



By Brad Swanson, Managing Director and Sector Head, Consumer & Retail, KeyBanc Capital Markets®

In food and fashion, baby boomers have dominated American culture throughout their lives—but no more. The reign of Boomers is ending, particularly for the restaurant business, where millennials are now the big spenders. In the restaurant business, this generational shift is having a profound effect on restaurant strategies, resulting in new market leaders for many new and existing concepts—and in some cases, which restaurant brands thrive or even survive.

### Trophy customers

Based on a 2015 KeyBanc Capital Markets research report, Boomers currently represent only approximately 20% of the “peak spending/earning” population, while millennials are moving into their peak earning years, accounting for roughly 26% of the peak spending population by 2020. Although Generation X is the largest peak-earning generation today, restaurateurs are more focused on the larger group of millennials expected to overtake Gen Xers in just a few years.

In addition to their large numbers, millennials tend to dine out more frequently than previous generations, and have notably different criteria when it comes to restaurant choice. They assign less value to traditional restaurant attributes than previous generations, and have developed their own criteria, such as a preference for menu customization and more digital engagement. For example, specific feedback from Yelp on restaurant experience from peers, friends or anonymous on a concept or location; specific messaging about the food experience from the restaurant itself; or digital messaging from the concepts themselves on Facebook or Twitter. Several restaurant concepts have already emerged to meet these changing demands, including brands that emphasize authenticity, “clean label” menus, and more convenient service/delivery models such as take-out or mobile ordering.

### Key Takeaways



Millennials will account for 26% of the peak spending population by 2020.



Established brands have invested significant capital into infrastructure to drive millennial engagement.



Investors are avoiding established chains catering to baby boomers that may be in danger of becoming too complacent.



We believe this millennial wave will lead to significant market share shifts within the restaurant industry during the next decade, providing investors with many exciting growth opportunities.

**Chris O’Cull, Director, Equity Research Analyst, KeyBanc Capital Markets**

## Capital markets demand a makeover

The generational shift in consumer spending is also evident in the capital markets as chains with millennial appeal have entered the public markets in recent years, and private equity sources have acquired emerging concepts, providing capital, expertise, and oversight to support entrepreneurs. In addition, existing established brands have invested significant capital into infrastructure to drive millennial engagement—e.g., Domino’s cites 50% of its employees in the IT department, compared to a handful a decade ago.

At the same time, some investors are avoiding established chains that may be in danger of becoming too complacent. Despite weak traffic trends, established chains have been able to appease investors with share repurchases funded by low-interest debt, selling company-owned stores to franchisees, aggressive cost-cutting, and aggressive discounting on the menu (2 for \$20, buy-one-get-one, etc.).

Those strategies may conceal a weakening brand for a while, but chains that cater to baby boomers will need to re-invent themselves or change their business model to maximize cash flow distribution. Several publicly-held, well-known chains are in a critical phase of their life cycle that will end with either concept renewal for a second wave of growth or continued maturity into irrelevance with consumers that will require business model changes.

“We believe this millennial wave will lead to significant market share shifts within the restaurant industry during the next decade, providing investors with many exciting growth opportunities. We expect several large restaurant chains to be share donors to these emerging concepts as they have not reinvested in their restaurants to improve their appeal with this younger generation,” said Chris O’Cull, Director, Equity Research Analyst with KeyBanc Capital Markets.

Both investors and restaurant groups considering their market positioning and branding will benefit from having a client-oriented financial advisor with strong insight and experience in the restaurant sector and the broader capital markets on their team.

At KeyBanc Capital Markets, we help companies lead in an ever-changing marketplace. We are an integrated source for capital markets industry expertise, providing customized solutions from debt and equity offerings to strategic advisory and M&A. Our teams specialize in the convergence of the consumer and technology industries, including restaurants, retail, and the technology investment banking companies.

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