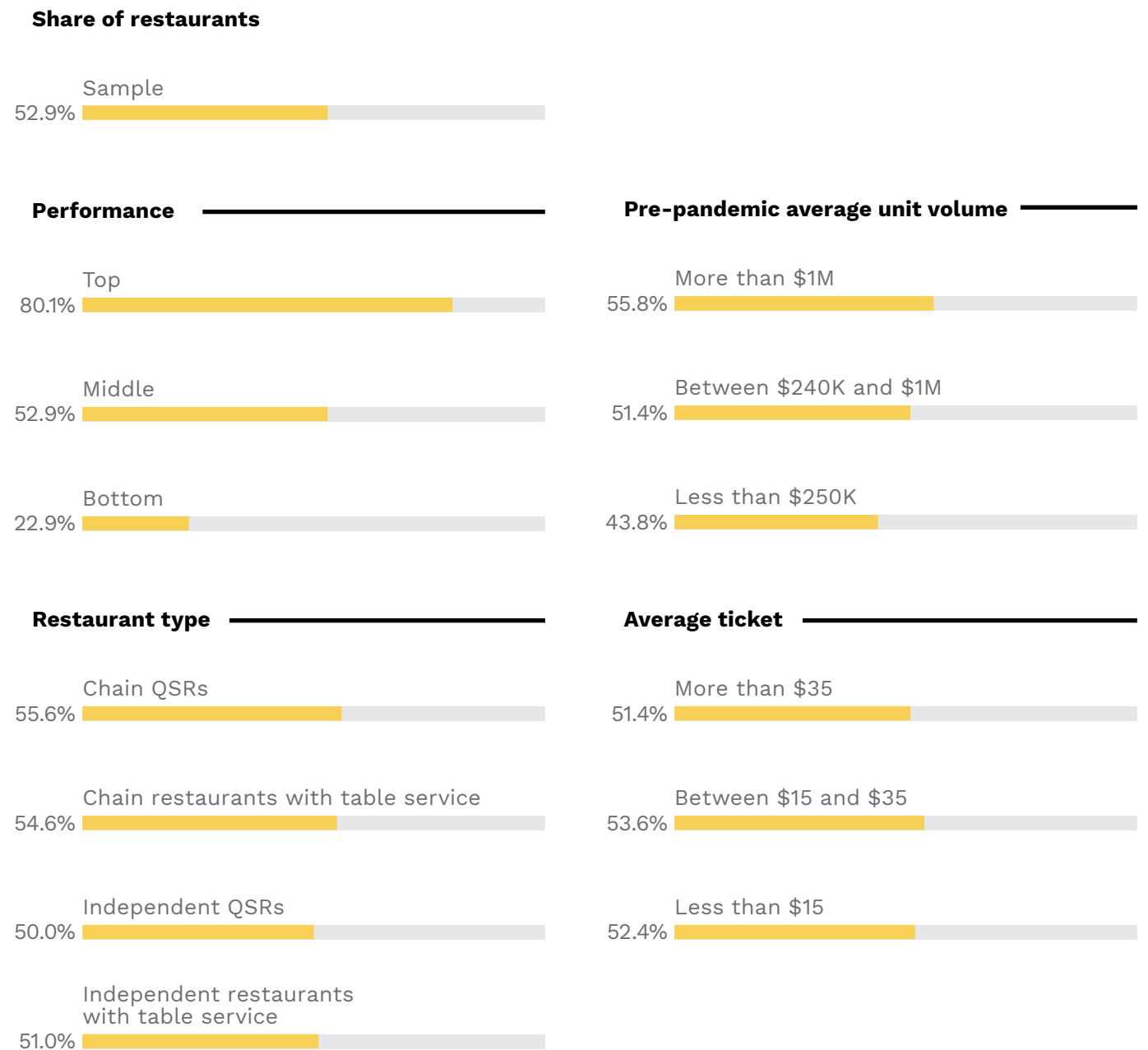**Share of top, middle and bottom performers providing select features**

Ability to pick up orders without standing in line
88.9%
70.8%
41.8%

Ability to pick up orders at the drive-thru
56.5%
33.1%
16.3%

Ability to order using a mobile app
91.7%
69.7%
30.6%

Ability to pay in-store with contactless cards
46.3%
23.6%
26.5%

Loyalty or rewards program
91.7%
65.1%
21.4%

Ability to pay online
57.4%
22.2%
7.1%

Ability to pay with digital wallets
82.4%
56.0%
23.5%

Ability to order using self-service kiosks at the restaurant
32.4%
22.2%
14.3%

Ability to pick up orders curbside
90.7%
52.8%
23.5%

Ability to pay with QR codes
27.8%
16.9%
12.2%

Ability to order online
88.9%
48.2%
9.2%

Ability to pay with card on file
30.6%
10.2%
6.1%

Top
Middle
Bottom

89%
of top performers allow their customers to order their food online.

9.2%
of bottom performers do the same.

Other notable features that are almost universally offered by top performers include online ordering via website and curbside pickup options. Our research shows that 89 percent of top performers allow their customers to order their food online, for example, while 91 percent provide curbside pickup options. Only 9.2 percent and 24 percent of bottom performers provide these features, respectively.

These differences in feature offerings are reflected in different restaurant segments' Index scores. The restaurants with the highest Index scores in our study have an average score of 80.1 out of 100 — 52 percent higher than the score of the middle performers and 250 percent higher than that of bottom performers and underscoring the importance of providing numerous order and payment options.

Figure 5:

How Restaurant Readiness Index scores vary by restaurant segment

Share of restaurants

Sample
52.9%

Performance

Top
80.1%

Middle
52.9%

Bottom
22.9%

Restaurant type

Chain QSRs
55.6%

Chain restaurants with table service
54.6%

Independent QSRs
50.0%

Independent restaurants with table service
51.0%

Pre-pandemic average unit volume

More than $1M
55.8%

Between $240K and $1M
51.4%

Less than $250K
43.8%

Average ticket

More than $35
51.4%

Between $15 and $35
53.6%

Less than $15
52.4%

It is also worth noting that different segments' Index scores are not necessarily reflective of the variety of features they offer. Chain QSRs have the highest average Index score of all at 55.6 points. Independent QSRs earned the lowest average score, at 50 points.

These restaurant types offer radically different features. QSR chains are far likelier than independent QSRs to provide loyalty and rewards programs, for example.

Figure 6:

What feature offerings distinguish restaurants of different types

Share of different types of restaurants providing select features

Ability to pick up orders without standing in line
59.5%
69.1%
73.8%
74.9%

Ability to order using a mobile app
70.3%
76.5%
60.0%
62.8%

Loyalty or rewards programs
80.4%
79.4%
50.8%
45.7%

Ability to pay with digital wallets
67.1%
51.5%
60.0%
45.7%

Ability to pick up orders curbside
46.8%
50.8%
56.9%
63.3%

Ability to order online
47.5%
47.1%
40.0%
54.8%

Ability to pick up orders at the drive-thru
44.9%
16.2%
36.9%
32.7%

Ability to pay in store with contactless cards
29.1%
30.9%
26.2%
29.6%

Ability to pay online
31.0%
23.5%
29.2%
24.1%

Ability to order using self-service kiosks at the restaurant
28.5%
35.3%
18.5%
15.6%

Ability to pay with QR codes
20.9%
23.5%
13.8%
16.1%

Ability to pay with card on file
12.7%
13.2%
9.2%
16.6%

- **Chain QSRs**
- **Chain restaurants with table service**
- **Independent QSRs**
- **Independent restaurants with table service**

Independent QSRs make up for a lack of loyalty and rewards programs by being more likely to allow their customers to pick up their orders without standing in line and by allowing them to pick up orders curbside. Our study found that 63 percent of independent QSRs in our study provide curbside pickup options, whereas 47 percent of chain QSRs offer the option. This reflects on the variety of restaurants' order, purchasing and pickup offerings as well as the extent to which these offerings can be customized to meet different customers' needs.

THE LOYALTY BOOST:

Underutilizing rewards programs

LOYALTY

More variety is better when it comes to offering restaurant customers their pre-ferred purchasing options, but certain purchasing options are in higher demand than others and are the ones customers would be willing to pay more to use. The most impactful ordering feature that encourages customers to increase their spending is loyalty and rewards pro-grams. Our survey findings show that 39 percent of all restaurant customers would be encouraged to spend more on their food purchases if the restaurants at which they make purchases provided loyalty and reward options.

Figure 7:

Which features can boost consumer spending

Share of consumers who say they would be more likely to make purchases if restaurants offered select options

Loyalty or rewards programs
38.9%

Ability to pay online
37.9%

Ability to order online
36.9%

Ability to pick up orders without standing in line
33.5%

Ability to pick up orders at the drive-thru
30.5%

Ability to pick up orders curbside
29.8%

Ability to order using a mobile app
27.0%

Ability to order using a mobile browser
21.4%

Ability to pay with card on file
21.0%

Ability to pay in-store with contactless cards
19.4%

Automatic updates to the online menu
17.0%

Ability to pay with digital wallets
16.3%

Ability to order using self-service kiosks
14.4%

Automatic updates to the in-store menu
14.2%

Automatic updates to the menu on the mobile app
13.8%

Mechanism to ensure the order is correctly picked up
13.5%

Automatic updates to the menu on aggregator sites
10.6%

Ability to pay with QR codes
10.5%

QR codes enabling end-to-end experiences
8.0%

Other
7.0%

EWARDS

Figure 8:

How many restaurants offer loyalty and rewards programs

Share of restaurants in select segments that offer loyalty or rewards programs

Sample
62.2%

Restaurant type

Chain QSRs
80.4%

Chain restaurants with table service
79.4%

Independent QSRs
50.8%

Independent restaurants with table service
45.7%

Pre-pandemic average unit volume

More than $1M
72.9%

Between $240K and $1M
51.3%

Less than $250K
41.3%

Average ticket

More than $35
66.0%

Between $15 and $35
63.4%

Less than $15
57.5%
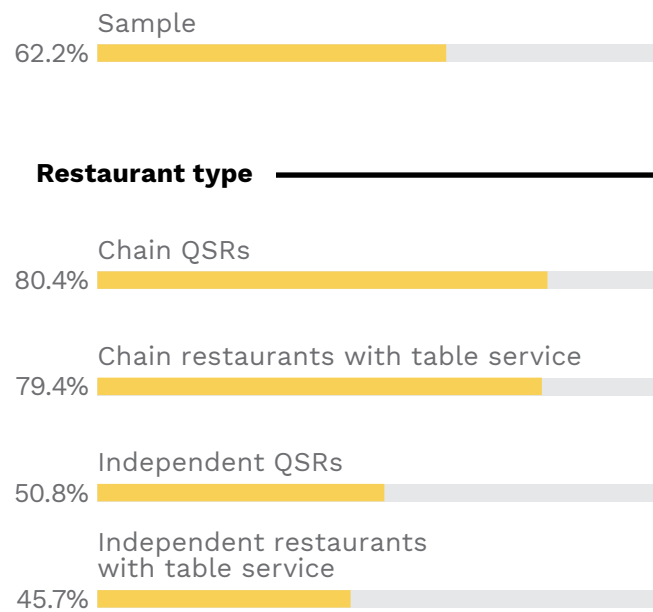
Consumers are even more likely to increase their spending for loyalty and rewards programs than they are for online ordering and payment options. Our survey reveals that 38 percent and 37 percent of restaurants' customers would be willing to spend more to order and pay online. They would also be more willing to spend if their restaurants enabled them to pick up orders without standing in line, order via mobile and pay using cards on file.
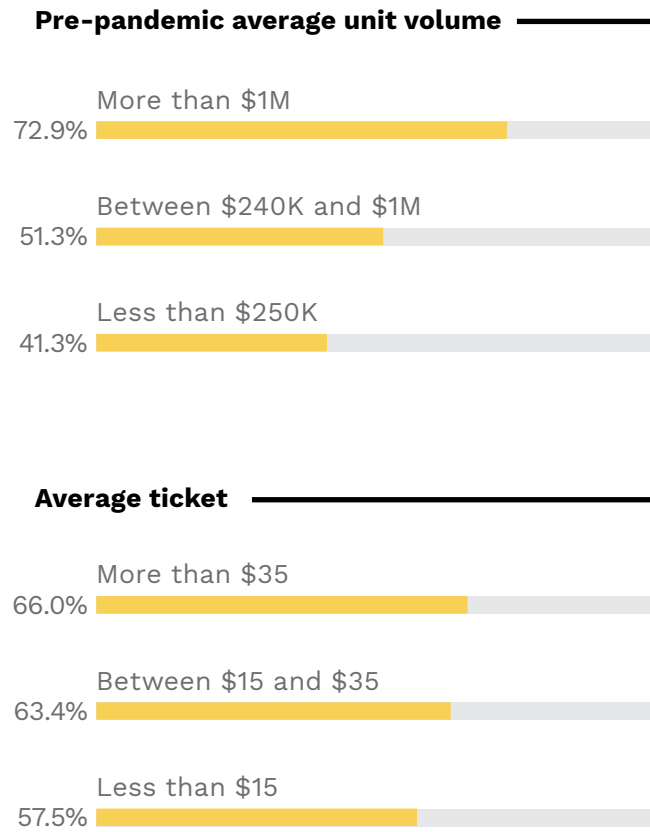
Consumers have a clear demand for loyalty and rewards programs, and such offerings have great power to help restaurants boost their revenues, yet only 62 percent of restaurants offer such programs. This signals that many restaurants have the chance to gain ground by providing the loyalty and rewards programs customers want.

CONSUMERS HAVE A CLEAR DEMAND FOR LOYALTY AND REWARDS PROGRAMS,

yet only 62.2 percent of restaurants offer such programs

This opportunity is even greater for independent QSRs and restaurants, restaurants with less than $1 million in AUVs and restaurants whose average ticket price is less than $15. These segments not only have the lowest loyalty and rewards program adoption rates of all but have also been the most affected by the pandemic. Loyalty and rewards options therefore present a major opportunity for restaurants.

The underlying issue that seems to be stopping restaurants from offering loyalty and rewards programs is the perception gap between restaurant managers and customers. A wide disconnect exists between the lack of importance restaurant managers place on loyalty and rewards programs and the very real importance placed on them by their customers. Our research shows that 51 percent of customers who think restaurants can improve their feature offerings believe it will be critical for these establishments to provide loyalty and rewards programs going forward while just 32 percent of restaurant managers agree.

Restaurant managers not only underestimate their customers' interest in loyalty and rewards programs but also overestimate their interest in other purchasing options, particularly in self-service kiosks. Only 19 percent of restaurant customers believe that self-service kiosks will be an important technology for restaurants to provide in the future, yet 38 percent of restaurant managers share that belief.

Shares that believe self-service kiosks will be an important technology for restaurants to provide

CONSUMERS
19%

MANAGERS
38%

Figure 9:

Features that restaurant managers and restaurant customers prioritize

Share of restaurant customers and managers who believe select features will be important for restaurants' future success

Curbside pickup
38.8%
48.0%

Ability to order online
48.1%
45.3%

Ability to pay online
49.4%
44.1%

Ability to pick up orders without standing in line
43.6%
43.9%

Self-service kiosks at the restaurant
18.8%
37.1%

Ability to pay in store with contactless cards
25.3%
33.7%

Loyalty or rewards programs
50.6%
31.6%

Ability to pick up orders at the drive-thru
39.7%
27.8%

QR codes enabling end-to-end experiences
10.4%
24.1%

Mechanism to prevent order and pickup errors
17.5%
24.1%

Ability to pay with card on file
27.4%
22.2%

Ability to pay with digital wallets
21.2%
19.0%

Ability to pay with QR codes
13.7%
15.5%

Other
0.9%
0.4%

■ **Consumers**
■ **Managers**

CONCLUSION

Meeting consumers' diverse demands is more critical to restaurants' survival than ever. The pressure is on restaurants to provide a variety of both digital and brick-and-mortar purchasing channels and payment options that enable seamless experiences, even as restaurant customers grow more eclectic in their ordering and pickup preferences. Options such as mobile and online ordering and offering support for curbside or in-store pickup have become table stakes.

These digital innovations may be critical, yet it is also crucial that restaurants do not overlook the importance of service-oriented features like loyalty and rewards programs. Many restaurants are passing over these programs as a means of boosting their customers' spending, and this miscalculation is having a demonstrable impact on their AUVs. Restaurants looking to enhance their customers' overall dining experiences and boost their revenues would benefit from taking a two-pronged approach to enhancing customer engagement by providing both digital-first ordering options and the loyalty and rewards programs their customers crave.

ABOUT

PYMNTS.com

PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

PAYTRONIX

Paytronix provides software-as-a-service (SaaS) customer experience management (CXM) services for restaurants. Its portfolio includes loyalty, gift and email solutions for fast-casual, fast food and quick service restaurants. Once implemented, these can be used to help establishments elevate their brand profiles. Its offerings can also be used to generate data insights to help restaurants pinpoint opportunities to improve their operations and customer engagements. The company's platform can integrate with many widely used restaurant POS systems. For more information, visit paytronix.com.