Earning(s) the Consumer's Trust

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Key Takeaways

- The U.S. consumer's outlook is varied, with some companies like McDonald's and Starbucks experiencing slowing sales, while others like Chipotle, Domino's Pizza and Taco Bell show resilience.
- Understanding the dynamics of the U.S. consumer is crucial for analyzing the overall health of the U.S. economy.
- Pricing strategies play a significant role in consumer behavior, with companies like Domino's and Taco Bell maintaining their value-oriented propositions, while McDonald's is just now normalizing its pricing equation.

Sometimes, earnings season provides clarity to the economic outlook. Sometimes, it does not. This earnings season is a bit of both. A confused and confusing U.S. consumer is one of the more obvious topics of conversation. And it is a story of *back to normal* with a side dispersion in execution.

To say the corporate commentaries about the U.S. consumer and its outlook have been rather varied would be an understatement. There is a little bit of everything for everyone. Want to see a slowing of the U.S. consumer? Look at McDonald's and Starbucks. Looking for resilience? Chipotle, Domino's Pizza and Taco Bell.

Understanding the dynamics of the U.S. consumer is probably the single most important part of analyzing the U.S. economy. If the consumer is fine, the U.S. economy is fine.

McDonald's Earnings Conference Call

customer satisfaction scores. As I reflect on the first quarter of the year, it is clear that broad-based consumer pressures persist around the world. Consumers continue to be even more discriminating with every dollar that they spend as they faced elevated prices in their day-to-day spending, which is putting pressure on the QSR industry.

couple of years in the U.S., I think, has certainly created that environment. And while it may feel it may be more pronounced with the lower income consumer, I think it's important to recognize that all income cohorts are seeking value. And so our focus is on making sure, as I said, that we're offering strong value to our customers. And that's going to have benefits, not just to low income, that will have benefits to middle and upper income as well.

Source: McDonald's.

Starbucks Earnings Conference Call

Laxman Narasimhan

Thank you, Tiffany, and thank you all for joining us this afternoon.

Let me be clear from the beginning. Our performance this quarter was disappointing and did not meet our expectations. Our Q2 total company revenue was $8.6 billion, down 1% year-over-year. Our global comparable store sales declined 4% year-over-year, driven by a negative 3% comp growth in North America, led by declining traffic and a negative 11% comp growth in China. Our global operating

Source: Starbucks.

If these were the only two data points, it would be reasonable to assume the consumer was in trouble. But these are not the only two data points. Both Starbucks and McDonald's raised prices significantly, and consumers are finding other places to spend. There is no shortage of places to get a cup of coffee. McDonald's is not known for its elegant, elevated burger experience. It is highly questionable whether this is a consumer spending issue or something less sinister to the economy and more company-specific.

Yum! Brands Earnings Conference Call

David W. Gibbs

Yes. Thanks, Dennis. I think we referred to this somewhere but I'll -- just for completeness, so in Q1, obviously we had a lot of impact by the weather during the quarter. Our business generally improved sequentially during the quarter. Taco Bell, as you know, is 75% of our U.S. operating profit. Taco Bell improved throughout the quarter. And into Q2, we are seeing an acceleration of same-store sales growth trends. So we're feeling good about how Taco Bell is positioned. Remember, they just launched the Cantina Chicken menu at the end of Q1. So we're excited to share the results of that. But suffice to say, it's been well received by consumers.

Source: Yum! Brands.

Domino's Earnings Conference Call

U.S. retail sales increased 7.8% and international retail sales, excluding the impact of foreign currency, grew 6.8%. During Q1, same-store sales for the U.S. saw a meaningful increase of 5.6%. Our strong

Sandeep Reddy

Yes. And I just want to add 1 thing on this because -- I talked about in the prepared remarks and Russell refer it on smart pricing. The interesting about smart pricing is we took a lot of spot pricing in '22 when the market was highly inflationary. The smart pricing in '23 was almost taking no pricing. And that's really what actually drove that that value differential that is now really showing up. The number of questions we got right through '23 on, do you have pricing power? Why are you not taking pricing because everybody else is taking pricing, but we were really focused on 2 things. One is making sure customer value was maintained; two, making sure that the flow through from a franchisee perspective had been restored and that happened after the '22 pricing that we took. And so we just get on the straight and narrow and we were really teeing up for what's ended up happening in Q4 and Q1.

Source: Domino's.

Chipotle Earnings Conference Call

Results for the three months ended March 31, 2024:

Total revenue in the first quarter was $2.7 billion, an increase of 14.1% compared to the first quarter of 2023. The increase in total revenue was driven by new restaurant openings and a 7.0% increase in comparable restaurant sales due to higher transactions of 5.4% and a 1.6% increase in average check. Digital sales represented 36.5% of total food and beverage revenue.

Source: Chipotle.

To be clear, the picture is never perfect—and when coffee and burgers are struggling, eyebrows should be raised. But in the battle between burgers and burritos, burritos are winning. Pricing? Not much. Traffic? Plenty. Given the commentary from McDonald's, this is a touch surprising. In the past, Taco Bell and McDonald's have had similar "value propositions." McDonald's sounded rather downbeat on the consumer. Yum! Brands talked about accelerating comparable sales. Confused yet? Domino's called out better sales results due—in part—to being an early mover on price. And that is important. The consumer has been more price-sensitive over the past few quarters. If you did not get your pricing in early, you might not be able to get it in at all.

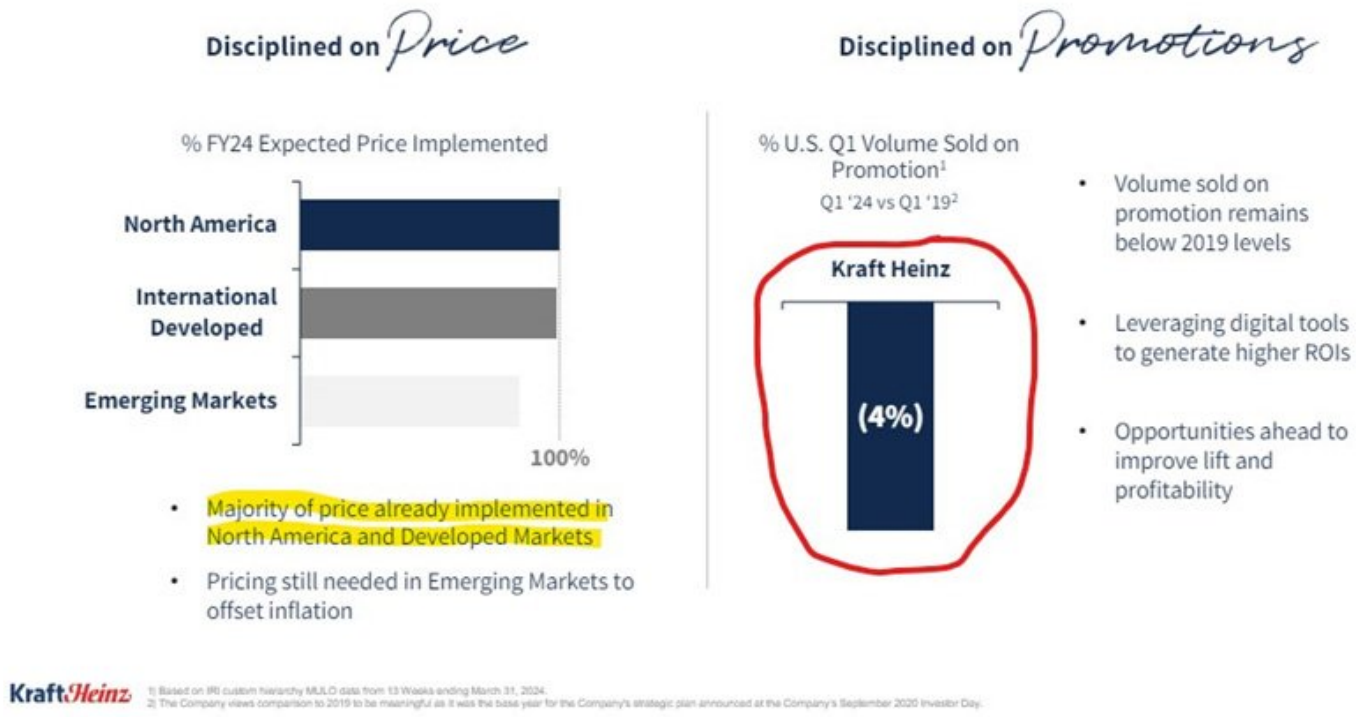
McDonald's Earnings Conference Call

Christopher J. Kempczinski

Sure. Well, let me start with -- I think it's important to recognize that if you look at margins in the U.S. today, restaurant-level margins for franchisees, versus where we were in 2019. We've just now rebuilt franchise restaurant level margins back to where we were in 2019. So the pricing that's been taken over the last several years with all taken as a means off-set what we were seeing around quite high labor inflation and quite high commodity and food and paper inflation. So restaurant margins are now back to where we are -- where we were again in 2019 in the U.S., which then says to me that we do have the ability to be thinking about what we do from a value proposition going forward.

Source: McDonald's.

Kraft Heinz Earnings Presentation



Source: The Kraft Heinz Company.

Coca-Cola Earnings Conference Call

As it relates to pricing, of the 7 points in the first quarter, approximately 2 of those are mix or timing related, the rest is pricing, and we expect that to moderate as the year goes on. And we expect to see 2024 be in a much more normal year in terms of price. In other words, it's largely going to be as it was pre-COVID. So we're expecting to see 2024 end up with a much more balanced growth equation over the rest of the year.

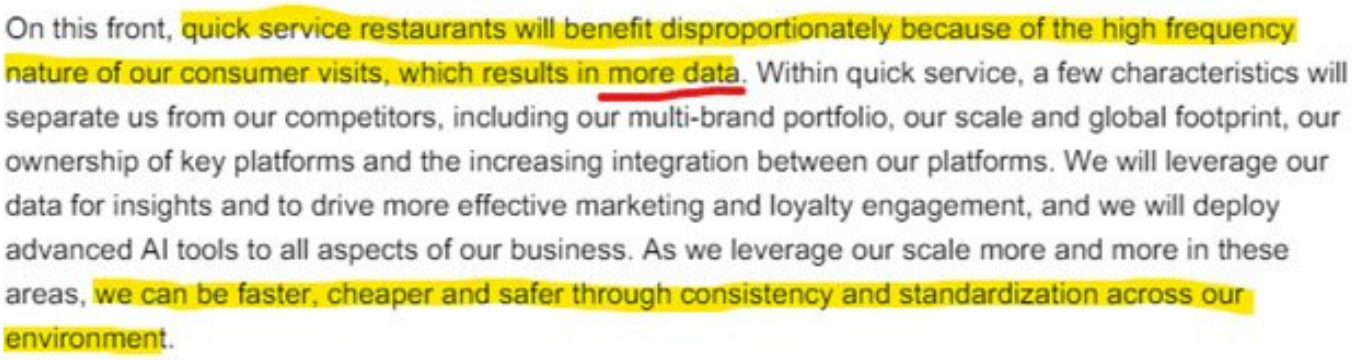
Our updated 2024 guidance reflects the underlying momentum of our business, and we now expect organic revenue growth of 8% to 9%, and comparable currency-neutral earnings per share growth of 11% to 13%. Our revised top line guidance is solely driven by higher-than-expected inflationary pricing in a handful of markets, which we expect to moderate throughout the year.

Source: The Coca-Cola Company

It is the pricing side of the equation that is notable. Domino's and Taco Bell talked about maintaining their value-oriented propositions. Meanwhile, that is only now entering the formula for McDonald's. After getting the margins back to normal, normalizing the pricing equation is now entering into the "go-forward" mentality. That is a primary differential between the winners and the losers this earnings season. Those that took their price early and were early to moderate are winning.

From Coca-Cola to Kraft Heinz, the pricing side of the revenue equation is fading. Kraft already has its anticipated pricing in the system *for the year*. Coca-Cola made it clear that the bump in pricing was only due to a handful of countries with hyperinflation, and the remainder will fade. Simply, price was your friend. Now, the relationship is getting rocky.

Yum! Brands Earnings Conference Call



On this front, quick service restaurants will benefit disproportionately because of the high frequency nature of our consumer visits, which results in more data. Within quick service, a few characteristics will separate us from our competitors, including our multi-brand portfolio, our scale and global footprint, our ownership of key platforms and the increasing integration between our platforms. We will leverage our data for insights and to drive more effective marketing and loyalty engagement, and we will deploy advanced AI tools to all aspects of our business. As we leverage our scale more and more in these areas, we can be faster, cheaper and safer through consistency and standardization across our environment.

Source: Yum! Brands.

Starbucks Earnings Conference Call



customers in more personalized ways. This includes the installation of digital menu boards across the footprint of all our company stores in the U.S. and China. And we're making additional investments in our Deep Brew AI and machine learning platforms to further digitize and fine-tune how we operate our stores while delivering an improved digital customer experience and more personalized customer offers. Offers that are timely and relevant and flexible to location, inventory availability and weather. These investments, including a new revenue management system are foundational to successful execution.

Source: Starbucks.

Almost as a throwaway, Yum! said the quiet thing out loud. AI is all about the data, and the more data, the better. There is a tremendous amount of ink spilled about which chips are the best and the tech exposures and winners. But there are other winners, too. Those with the data to improve their business models are going to be beneficiaries. Not to mention, the dynamic pricing of a latte will be fun to see.

Never ignore the totality of earnings. There is always much to learn. But sometimes, it takes a bit of digging.