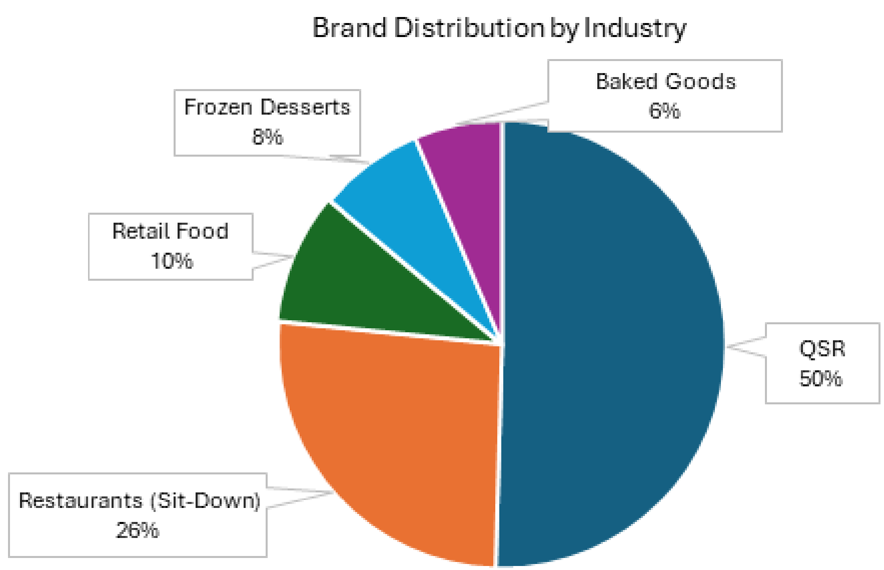
The Evolving Restaurant and Beverage Industry: Innovation, Growth, and Emerging Challenges

Industry Overview

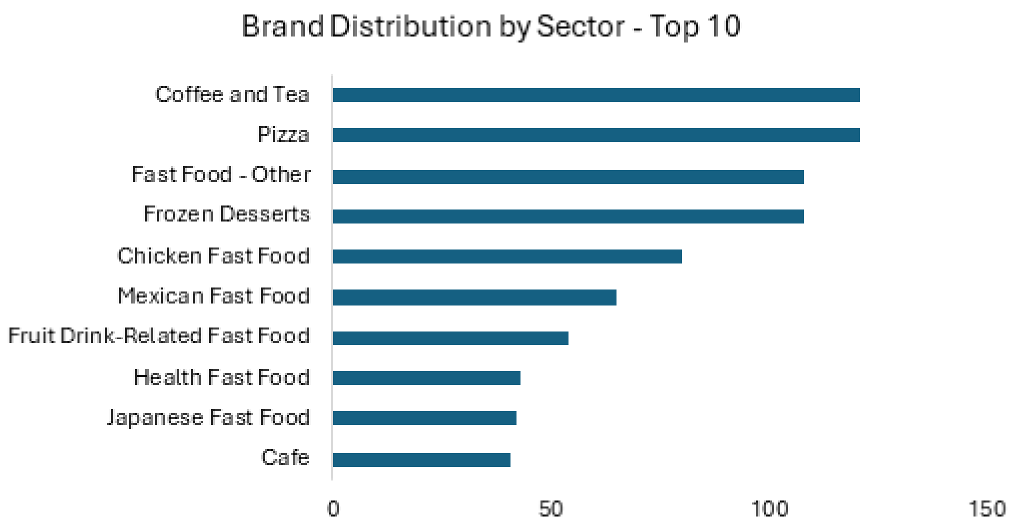
The restaurant and beverage industry is one of the largest and most diverse sectors in franchising, accounting for 36.1% of all franchise brands across a broad range of foodservice categories. It includes quick-service restaurants (QSRs), full-service restaurants, beverage-focused concepts, and food retail businesses that reflect evolving consumer preferences. QSRs represent 50.5% of all restaurant and beverage franchise brands, followed by sit-down restaurants at 26.1%, highlighting continued demand for casual and family dining. Other key segments including retail food (9.5%), frozen desserts (7.6%), and baked goods (6.3%) demonstrate the industry's adaptability and role as a major driver of consumer spending and local economic activity.

Source: FRANdata



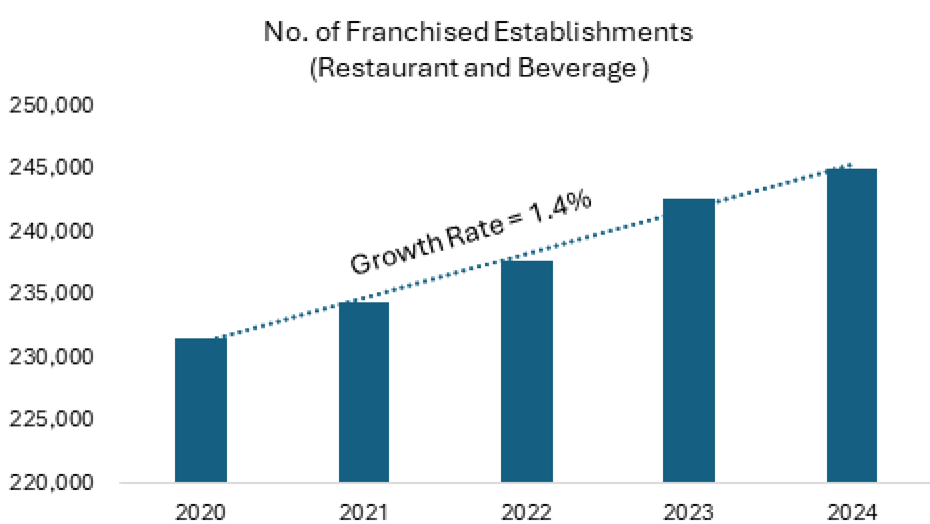
When examining the leading subsectors, coffee & tea and pizza franchises tie for the top position, each representing 8.5% of all restaurant and beverage franchise brands. They are followed by fast food – other concepts (7.6%) and frozen desserts (7.6%), then chicken fast food (5.6%) and Mexican fast food (4.6%). Additional emerging categories include fruit drink-related fast food (3.8%), health fast food (3.0%), Japanese fast food (3.0%), and cafés (2.9%). The "fast food – other" category encompasses a broad range of specialty and regional quick service concepts offering diverse cuisines and menu formats, including Mediterranean, Hawaiian, poke, rice bowl, mac and cheese focused offerings, etc.

Source: FRANdata



Franchise Expansion Trends

The total number of franchised establishments in the restaurant and beverage industry rose steadily from 231,469 to 245,027 units, representing a compound annual growth rate (CAGR) of 1.4%. Annual growth ranged between 1.0% and 2.1%, indicating steady, moderate expansion.



Source: FRANdata

During this period, major brands maintained consistent development activity. Among 22 leading franchised brands, each averaging more than 100 new units opened per year. Key contributors included Subway, Dunkin', Jersey Mike's, Chick-fil-A, Domino's Pizza, Wing-Stop, and Taco Bell, all supporting strong growth pipelines. The sustained pace of new openings underscores continued franchise investment momentum despite broader economic challenges.

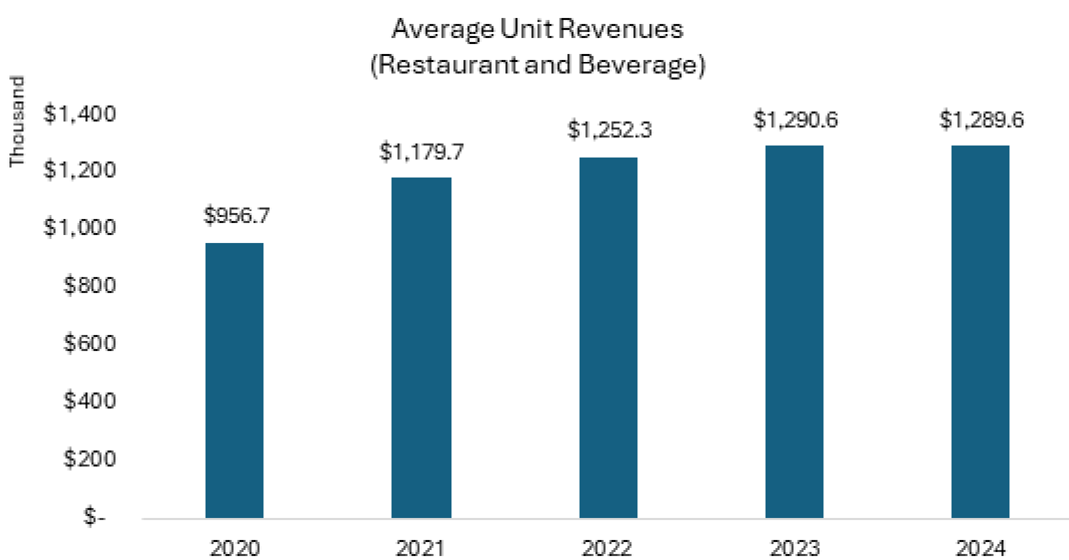
Performance across Key Sectors

Average unit revenues for franchised locations in the restaurant and beverage industry have shown steady growth in recent years, rising from $956,653 in 2020 to $1,289,625 in 2024, representing a compound annual growth rate (CAGR) of 7.8%.

Among the major categories, frozen desserts posted the highest growth with a CAGR of 10.1%, followed by sit-down restaurants at 9.8%. Their success was supported by the return of dine-in traffic, menu diversification, and greater consumer demand for elevated casual dining experiences. Retail food and baked goods expanded to 7.1% and 6.5%, respectively, as brands focused on hybrid retail and on-the-go models to maintain consistent sales. Quick-service restaurants (QSRs), the largest category by number of brands, grew at a 6.1% CAGR.

Within individual sectors, several brands demonstrated outstanding growth. Jersey Mike's, representing the Sub Shops segment within QSR, achieved a 9.7% CAGR in average unit revenue from 2020 to 2024. Wingstop, a leading brand in the Chicken Fast Food segment of QSR, also reported a 9.7% CAGR during the same period, supported by sustained consumer demand for convenient, high-quality quick-service options. Paris Baguette, part of the Café segment, reported a 16.9% CAGR in average unit revenue.

Source: FRANdata



Key Trends in the Restaurant and Beverage Segment in 2025

- **Health-Conscious and Personalized Dining:** Consumers are increasingly seeking healthier and more personalized dining options. According to a recent Toast survey, more than 53% of restaurant patrons actively seek establishments that offer healthier menu choices. Over 55% of customers say that nutritional value and ingredient quality affect their dining decisions, with growing interest in high-protein and low-carb meals. Franchise brands are responding by expanding customizable menus and using AI-driven analytics to tailor loyalty programs and promotions. For example, Smashburger's redesigned customer rewards system leverages AI and machine learning to analyze guest behavior, segment customers by purchase patterns, and deliver personalized offers such as targeted menu recommendations or exclusive rewards based on individual preferences and visit frequency. This data-driven personalization has helped the brand increase customer engagement and loyalty while driving incremental sales growth.

- **Delivery Expansion and Platform Integration:** Franchise restaurant brands are increasingly integrating third-party delivery platforms into their operations as at-home dining continues to grow. About 70% of restaurants now rely entirely on third-party apps such as Uber Eats or DoorDash, while 69% of consumers say they prefer delivery over dining in. For franchise systems, this trend supports broader market access, lower front-of-house costs, and more flexible expansion through off-premises models.
- **Experiential and Interactive Dining:** Younger consumers, especially those from Gen Z and Millennial groups, are showing strong interest in restaurants that offer interactive and memorable experiences. According to OpenTable, reservations for experiential dining increased by 27% year over year, and 42% of diners plan to choose experience-focused restaurants in 2025. Reports from Yelp also show rising demand for restaurants that combine atmosphere, storytelling, and entertainment with dining. For franchise brands, this trend has encouraged the development of themed concepts, immersive pop-up events, and on-site experiences that attract social-media-active customers and strengthen brand engagement.

Emerging Trends Shaping the Industry in 2026

The 2026 restaurant and beverage outlook highlights ongoing innovation in operating models, technology, and consumer engagement.

- **Cloud Kitchens**

Cloud kitchens, or delivery-only facilities, are becoming a preferred expansion model for franchise brands. They allow operators to serve delivery and takeout orders without the cost of dine-in spaces, lowering overhead and accelerating market entry. A single kitchen can host multiple virtual brands, improving flexibility and efficiency.

Several franchise brands are testing or expanding through this model to capture growing off-premises demand. Brands such as Marco's Pizza have partnered with CloudKitchens to open delivery-only facilities in multiple U.S. markets, allowing franchisees to serve customers without the cost of dine-in operations. The model is expected to play an increasingly important role in franchise expansion strategies through 2026 as consumer preference for at-home dining continues to rise.

- **Artificial Intelligence and Automation**

Artificial intelligence is transforming restaurant operations as brands use technology to improve efficiency and control costs. AI-based forecasting systems now analyze sales data, weather, and local events to optimize inventory and labor planning. A 2024 Popmenu study found that 79% of U.S.

restaurant operators have implemented or are considering AI for order taking, food preparation, marketing, and back-office functions.

Several major franchise brands have already moved beyond pilot programs. Wendy's partnered with Google Cloud to launch FreshAI, a drive-thru voice assistant that reduced average order times by 22 seconds and reached 99% accuracy in testing. Domino's is collaborating with Microsoft Azure OpenAI Service to enhance store operations and delivery systems, while McDonald's and Taco Bell are using AI to improve maintenance, workflow, and drive-thru ordering. Generative AI is also emerging as a tool for menu development, customer personalization, and marketing.

- **Restaurant Robotics**

Robotic technology is emerging as a practical solution for restaurant operators facing persistent labor shortages and rising wage pressures. Automation is being adopted across both kitchen and front-of-house environments to enhance speed, consistency, and operational efficiency.

Franchise brands are actively piloting robotics to improve productivity and address workforce challenges. Jack in the Box partnered with Miso Robotics to use the Flippy 2 system for automated frying, while Buffalo Wild Wings applied a similar platform for chicken wings, reporting efficiency gains of up to 20%. Chili's Grill & Bar adopted Bear Robotics' Servi robot to deliver food and clear tables, and Pizza Hut and Domino's Pizza are testing robots for service and delivery in select markets.

Conclusions and Projections

The restaurant and beverage industry continues to evolve through innovation, consumer preference shifts, and technological integration. Franchise systems are adapting to rising food and labor costs by adopting automation, robotics, and AI-driven solutions to improve efficiency and maintain profitability. Growth in off-premise dining, health-oriented menus, and immersive dining concepts will continue shaping brand strategies through 2026. However, challenges such as staffing shortages, supply chain volatility, and increasing competition from digital-first and cloud kitchen models will pressure operators to remain agile. Brands that balance technology adoption with customer experience and menu innovation will be best positioned for long-term success in this dynamic market.