

Restaurants Take the Digital Route: Will it Aid a Recovery?



Zacks Equity Research

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<img alt="Restaurants Take the Digital Route: Will it Aid a Recovery?" class="StretchedBox
Restaurant operators increased focus on mobile ordering to cater to ever-changing wants and needs of time-crunched customers may give the industry a much-needed boost.
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In this digital era, as consumers increasingly look for convenience, technology has begun to play an important role in determining customer experience. This digital wave has hit the U.S. restaurant space too as an increasing number of restaurant chains are deploying technology to enhance guest experience.

In fact, technology at restaurants has become essential — more than ever before — given the

troubles plaguing the U.S. restaurant space over the past few quarters.

Hence, restaurant operators are going all guns blazing, with their online and digital marketing activities, to meet consumers' increasing dependence on and penchant for online and mobile web technology and consequently lure them back.

Age of Mobile Ordering

While smartphone apps attract consumers, video menu boards in quick-service restaurants and tabletop devices speed up sales and ensure convenience. Further, restaurant operators rely on social media for promotions and incorporate Facebook, Twitter, online review sites and blogs aggressively into their marketing mix.

In fact, mobile ordering in particular is fast becoming a crucial part of many restaurants' plans, given what it can bring in enhanced sales. This is because when using a phone to order their food, customers, on an average, tend to spend more and visit more often. Going forward, mobile ordering is thus set to be the core to the customer's experience, rather than just being a point of differentiation.

Notably, pizza giants Domino's Pizza, Inc. DPZ and Papa John's International Inc. PZZA have been the industry bellwethers in the digital ordering space. Both the companies hold a Zacks Rank #2 (Buy). You can see **the complete list of today's Zacks #1 Rank (Strong Buy) stocks here**.

Domino's continues adding to its digital capabilities with the launch of various ordering apps and platforms. The extended ways to order a pizza has thus kept this company in the forefront of digital ordering and customer convenience. Moreover, digital leadership is helping the pizza giant to expand its brand in the domestic market as well as overseas. In fact, at the end of 2016, the company generated over 60% digital sales in the United States.

Papa John's too continues to reinforce its commitment toward providing a better customer experience with enhancements to its digital ordering process. Markedly, the company's mobile ordering applications support category-leading five simple, secure, and mobile-friendly ways to pay online orders without using cash or credit card. In the second quarter of 2017, Papa John's recorded more than 60% online sales mix, of which around 70% was from its mobile channels, and has a long-term target of eventually reaching 80%.

Though few restaurants have managed to come as far along as the pizza chains but still there are many who have advanced their own apps by leaps and bounds to arrest more customers on the go.

It is to be noted that coffee chain giant Starbucks Corporation SBUX has secured a leading position in leveraging its mobile and digital assets and loyalty and e-Commerce platforms to create more revenue streams. In fact, Starbucks' mobile app is undoubtedly one of the most widely used mobile payment app in the United States.

Nearly 30% of all U.S. transactions took place through mobile devices at the end of third-quarter fiscal 2017, up 9% from the year-ago quarter. Currently, this Zacks Rank #4 (Sell) company is introducing many technology innovations to further strengthen its brand, improve efficiency and in-store execution and increase profitability.

Dunkin' Brands Group, Inc. DNKN is also growing in terms of its usage of digital technology. Dunkin' Donuts' mobile ordering service — On-the-Go — is available nationwide exclusively for Dunkin' Donuts DD Perks Rewards Program members. This ordering service gives the company the power to drive customer loyalty and boost efficiency as well as speed of service at its restaurants. Again, in August 2016, Baskin-Robbins' launched a mobile app with a variety of interactive features.

Meanwhile, in order to catch up with established mobile ordering offerings from competitors, burger giant McDonald's Corp. MCD has also begun testing mobile order-and-pay capabilities on its app in the United States. The company is thus set to launch the option in nearly all 14,000 U.S. restaurants and 6,000 others in the UK, Canada, France, Germany, Australia and China by the end of this year.

Both Dunkin' Brands and McDonald's currently carries a Zacks Rank #3 (Hold).

Bottom Line

The restaurant industry's sales trends in recent quarters have been strained given the soft consumer spending environment.

However, often a rising tide lifts all boats in an industry as there can be broad trends taking place in a segment that drive securities across the board. This could happen in the restaurants space as well. Increasing focus of operators on mobile ordering to cater to ever-changing wants and needs of time-crunched customers could lift the industry from its current position at the bottom 14% out of the over 250 Zacks categorized industries.