**Subsector Overview**

**Sector definition**

The restaurant industry is the industry of professional restaurants, bars, and other [food service](http://www.wisegeek.com/what-is-food-service.htm) providers that allow customers to enter, order food, and eat on the premises. (wisegeek) Companies in this industry operate restaurants and other eating places, including full-service restaurants (FSRs), quick-service restaurants (QSRs), cafeterias and buffets, and snack bars. Major companies include Bloomin' Brands, Darden Restaurants, McDonald's, Starbucks, and YUM! (Hoovers)

**Porter 5 Force Analysis**

The threat from existing competitors is high. This is due to the high number of firms, the high aggressiveness of firms and the low switching cost of firms. The high number of firms in the industry makes it really difficult to compete and stay alive because this high number of firms are all competing for the same resources. The high aggressiveness of firms in the industry also causes the threat to be high. Firms market and sell their products aggressively in order to get more customers to them. This makes it very hard to effectively compete in this industry. Finally the low switching cost makes the threat high, as consumers can easily move from one restaurant to the other.

The threat of new entrants is high. This is because there is a low switching cost which means that it could be easy for the new entrants to steal customers from other competitors as consumers are not usually very loyal to one restaurant. Also not a lot of capital is required to enter the industry and that makes it easy for people to open up a small or medium-sized restaurant in the industry. Also, it is relatively easy for staff to acquire the necessary skills needed to do the work which makes it easier for new entrants to enter the market. There are also no legal barriers to entry. Although, it could be hard to compete with existing companies that already have strong brand names such as McDonald’s and this could discourage new entrants from entering the industry.

The threat of substitutes is high. This is so because there are lots of available substitutes such as bakeries and people being able to cook their food at home. Also, the cost of going for this substitutes is low and that means that it is easy for consumers to easily switch and start going for these substitutes. These substitutes are also of very good quality and they can bring about more consumer satisfaction. This makes the threat of the substitute high.

The buyer power is high. This is because there is a low switching cost to move from one restaurant to the other. Also there a lot of firms in the industry which means that there are a lot of available alternatives that the consumers can go to and this makes their power high. Finally, there is a high availability of substitutes and what this means is that it is easy for people to abstain from eating in restaurants because of the other options available and so this makes their power high. Also, the fact that customers are not usually loyal to a firm increases their power.

The supplier power is moderate. This is because there is a large population of suppliers and so it’s easy for firms in this industry to switch to other suppliers. But at the same time, there are no substitutes to the supplier’s product as it could be impossible to replace something like meat with fish, as it depends on consumers taste preferences. Also, not a lot of firms in this industry own the total supply chain which means that they have to rely on these suppliers and hence, increases their power. The suppliers also supply their products to other places such as the bakeries and homes, and this means that they do not have to rely solely on the restaurants. At the same time, it is very possible for restaurants to enter the supplier’s business and can then become their own suppliers. This reduces the supplier power. But then, the suppliers can also enter the restaurant industry easily due to the low barriers to entry. Therefore, it will be safe to conclude that the supplier power is moderate.

**Trends in the industry**

Some of the trends in the industry includes healthy eating, and digital advances.

Healthy eating

A huge trend in the restaurant industry are an increasing number of people diverting to the restaurant industry. A lot of people are more conscious of their health and the food that they eat. This makes restaurant in the industry to offer more health conscious meals in order to still bring people in the restaurant. Restaurants increasingly making their menus more health conscious is of positive value in the industry as more people would like to get their food in the restaurant.

Digital advances

The digital advances continue to arrive fast and furious, and consumers expect all of their contacts, including restaurants, to be more technology friendly. Whether it’s ordering via kiosks or through proliferating order-and-pay applications on your smartphone, the idea is to provide speedy service without hassles. An example is a San-Francisco restaurant that allows customers to order via touch-screen kiosks; the orders appear in a cubbyhole on a wall with the customer’s name on it. There is also the delivery revolution which ties the same order-and-pay apps with restaurant or third-party delivery services. All of this digital advancement is expected to be of positive value in the restaurant industry.

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| Stock Prices | 2012 | 2013 | 2014 | 2015 | 2016 |
| S&P | 298.41 | 325.75 | 450.50 | 493.95 | 466.33 |