Is Fast Food Dying?

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Summary

Fast food giants McDonald's and Subway are suffering.

Unit growth of fast casual restaurants is far outpacing fast food's.

Fast food, value, service, and more is changing significantly.

The recent performance of the largest quick-serve restaurant companies makes it seem like fast food is dying.

McDonald's (NYSE:MCD) continues to lose customers despite having resurrected the Hamburglar character and announced all-day breakfast and plans to stop selling chicken raised with antibiotics. In July the company reported a 2% same stores sales decrease in the U.S., its seventh straight quarter of declines, and a 10% overall sales decline. Profit declined 13% to $1.2 billion, down from $1.39 billion a year earlier.

Subway's U.S. sales declined 3.3% in 2014 from the previous year, the worst among the big fast-food chains. Its average annual sales per store fell to $475,000 from $490,000 in 2013. This year's results are unlikely to brighten, given that the chain's longstanding spokesperson, Jared Fogle, pleaded guilty to child pornography charges, and its co-founder, CEO, and central leader Fred DeLuca passed away after battling leukemia.

Even chains that are doing well seem to be growing away from their fast food roots. Taco Bell (owned by Yum! Brands (NYSE:YUM)) recently opened a "Taco Bell Cantina" in Chicago's Wicker Park neighborhood. The new concept serves beer, wine, or sangria and offers the option to add rum, vodka, or tequila to any of its frozen or fountain beverages, and it features exhibition kitchens, tapas-style menu items, and free Wi-Fi. Even though the company shuttered its first fast-casual restaurant test, U.S. Taco, it says it may open other similar units.

And Starbucks (NASDAQ:SBUX), which has never really fit into the "fast food" mold, is now the third-largest quick-serve restaurant and turning in the most impressive results of the category. Its 2015 third quarter global comparable store sales increased 7%, driven by a 4% increase in traffic and revenue hit a quarterly record of $4.9 billion.

Technomic, an industry research firm, reports that the unit growth of fast casual restaurants is far outpacing that of quick service -- 9.2% vs. 1.5%. So it might seem like fast food's popularity is waning.

But U.S. fast food restaurant sales remain well over $200 billion and, at that level, even the 1%-2% annual increases projected for the next few years are not to be ignored. The fast food category remains a vital segment of the restaurant industry and of the economy in general. So, fast food isn't going anywhere -- but it is changing significantly.

The food at fast food restaurants is changing. McDonald's aforementioned move to use antibiotic-free chicken is only one of several developments from it and other chains to improve the healthfulness and quality of its products. Chick-fil-A has pledged to be 100% antibiotic-free by 2019, and Carl's Jr. has introduced "natural burgers" made with grass-fed, free-range beef raised without added hormones, antibiotics or steroids. McDonald's also announced it would use eggs from only cage-free hens and offer milk from cows not treated with the artificial growth hormone rBST, and it's testing breakfast bowls and salads that include kale.

The fast food price-driven offerings are also changing. Dollar menus may become a feature of the past. Both

McDonald's and Wendy's (NASDAQ:WEN) have been testing new value platforms -- the former offering "mini-meals" (comprised of a new double-patty sandwich, fries, and a drink) for $3-$4, and the latter seeing success with "premium promotions," such as its $1.99 Ghost Pepper Fries. Jack In the Box (NASDAQ:JACK) doesn't even have a value menu. Snack-sized offerings such as Sonic's (NASDAQ:SONC) "Lil Doggies" and "Lil Chickies," small hot dogs and chicken sandwiches priced around $2, are becoming the norm.

Even service at fast food chains might soon look different. Perhaps quick serves will be manned by happier, higher-quality employees, given the hike in minimum wages for fast food workers that more and more local and state governments are mandating. And the many tests of delivery service being bowed by the likes of McDonald's, Burger King (NYSE:QSR), and Taco Bell suggest that the fast food customer experience could be becoming more convenient.

Fast food as we've known it may be dying, but it's getting better -- for customers, investors, employees, and the economy in general -- and that's a good thing.