

# FutureNow. The Fast Food Industry

FutureNow is an independent body that provides industry informed advice to influence skills development strategies across the creative and leisure sectors. Our work assists Western Australia to be prepared with the new order skills required by the evolving economy and our changing society.

## The Sector in Australia

Australia's fast food (also known as quick service) sector experienced growth in 2023/2024, cementing its critical role in the nation's dining landscape. Fast food businesses in Australia expanded by 2.9% in 2023, bringing the total number of outlets to 30,151. This growth highlights the industry's significant contribution, with revenue steadily increasing at an average annual rate of 2.1% over the past five years, reaching \$23.2 billion by 2022-23. Iconic brands such as McDonald's, Hungry Jack's, and KFC anchor this sector.<sup>1</sup>

Consumer demand is a key driver of this expansion. With a population of 26.6 million, Australia supports one fast food outlet for every 880 people. This density indicates robust consumer demand and the necessity for widespread outlets to serve a dispersed population effectively. Leading brands like McDonald's are strategically expanding to ensure most Australians are within a five-minute drive of an outlet.<sup>2</sup>

Consumer health awareness has transformed the fast food and takeaway food services industry over the past five years. Australians increasingly consume food away from the home and spend nearly a third of their household food budget on eating out. Increased awareness of the nutritional content of fast food and a conscious effort by consumers to choose healthier options have affected industry demand. Industry operators have responded by introducing a range of healthier, premium choices with less fat, sugar and salt. The policies and actions of fast food outlets can have a substantial impact on population diets.<sup>3</sup>

## Major Players

McDonald's will have over 1,000 stores across Australia by 2027 with 23.2% market share of fast food revenue in Australia. KFC has nearly 800 stores in Australia with plans to add new stores including new store formats, such as drive thru only, which can fit on smaller footprint sites. Hungry Jack's has 450 outlets throughout Australia and aims to open 700 stores nationally. Red Rooster, established in 1972 in Kelmscott, Western Australia has over 360 stores nationwide with 40% revenue growth since 2019. Domino's Pizza has 5% of market share.<sup>4</sup>

## Growing Brands in Western Australia

In June 2024, Guzman y Gomez achieved the most significant ASX float in three years, rapidly reaching a market valuation exceeding \$3 billion. Shares closed 36% above the initial IPO price. The Mexican chain has grown to over 185 stores and plans to open 1000 stores in 20 years.<sup>5</sup>

Taco Bell opened its first store in Australia in 2017 with 39 stores located across Australia, with four stores in Perth. US burger chain Wendy's has announced plans to roll out 200 stores across Australia, including Western Australia by 2034. The company, whose major competitors are McDonald's and Burger King, has about 7000 outlets across the world.<sup>6</sup>

Changes in consumer preferences have also prompted an influx of new players offering higher quality fast food options. In particular, the number of salad & juice bars, and sushi stores has increased over the last five years, contributing to a rise in industry enterprises.

## The sector's current challenges

### Foot Traffic

Remote working and online learning trends have shrunk the demand for fast food products from passing foot traffic, a major source of revenue for fast food outlets. However, the increased uptake of online delivery platforms has offset dine-in sales declines.

### Environmental impact of Waste

McDonald's, Hungry Jacks and KFC at some Melbourne outlets were fined in August 2024 by the EPA (Environmental Protection Agency) for allowing cooking oil and waste liquids to escape to storm drains rather than disposing of the waste in collection tanks. The EPA is also raising the issue of litter management due to wrappers and drink containers are not being properly disposed of. All three fast food franchise chains have reportedly taken steps such as retraining staff, to improve compliance.<sup>7</sup>

### Inventory Control

Due to the increasingly complex issue of supply chain management in Australia, fast food retailers require tight stock-control systems and practices to minimise operating costs, avoid waste and keep produce fresh in the long run.

### Competition from External Sources.

Supermarkets have expanded their range of home-cooked meal replacements and heat-and-serve products such as pastas and prepared meals. These retailers have emerged as one-stop shops that provide consumers with fast, affordable and high-quality food. Many of these products are substitutes for traditional fast food. There has been an increase in the variety and types of these ready meals, with supermarkets launching their own-brand alternatives to established offerings from brands like Youfoodz. Many also cater to specific diets like high protein, low carbohydrate or vegetarian.

The ready meal market in Australia has grown at an average of 3.3 per cent a year over the past decade, while researchers found a 13 per cent increase in the number of "heat and eat" meals available in supermarkets. Unlike meal kits, which require chopping and cooking of delivered ingredients, ready meals are pre-cooked and just need to be reheated before serving - sometimes with the addition of pasta or rice to be prepared on the side.<sup>8</sup>

Restaurants and cafes are set to capture a growing share of the quality-conscious consumer market. Cafes continue to target the lunchtime market with a selection of healthy and convenient meal options as consumers view sandwiches and wraps made in cafes as higher quality than fast food products, even if they are sold at similar prices. Restaurants will continue expanding their takeaway options to maximise sales. Convenience stores are also expanding their fast food options like pre-made sandwiches, salads and baked goods, targeting commuters seeking on-the-go meals.

The rising popularity of healthy meal plan delivery services like HelloFresh, Lite n' Easy and YouFoodz represents a growing source of competition for fast food, as consumers can easily opt for these calorie-controlled meals. Fast food chains continually review the quality of their menu items to differentiate themselves from the competition and appeal to consumers.<sup>9</sup>

### Cost of Living Impact

Collins Foods, the KFC fast food chain operator is expecting lower profit margins for the first half of 2024 as higher living costs dampen demand for fried chicken. While total sales rose 1.1 per cent in the first 16 weeks of the new financial year, the company announced that the profit gains on higher sales were more than offset by the impact of persistent inflation on the cost of sales, labour and energy.

Collins Foods operates 279 of the 750 KFCs in Australia, and 27 Taco Bells, including all four in WA. Sales at the Mexican-inspired fast-food outlet are now flat after a small rise earlier in the financial year.

In August 2024, McDonald's chief executive Chris Kempczinski said lower-income consumers were "dropping out of the market, eating at home, finding other ways to economise". The move to eating at home benefits supermarket sales.<sup>10</sup>

Carl's Jr burger chain planned to enter the Australian market by opening 200 stores by 2031 with a Perth store opening mid 2024 in Butler, however, they have now placed its Australian stores into voluntary administration, affecting 24 stores. The appointment of administrators excludes the 25 restaurants independently owned and operated by third party sub-licensees. After positioning itself as a higher-end burger fast-food restaurant with prices more expensive than that of its competitors, it couldn't predict the downturn in spending on take-out food amid the rising cost-of-living crisis.<sup>11</sup>

## Emerging Industry Developments

### Location and Format Innovations

As land becomes scarcer and competition heightens, fast food chains must innovate. KFC has led the way with their drive-thru-only formats in metro locations. These smaller footprint stores, typically under 1000 sqm, have allowed the brand to flourish in high-demand areas while optimising operational costs.

### Technological Enhancements

Technology continues to be a basis for industry evolution. Most outlets now offer sophisticated online and in-store ordering systems. The integration of AI and machine learning into these platforms personalises customer interactions and streamlines operations further. As smartphone apps become more prevalent, their influence on customer habits is intensifying, making way for emerging technologies like augmented reality to enrich the customer experience.

### Delivery Apps.

The reliance on online delivery platforms continues to strengthen. This use is forecast to increase demand for fast food but also weigh on profit margins because of the high commission's online delivery platforms charge. In Australia, more than 7 million people use food delivery services. The typical users are 25–34-year-olds in capital cities. According to online audience size, the top 10 delivered brands are McDonald's, Uber Eats, KFC, Domino's, Hungry Jacks, DoorDash, Menulog, Hello Fresh, Pizza Hut and Grill'd.<sup>12</sup>

The positive impacts of these platforms are limited by their high commission fees, with some operators charging up to 35% of the order value. Despite high commissions retailers are forecast to continue using these platforms because of their popularity and concerns about falling behind competitors, limiting profit growth. Some businesses have explored developing their in-house delivery capabilities to reduce reliance on third-party platforms.<sup>13</sup>

Online food delivery platforms are primarily operated by large, multinational technology companies. Powerful companies have faced criticism for their influence over the food system, the marketing of unhealthy food, and the treatment of gig economy workers. Research has shown that the food available and promoted through Australian online food delivery platforms is mostly unhealthy, and more unhealthy food is available in areas of socioeconomic disadvantage.<sup>14</sup>

### Drone Delivery

In July this year, Wing (owned by Google's parent company, Alphabet), a drone delivery company started operating in Melbourne. Some 250,000 residents in parts of the city's eastern suburbs can now order food from cafes and restaurants via the DoorDash app and have it brought to them in minutes by a small aircraft. This is the first large-scale rollout of autonomous food delivery in Australia. Analysts believe that if drone food delivery becomes widespread, it is likely to further concentrate power in the hands of a few online food delivery companies and the big tech firms operating the drone services. Efforts by large companies to sway political decision-making in favour of commercial interests are increasing, and the growing concentration in the food industry has led to companies prioritising profits over the health of their customers.

Beyond greater convenience, autonomous delivery has been hailed as an eco-friendly alternative to traditional

methods, as a small electric quadcopter produces significantly less carbon emissions than a delivery van. One study found the environmental footprint of drone delivery is roughly one-sixth that of motorbike delivery.<sup>15</sup>

## Healthier Options

The health awareness of Australian consumers owing to public campaigns discouraging unhealthy lifestyles and rising obesity rates is transforming the fast food industry. Heightened awareness of the nutritional content of fast food and a conscious effort by consumers to choose healthier options have influenced demand. Fast food brands have responded by introducing a range of healthier, premium choices with less fat, sugar and salt. Changes in consumer preferences have also prompted an influx of new players offering higher quality fast food options. For example, the number of salad and juice bars and sushi stores is increasing.<sup>16</sup>

There is pressure to implement kilojoule labelling on menu boards across all states/territories, and to develop standardised interpretive nutrition labelling (e.g., using health stars or colour-coding) for menu boards and implementing policies on marketing to children that effectively restrict the exposure of children and adolescents to the promotion of 'less healthy' products and brands.<sup>17</sup> The average 'combination deal' (usually consisting of a main, side and drink) contains more than half the average daily recommended energy intake for an Australian adult, with some combination deals providing nearly 90% of recommended daily kilojoules.<sup>18</sup>

There continues to be a shift to include 'healthy' menu items at most fast food outlets. This is not merely a response to consumer demand but a strategic move to capture the premium market segment. Evolving consumer trends are changing the product mix for fast food and takeaway food services. Fast food stores are offering more premium and healthy options to capitalise on these trends. Major player Domino's Pizza has already expanded its range of meat alternatives, including plant-based Hawaiian, ham and cheese and pepperoni pizzas. Following the COVID boom, people had money to spend and were looking for novelty, plant-based options fast food options. Since then, however, both Beyond Meat and Impossible Foods, two of the leading global vegan meat companies, have been chasing price parity with meat, but, by some estimations, the cost of production is likely to remain higher than meat for up to nearly two decades. Beyond and Impossible have each had to lay off up to a quarter of their staff as people turned back to their usual eating habits.

Plant-based options in fast food restaurants are not typically targeted at vegan and vegetarian customers. This may sound counterintuitive, but there simply isn't a viable market yet to cater exclusively to those categories of consumers. According to Choice, just 2% of the population is vegan, and 5% is vegetarian. Rather, vegan meat items are aimed at so-called 'flexitarians' and those who are otherwise trying to cut down their meat consumption.<sup>19</sup>

## Premium Products

Australia's food culture is changing significantly, forcing fast food businesses to emphasise premium meals and quality ingredients. The shift towards quality eating, combined with a growing foodie culture, has boosted the number of smaller fast food retailers, such as Grill'd, differentiating themselves on quality. More gourmet options are emerging, along with new food options that were earlier considered restaurant meals. Consumers have become very discerning about their food choices, with many turning away from traditional fast food and towards more gourmet options. Demand for gourmet burgers has outpaced the demand for traditional fast food burgers. The expanding range of restaurant takeaway options has also added to revenue volatility.<sup>20</sup>

## Single Use Plastics Ban

Stage 2 of the West Australian Plan for Plastics came into effect on 27 February 2023 with enforcement commencing 1 September 2024. Stage 2 includes, coffee cups and lids, lids for cups, bowls, trays, plates and takeaway food containers and trays for food not covered in the Stage 1 ban.<sup>22</sup>

## Sustainability

Sustainability has become a critical factor in the fast food industry's operational strategy. There has been an increase in initiatives aimed at reducing carbon footprints, to comply with global standards and enhance brand loyalty among environmentally conscious consumers.<sup>21</sup>

## Employment and Training initiatives and Industrial Relations updates

For many individuals, working in a multinational fast food franchise represents their initial experience with employment. In Western Australia, children aged 13 and 14 can work at a fast food outlet provided they have written parental permission. Additionally, their work must occur outside of school hours, with shifts starting no earlier than 6:00 am and ending no later than 10:00 pm.<sup>23</sup>

Fast food service workers have the benefit of frequent, direct, face-to-face interactions with customers. They learn important job skills such as how to provide excellent customer service, ensure employee-customer interactions are friendly, and problem-solve customer complaints. These skills are beneficial in almost any industry and are easily transferable should a fast food worker choose to pursue another career path. The workers also develop strong interpersonal skills such as effective communication strategies, listening skills and organisational skills. Some fast food workers advance from local restaurant positions to roles such as supervisors and managers and may eventually transition to corporate head office roles.

## Gig Workers

The second tranche of the federal government's Closing Loopholes legislation introduces new powers for the Fair Work Commission to set minimum standards for gig economy workers, including rideshare and food delivery drivers. Those workers – who have long held low bargaining power and often receive pay at or below the rates of comparable employees — will now be considered "employee-like" if they meet certain criteria.<sup>24</sup> Under the changes, gig workers can apply to the Fair Work Commission for orders for minimum standards, including on pay, penalty rates, superannuation, payment terms, record-keeping and insurance.<sup>25</sup>

## Unions

There are 3 union bodies active in the fast food sector. The Shop, Distributive & Allied Employees Association, (SDA) was the original union for this sector. The Retail and Fast Food Workers Union (RAFFWU) was established in December 2016 as a response to increased dissatisfaction with the existing SDA.<sup>26</sup> The United Workers Union represent hospitality workers such as those working at Grill'd.

## Adjustment to Minimum Wage and Superannuation

Many fast food workers are paid minimum wage rates. From 1 July 2024, the minimum wage increased by 3.75%.<sup>27</sup>

## Skills Training Programs

### Traineeships

KFC, Hungry Jacks and McDonald's all offer their employees the opportunity to work towards the SIR20216 (Certificate II in Retail Services) and the SIR30216 (Certificate III in Retail Services) which are 12 month traineeships and can be offered on a part time basis and as a school based traineeship via enterprise training. Industry reports that employees who choose to undertake a traineeship stay with the company longer and often progress to management with the company.

Burger chain Grill'd, requires all their employees to undertake SIT30622 (Certificate III in Hospitality). The employees are classified as trainees while undertaking the Certificate III, so are paid less per hour than non-trainees until they have completed their training.<sup>28</sup>

## We would like to hear from you

FutureNow is continually seeking input from stakeholders in the Western Australian Events sector. If you are interested in providing further information about the workforce in this sector, please get in touch with the Industry Development Manager:

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