

COMCAST
BUSINESS



Technology in the Quick Service Restaurant Industry

A Study on How Franchise
Systems Implement
Technology Programs





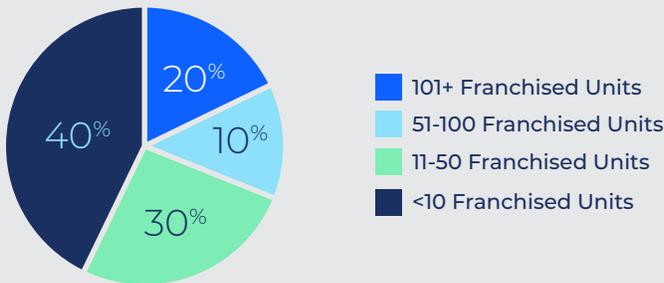
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In order to attain a detailed understanding of how franchise systems make decisions to implement technology programs that benefit all franchised units, and how technology implementation standards have changed throughout the pandemic, Comcast Business and FRANdata partnered to conduct a survey across franchise brands in the Quick Service Restaurant (QSR) industry, to gain further insight into technology's impact on the businesses. On average, franchise systems from survey respondents operate approximately 104 franchised units. This average is skewed by a large franchise brand representing more than 1,000 locations.

Of all the brands represented in this study, 40% of the brands have less than 10 franchised units, 30% of the brands have between 11 and 50 franchised units, 10% of the brands have between 51 and 100 franchised units, while the remaining 20% have more than 100 franchised units.

Franchise System Size

(Based on Survey Respondents)



The survey respondents included franchisor executives who are at Director level (and above) with titles in Marketing (traditional & digital), Technology & IT, and Operations teams.

From front-of-house to back-office to digital marketing, technology is involved in all aspects of franchise business operations. The pandemic has boosted franchise businesses' reliance on technology adoption. Greater connectivity, mobile apps, and cloud technology are required during the recovery period of the COVID-19 pandemic. Leveraging these technology options allows franchisors to improve their operational efficiencies and focus on value-creating initiatives, such as building brand loyalty by improving consumer experience and boosting employment engagement, across their entire system of business locations.

Sales for indoor-dining restaurants were hard-hit when the pandemic first began, so restaurants were forced to quickly adapt to those changes by relying more on digital/online orders through takeout, delivery, and curbside pickup. More advanced technology and digital solutions, such as touchless payment systems, contactless in-store ordering options, use of AI systems for drive-thru orders, and other innovations have all increasingly been adopted to help businesses increase revenues. In addition, franchisors also had to think about technology across their entire system for all their locations. They focused on rolling out new POS systems, completing third-party POS integration, and implementing real-time reporting across all platforms to offer the convenience and flexibility that customers crave.

Part 1: Technology decision making and purchase process

The franchise business model frames the way franchise brands establish, implement, and measure their technology strategies. Franchisors set the rules and outline every aspect of these measures in legal and regulatory documents for franchisees to follow, however franchisees have to make decisions on the ground based on the specific situation in their business. The technology stack in most franchised restaurants results from a combination of the franchisor's mandated or recommended technology and the franchisee's own technology initiatives. However, this is changing as more franchisors focus on technology enhancements at the system level.

Can you rank the importance of key decision makers when it comes to brand-wide technology strategies and funding?

(1 - Least Important, 5 - Most Important)

	1	2	3	4	5
Franchisor's technology department	7.7%	11.5%	23.1%	38.5%	19.2%
Franchisor's executive office	7.7%	11.5%	7.7%	23.1%	50.0%
Technology advisory committee	15.4%	19.2%	30.8%	23.1%	11.5%
Marketing advisory committee	19.2%	26.9%	15.4%	19.2%	19.2%
Multi-unit franchisees	11.5%	11.5%	11.5%	30.8%	34.6%
Franchisee advisory board	28.0%	16.0%	20.0%	20.0%	16.0%

Identifying Key Stakeholders and Influencers

It is important to understand the relationship between all the stakeholders involved and their stake in the overall process, which dictates their varying levels of influence. Decisions are not made by a single leader, instead, system-wide technology programs involve the input of many internal stakeholders with varying levels of influence and responsibility over brand-wide technology adoption.

While the franchisor executives often give the final stamp of approval for brand-wide technology strategies, there are numerous parties involved in the process along the way. When franchisors were asked to rank the key decision makers involved in a brand's systemwide technology strategies and funding, the franchisor's executive office ranked highest, followed closely by its technology department. However, in order to execute successful brand-wide technology initiatives, franchisors know that they need the support of their franchisees. Franchisees—represented by marketing/technology committees, franchisee advisory boards, and multi-unit operators—are involved in the technology decision making process of almost all brands.

Franchisees are not the most influential in making technology enrollment decisions, and they may lack overall autonomy when it comes to their own technology adoption. However, in addition to adopting franchisor-mandated technology, franchisees may also sometimes initiate their own technology programs. The manner in which this individual decision is conducted depends in large part on the franchisor-franchisee relationship within each brand and how much control the franchisor asserts over its franchisees' operations. Based on the survey results, over half (65%) of franchisors require their franchisees to spend a minimum amount on technology-related products and services. Further, 93% of responding franchisors require their franchisees to either route all requests through the corporate brand for approval or take a case-by-case approach to approving their technology needs.

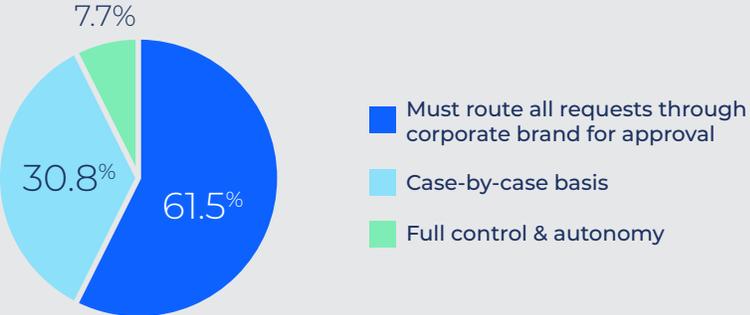
93%

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How do your franchisees determine how much they spend on technology-related products and services?



How much control are your franchisees given in prioritizing their technology needs and allocating technology spending?



Facing fierce competition within the QSR space, adopting advanced technology could help brands better attract consumers because of smooth business operations and better customer engagement, but franchisees cannot deliver consistent customer experiences across their brands with antiquated or disparate network technology. This has led to the need for the creation of technology standards among the franchisor community.

Correlation Between Brand Maturity and Technology Standards

The survey results suggest that mature franchise systems are more likely to have established technology standards and templates for franchisees to follow, while emerging franchise systems may struggle due to a lack of support and budget. For brands that have already been able to create a template for technology standards, in order to make sure franchisees are following these systemwide policies and mandates, technology implementation is typically used as one of the KPIs that franchisors' field support staff examine when conducting ongoing site visits at franchisees' physical businesses for system compliance.

Most franchisees are small business owners who do not necessarily have a technology background or the resources to invest in research and development for major technology innovations. For franchisors to successfully deploy standardized technology solutions or roll out new technology systems, a pilot program at company-owned locations or selected franchisee-owned locations to test efficiency and adequacy is what franchisors typically conduct in the initial phase. Once franchisors are satisfied with expected outcomes, they then share the proven results with the broader franchisee groups and walk them through the value and benefit of adopting the technology for consideration.



Part 2: Current state of technology

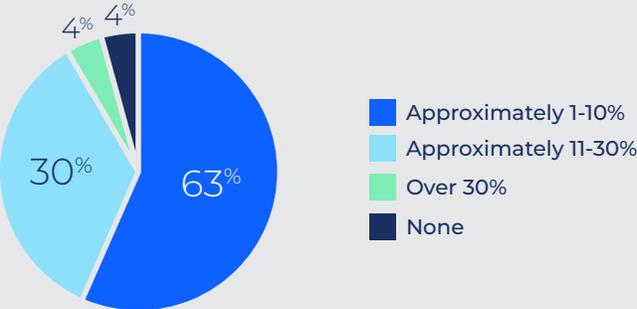
Restaurants have notoriously been behind the technology curve—particularly compared to their retail peers. Prior to the pandemic, gift card processing technology, online and mobile ordering, and in-restaurant music services were the top three most widely used technologies at franchise locations.

Which of the following technologies are available at your franchise locations?

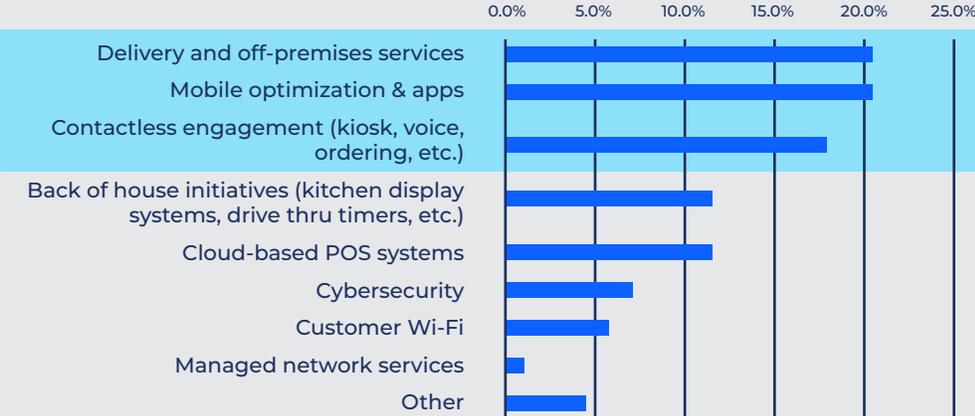


As the world continues to shift to a high-tech, on-the-go society, and the convenience of online ordering is evidently here to stay, the QSR industry has been forced to adapt as well. Based on the survey results, 65.4% of the brands indicated that the COVID-19 pandemic has sped up their focus on implementing more technology and contactless alternatives to their systems. More specifically, most franchisors (63%) expected approximately 1-10% of the overall budget in 2022 to be allocated to technology-related initiatives and improvements, and another 30% of the franchisors expected to spend even more on technology ranging from 11% to 30% of the overall budget, speaking to the importance of adopting technology to drive business growth.

In 2022, what % of your overall budget do you expect allocate to technology-related initiatives?

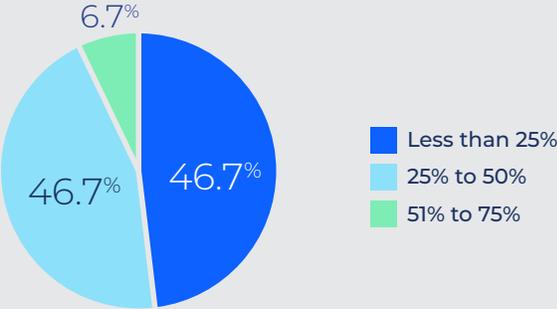


Which types of tech initiatives do you plan in 2022?

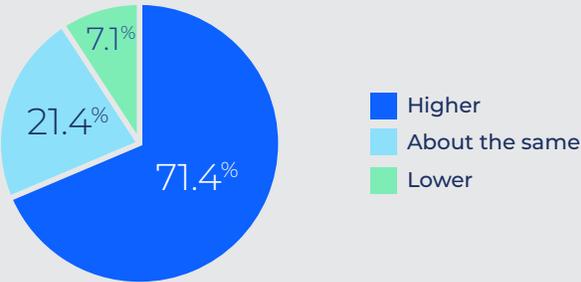


The pandemic heightened restaurant businesses' revenues from delivery and off-premises, which largely helped offset losses from dine-in services. According to the survey, 66.7% of the brands in the QSR industry require their franchisees use online and mobile ordering, popular food platforms for third-party delivery. However, when it comes to selecting vendors to work with, franchisees do not have full autonomy, as 90.9% of the franchisors require their franchisees to seek approval prior to implementation.

Approximately what % of your business is generated through online or mobile orders?



Is the average check size for online or mobile orders higher or lower than dine-in options?

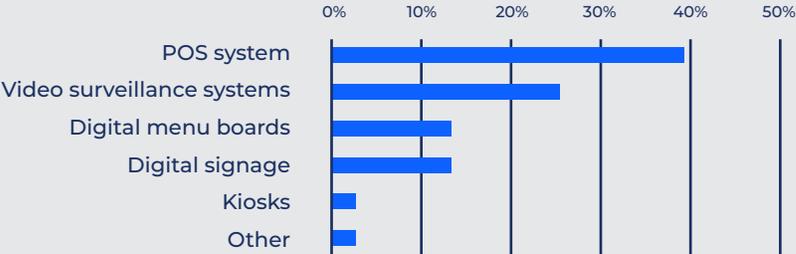


In 2021, almost half of the brands (46.7%) in the QSR space had between 25% to 50% of sales generated through online and mobile orders. In addition, 71.4% of the brands also experienced higher average check sizes through online or mobile orders than from dine-in options, mostly by 10% to 20%.

Front-of-House Technology

POS system is the most adopted front-of-house technology, followed by video surveillance systems and digital menu boards. POS is also the technology that is frequently mandated by the franchisor for franchisees to use, as it is vital to daily operations. The POS system is the center of the business, handling inventory, cash flows, orders, payments, and more. Based on the survey results, franchisees are recommended to use two POS terminals in their store/restaurant. Most respondents said that it takes up to an average of 10 seconds for a transaction in the POS system to process, and only less than 1% of transactions are failed during peak business hours.

Current Implementation - Front-of-House (FOH) Technology



Accelerated by the pandemic, franchisors have transitioned from traditional POS systems to cloud-based POS systems, which allows franchise operators to process customer transactions and manage business operations remotely in real time. This offers flexibility to access business data like inventory and sales reporting and analytics from anywhere with an internet connection, whether from just one location or multiple across different sites. The cloud-based POS system is a key tool for franchises to drive sales growth, control COGS and labor costs, and provide high-quality customer service.

Back-of-House Technology

In order to continue to optimize business operations, franchises have also embraced other third-party applications, such as Restaurant Management Systems (RMS) and Kitchen Display Systems (KDS) that offer additional services. The survey results indicate that franchise systems' internal communication tools, labor management software, and inventory management software are the top three most commonly adopted back of house (BOH) technologies. Therefore, a good cloud-based POS system should also allow third-party integration or API standardization with the goal of forming a centralized online platform. A primary example of third-party integration is a restaurant POS system connected with customer relationship management (CRM), online ordering, mobile reporting, contactless payment, and other mobile tools. When used correctly, this integration can expand the customer base and reach, ultimately increasing franchise businesses' revenues. Integrating POS systems with third parties also reduces user errors and the labor costs associated with managing inefficient systems, and additionally allows franchisees to save on equipment costs and consolidate everything into a one-solution POS.

Current Implementation - Back-of-House (BOH) Technology



Based on the survey results, 83.3% of brands' franchisees have online or mobile order platforms directly connected to POS systems. On average, store employees use between two to three tablets or mobile devices, and 58.3% of the respondents said that tablets and mobile devices are directly connected to the POS system. 70% of the respondents also think that customer frequency/traffic of orders increased due to seamless connectivity between online/mobile ordering platforms and POS systems, which, more specifically, increased by up to 10%.



Data Integration and Analytics Becoming Integral

Franchise operators today have access to a wealth of information about their customers—including behavioral, transactional, and demographic data. This data provides the fuel needed to drive hyper-relevant marketing campaigns. But many franchises store their data in a disjointed way, largely due to legacy software and antiquated IT systems. The inability to integrate disparate customer data sets presents a huge barrier to growth. Gartner research shows that 52% of marketing leaders said that data integration and formatting is one of their most time-consuming activities. Therefore, consumer data platforms (CDPs) are another technology that have been increasingly adopted by franchisors, as CDPs allow franchise operators to consolidate various sources of data into a centralized warehouse that provides a unified, persistent view of the customer.

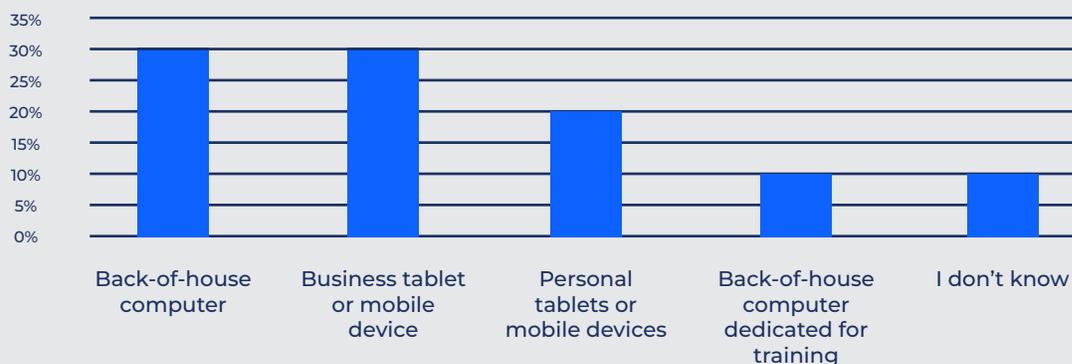
A company might have to integrate across tools that store website data, email data, and purchase data. When done properly, customer data integration is a critical component of the overall data management strategy. It allows for better-informed decisions, improves business intelligence, gives franchise operators a full view of the customer journey, and makes the customer experience even better. Data integration should be a key part of franchises' data governance strategy. CDPs aim to foster long-term loyalty by presenting a holistic view across every single customer touchpoint. CDPs help to bridge the gap between online channels and the in-store experience. Assembling data within a CDP enables companies to build up a comprehensive profile of a single shopper and better understand how an individual customer interacts with the business across multiple channels. Building a consistent, omnichannel view allows brands to deliver a more relevant experience to their customers.

Employee Management/Engagement

Labor shortages are one of the major issues franchisors are facing today, as “The Great Resignation” has led to employees quitting their jobs at historically high rates, resulting in difficulty hiring qualified workers and significant wage increases.

As franchise operators try to manage labor costs effectively and efficiently and maintain a healthy bottom line, many franchises have utilized labor scheduling/management tools to build a sustainable labor model for cost reduction.

How does your restaurant/store staff typically view training videos?



Training and Franchisee Support Platforms

One of the backbones of a strong franchise organization is training and support for franchisees. In order to provide a highly effective online learning and training solution, franchisors have adopted the Learning Management System (LMS), a unified learning platform that allows franchisors to deliver streamlined and integrated learning to franchisees and interact with them. Training has been advanced through live up-to-date videos as franchisors are now able to provide timely guidance to support franchise operations. LMS has also been used to enhance employee engagement. When asked what technologies franchisees rely on for employee engagement, video-based training ranked the highest, followed by live chat platforms and LMS platforms as employees highly value the opportunities to learn new skills. Based on the survey results, restaurant employees typically view training videos using BOH computers and business tablets or mobile devices. 70% of the survey respondents think franchisees' employees are either satisfied or very satisfied with the quality of the training videos.

Network Connectivity

Most technology rollouts from franchisors or parent companies have a direct customer impact. But when it comes to network connectivity, due to liability concerns, the franchisor is usually even more hands-off, with only 32% of the franchisors providing franchisees with minimum network standard requirements, and only 5% providing a specific provider for the services. For brands that are currently offering network services to customers, according to the survey results, 64.7% of the survey respondents indicate that their customers are either satisfied or very satisfied with the connectivity available in restaurants. In terms of Wi-Fi accessibility, most restaurants only have moderate coverage, instead of strong coverage. For brands that have a minimum requirement for network, a majority of them require franchisees to set up minimum download network speeds higher than 150 Mbps, as well as minimum required upload network speeds at 10 Mbps. Most franchisors have not changed network bandwidth requirements since pre-COVID-19 times.

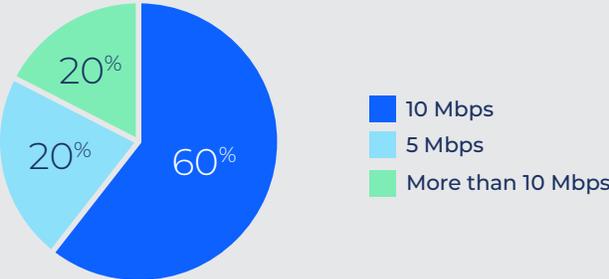
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Minimum Required Download Network Speed



Minimum Required Upload Network Speed

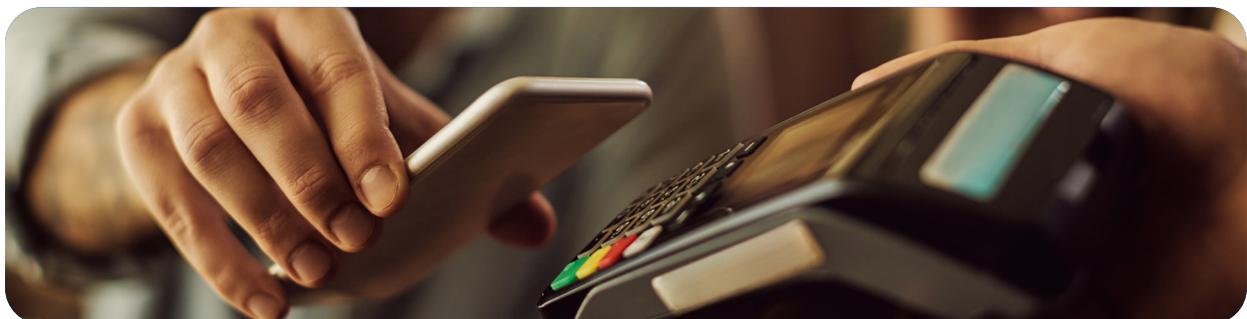


As fewer people chose to dine in at restaurants during the pandemic, offering in-store customer WiFi has become less of a priority for franchised businesses. However, now that companies are adopting more cloud-based technologies (on average, franchisees use two cloud-based applications at any given franchised business), the setup requires that devices constantly remain connected to the internet, so the importance of choosing a stable network provider will become even more essential to ensure smooth business operations without loss of sales and other interruptions. If the connection is unstable, franchisees risk breaks in the service. To limit this, some business operators use two different network technologies such as as Internet and cellular backup or redundant Internet connections—when one

breaks down, the other one can kick in so system connectivity is not lost. Depending on the reliability of the service in the area, franchise operators may benefit from a cloud-based POS.

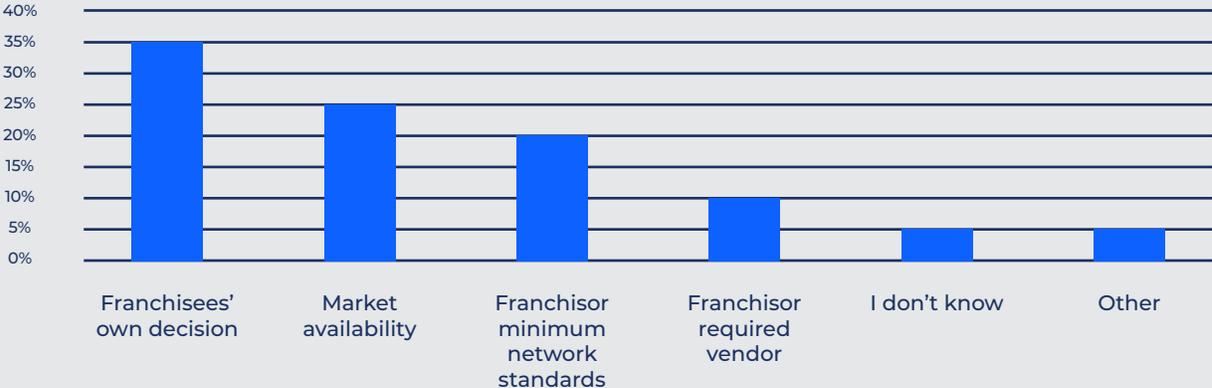
Restaurants are now also receiving large amounts of customer data from different platforms, so implementing systems that can help ensure data and network security, as well as maintain PCI (Payment Card Industry) compliance, is becoming critically important. This has opened possibilities for network providers to not only focus on providing telecommunication services to their customers, but also become managed service providers (MSP) that provide network and network security as a service.

Many smaller companies, like franchises, have limited in-house IT capabilities, so they may view an MSP's service offering as a way to obtain IT expertise. MSP services offered to franchises may include network and infrastructure management, security, and monitoring. More specifically, MSPs handle the management of IT infrastructure; offer real-time monitoring software for different applications, network devices, or servers; offer technical support to staff; remotely troubleshoot technical issues; perform preventative maintenance to stay ahead of possible network issues; integrate networking and cybersecurity; manage user access accounts; offer regularly scheduled network maintenance; and provide data backup management to avert data loss. Hiring an MSP allows franchises to receive centralized network management service on a daily basis so companies can focus on improving customer experience without worrying about extended system downtimes or service interruptions. An MSP is also a potential solution to the labor shortage, as franchise businesses can outsource some of the tasks to MSPs if they lack the appropriate workforce.



When franchisors were asked if they need to approve the network service vendors prior to them working with franchisees, 60% of them responded no, which means franchisors do not typically mandate the use of a particular network service provider to franchisees. Therefore, franchisees' own decisions and market availability have become the two leading factors when determining which network provider to use and the overall connectivity needed for the franchise businesses. Franchisees are typically looking for a network service provider who has a great reputation and large presence in the local market with a broad and reliable service coverage. Presently, Comcast Business is one of the most commonly adopted network service providers by franchisees at their franchised locations, as well as one of the most widely adopted MSPs. Comcast Business' experience serving the restaurant industry has helped owners quickly implement new business models to position themselves for the future and grow their business.

How did you determine your network provider and your overall connectivity needs for your businesses?



Conclusion

The pandemic has expedited the adoption of newer technology in the franchising space, and it has elevated technology solutions to a new, higher level. Franchises have experienced an uptick in sales, coming from those customers who use current technology. As a result, franchisors have started to amplify their growth strategy by incorporating more technology initiatives. To help franchises stay at the cutting edge of what consumers and employees need, and to stand out in front of their competition, it is important for franchisors to use technology as a growth driver and create a technology-inspired franchised business for further expansion.

As franchisees typically lack the technology background or resources to invest in the research and development of major technological innovations, they need help navigating the various service offerings available. Franchisees need a provider that has experience and proven success in the industry. They are reliant on franchisors to deploy standardized technology solutions supported by a roadmap for franchisees to follow. Tech-savvy franchisors provide franchisees with more sophisticated tools to help them implement these essential and welcome changes.



For businesses that have adopted advanced technology, FRANdata has seen improvements in the following areas:

- Increased accuracy, accountability, and efficiency for customer orders
- Faster transactions
- Improved workflow and reduced labor
- Higher sales and average check size with online ordering and delivery
- Accelerated speed of services
- Better experience for consumers and employees
- Broader user access
- More visibility and reliability
- Increased brand loyalty
- Cloud-based POS reporting—allowing franchisees to access data in real-time anywhere
- Better data, reporting, forecasts with COGS and labor management tools



Franchisors have also identified areas of concern and places to further improve for 2022:

- Privacy issues creeping into the ability to target and measure results
- IT required solutions
- Employee/management interaction
- Upgraded training portal
- Data platform consolidation
- Third-party POS integration/API standardization
- Utilizing BOH inventory management to drive better labor models
- Seeking more customer support

There is evidence to show that more franchisors are in the process of integrating technology applications and consolidating data platforms to one managed solution platform to keep everything aligned. **Improving customer experience, operational efficiency, and employee engagement are franchisees' top three priorities**, and franchisees should always be actively exploring and implementing new methodologies that help businesses overcome and thrive despite today's unique adversities.



About FRANdata

FRANdata is the industry leading research and advisory firm offering independent, comprehensive market insight focusing on the franchise ecosystem. Our research combines rigorous analysis with industry expertise and astute forecasting. We focus on delivering unparalleled insights and high-level strategic advice to a global franchise client base. FRANdata is headquartered in Arlington, Va., and is often cited as franchise experts in media publications such as The New York Times, The Wall Street Journal, Forbes Magazine, Entrepreneur Magazine, the Franchise Times, and Franchise Update.

COMCAST BUSINESS

About Comcast Business

Comcast Business powers businesses with innovative technology and a team of dedicated professionals with industry leading expertise. Comcast Business offers a suite of Connectivity, Communications, Cybersecurity, Wireless, and Managed Solutions to help organizations of all sizes prepare for what's next. Powered by the nation's largest Gig-speed broadband network, and backed by 24/7 customer support, Comcast Business is a leading connectivity provider for small and mid-size businesses and a rising leader in the Enterprise market. Comcast Business has been recognized by industry analysts and associations as a leader and innovator, including an American Business Gold Award for Most Innovative Company in 2021.

We understand the franchise model. Comcast Business is a one-stop provider that offers advanced network solutions to help restaurants modernize their technology foundation. Our experience serving the restaurant industry has helped owners quickly implement new business models to position themselves for the future and grow their business.

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