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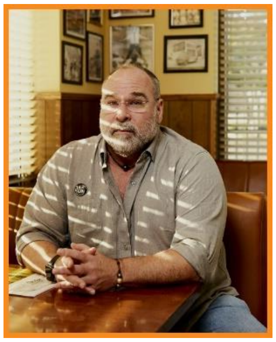
McDonald's, Chipotle and Domino's Are Booming During Coronavirus While Your Neighborhood Restaurant Struggles…*Big, well-capitalized Franchise chains are thriving while small independents struggle to keep their kitchens open.* **(WSJ Editorialization, Oct. 10, 2020)**



Robert St. John owns multiple restaurants and bars in Hattiesburg, Miss. He had to close two of them during the pandemic.

The coronavirus pandemic is splitting the restaurant industry in two. Big, well capitalized chains like Chipotle Mexican Grill Inc. and Domino's Pizza Inc. are gaining customers and adding stores while tens of thousands of local eateries go bust.

Larger operators generally have the advantages of more capital, more leverage on lease terms, more physical space, more geographic flexibility and prior expertise with drive-throughs, carryout and delivery. A similarly uneven recovery is unfolding across the business world as big firms have tended to fare far better during the pandemic than small rivals, thinning the ranks of entrepreneurs who could eventually become major U.S. employers.

Chains like Walmart Inc. and Target Corp. are posting strong sales while many small shops struggle to stay open.

Tabbassum Mumtaz operates 400 KFCs, Long John Silvers, Pizza Huts and Taco Bells in nine states. Most of his restaurants are thriving.

The divide between large and small restaurants surfaced in the summer. Chipotle more than tripled its online business sales in the second quarter.
Domino's, Papa John's International Inc. and Wingstop Inc. all reported double-digit same-store sales increases in the third quarter compared with the year-earlier period. McDonald's also said U.S. same-store sales rose 4.6% in the third quarter. That included a rise in the low double digits during September, its best monthly performance in nearly a decade. It credited faster drive-throughs and promotions.

Many other big restaurant companies took additional steps to take advantage of the shift to takeout. Brinker International Inc.'s Chili's division pushed up the summer debut of a delivery-only brand, Just Wings, that it expects to generate more than $150 million in sales in its first year.

"The silver lining in this pandemic is we are going to emerge stronger," said Bernard Acoca , chief executive of El Pollo Loco Holdings Inc., a chain of 475 Tex-Mex restaurants across the Southwest. El Pollo has opened three restaurants in 2020 and aims to add more in years ahead, he said.

By way of contrast: Frequent closings have always been a facet of the non-franchised restaurant business that typically run on slim margins. Some 60,000 open in an average year, according to the National Restaurant Association, and 50,000 close.

Covid-19 may be changing the experience of grabbing fast food. Restaurants are planning changes to their locations to make dining feel safer and more convenient.

Some of the possible changes at fast food restaurants:
1. Elevated dining rooms to reduce the building's footprint.
2. Fewer Servers where drivers park and scan a QR code when they arrive. An employee brings their order.
3. Digital menus, easier to read and update, making ordering faster.
4. Less on-premises dining; fewer people indoors.
5. Multi-lane drive-through lanes that speed up ordering. A third lane could be used for delivery drivers or mobile pickup.
6. Walk-up windows where orders are placed without entering.
7. Mobile ordering: Meals purchased on the mobile app direct customers to a designated parking place to pick up their order.
8. More outdoor dining, and;
9. Solar panels to generate electricity to help lower costs now being employed by Burger King, Shake Shack and Taco Bell.

Many other chains say now is a time to get more aggressive. Olive Garden's parent, Darden Restaurants Inc., is looking into expanding in urban areas including Manhattan where rents were previously too expensive to justify growth. Plenty of space is opening up: 87% of 450 restaurant bars, and clubs in New York said in a recent survey that they couldn't pay their full rent for August, according to the NYC Hospitality Alliance.

Starbucks, while closing some locations, plans to spend $1.5 billion during its current fiscal year partly to add 800 stores in its American and Chinese markets, speeding a shift to restaurants that emphasize drive-throughs and pick-up counters. Darden plans to spend $300 million by mid-next year, a chunk of it to add 40 new restaurants. Papa John's franchisee HB Restaurant Group LLC plans to open dozens of shops and Wingstop said it added 43 restaurants in the quarter ended in September.

"There is no better time than now to get bold," Wyman Roberts, Brinker's chief executive, said in an interview.

Joyce Hill, a 52-year-old professor at the University of Akron in Ohio, said she has been ordering more from Cracker Barrel Old Country Store Inc. and Bloomin' Brands Inc.'s Bonefish Grill and Carrabba's Italian Grill divisions. She said she intends to stick with chains because it is easier and she doesn't feel safe eating inside restaurants.

"With a few clicks, I can order a whole meal, pay for it, and not have to leave my car to pick it up," said Ms. Hill. She said she recently stopped by a local Mexican restaurant for shrimp tacos after not visiting for months. It was closed.

One restaurateur benefiting from this shift is Tabbassum Mumtaz, the operator of 400 KFC, Long John Silver's, Pizza Hut and Taco Bell restaurants in nine states. Things didn't look good at first. He shut all of his dining rooms after the pandemic intensified in the spring, and his sales, typically about $500 million a year, fell by an average of 25%.

But he said he shifted many of his 10,000 employees to cleaning and staffing drive-throughs—which he said became the core of his business.

Sales at Mr. Mumtaz's restaurants initially fell by an average of 25% but he caught breaks on payments owed, rent and bank terms.

"Everyone was of one rhythm," said Mr. Mumtaz, owner of Richardson, Texas-based restaurant operator Ampex Brands LLC. His cash balance improved around April after parent company Yum Brands Inc. deferred the 5% royalty payments he owed for several months. Yum introduced promotions for bigger family deals, such as $30 buckets of KFC chicken, to help boost sales as customer counts remained low and,,,started drawing new customers, including those who used to frequent nearby independent restaurants and bars that still remained closed. Mr. Mumtaz said that his Pizza Hut same-store sales were up 18% over last year by the summer, and that business at KFC, Taco Bell and Long John Silver's also rebounded. He has since paid back some of his deferred royalties.

Turmoil among independent restaurants is cascading down to a swath of suppliers, including many seafood companies and small farmers that mainly serve diners rather than supermarket customers. Every 100 restaurant jobs support 50 more at suppliers such as wholesalers and farmers, according to the left-leaning Economic Policy Institute.

Kate McClendon, co-owner of McClendon's Select organic farms in Arizona, said 95% of her restaurant orders vanished when the state shut down dine-in service in March. Independent farms rely on independent restaurants. Big chains don't buy from local farms," Ms. McClendon said.

Many independent restaurants are suffering partly because they tend to have smaller physical footprints, especially in higher-cost big cities. Camilla Marcus closed West-bourne cafe in Manhattan's SoHo neighborhood in September after her landlord declined to offer a break on her rent. "With just one location, there are just no levers to pull," said Ms. Marcus.

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