

CHAPTER 3

INDUSTRY ANALYSIS

Environmental Changes and Their Impact on the Foodservice Industry

In this chapter, an investigation is made regarding the forces driving change in consumer food preferences and the emerging trends in food consumption patterns, and how these changes have influenced the foodservice industry.

3.1. Overview

During the past two decades, there have been significant changes in U.S. food consumption patterns. The per capita consumption of some foods has increased, while the consumption of others has declined. Consumers are purchasing less beverage milks, eggs, pork, and beef, whereas consuming larger quantities of poultry and fish, fruits, and vegetables. The most significant trend in food consumption behavior has been the shift away from animal products, including the dairy products of milk, eggs, cheese, etc. In the particular case of meats, per capita consumption of red meats declined substantially from 1980 to 1996. American consumers are increasingly demanding healthier and more convenient products. For example, consumers are increasing their consumption of fruits, fresh vegetables, cereals and other crop products (see Table 3.1).

These changing consumption patterns might be driven by many factors. First, the purchasing decisions of consumers are the end result of complex interactions among economic, sociocultural, and psychological factors. For example, some of the previous studies view the change in food demand as a response to variations in the demographic and socioeconomic composition (Pollack & Wales, 1981; Smallwood, Blaylock, & Blisard, 1992). In these studies, researchers focus on the sex, education, age, and income level as important indicators. In addition, some researchers use not only the income and demographic effects, but also the price effects on patterns of consumer expenditures (Kokoski, 1986; Lee, 1990; Falconi, 1991).

Second, the change of food preference can be affected by different factors. In this regard, lifestyle and noneconomic factors may play an important role in the consumption patterns of many other food products. One of the important factors is the consumer health concern over blood cholesterol level and saturated fat intake. According to Chavas (1983), consumer concern regarding fat and cholesterol might have produced an important shift in meat preferences. Also Wohlgenant (1986) attempted to explain the cause of the consumption change explicitly. He found that one-third of the unexplained decrease in the demand for beef and pork and one-half of the unexplained increase in the demand for poultry are due to quality changes in the respective products.

Potential changes in food demand is an important issue because such changes may require corresponding changes in marketing and production strategies for the foodservice industry. Therefore, it is essential to distinguish between changes in consumption due to variations in economic and sociodemographic factors (i.e., prices and income variation) and the variations associated with changes in consumer preferences. The former require strategies related to the price side, while the latter require the development of professional systems and new product innovations.

In this study, an investigation is made regarding the forces driving change in consumer food preferences and the emerging trends in food consumption patterns, and finally how these changes have influenced the Quick Service segment of the foodservice industry. Furthermore, this study will focus only on the U.S. market, as was done by researchers such as Alston and Chalfant (1988, 1991, and 1992), Swofford and Whitney (1986 and 1988), Lee (1990), and Jensen and Bevins (1991).

3.2. Changes in Eating Habits

3.2.1. Food consumption changes between 1980 and 1996

Food consumption patterns in the United States have changed dramatically in the last two decades. Empirical results show that food preference changes have been a significant factor in explaining both declining beef and pork consumption, and increasing poultry consumption per capita (Chavas, 1983; Wohlgenant, 1986, Alston & Chalfant, 1988, 1991, 1992; Putnam & Allshouse, 1998).

These consumption changes are attributed to consumer health concerns over fat and cholesterol intake, and also reflect a demand for convenience food. It is estimated that consumer per capita consumption of beef has decreased by twenty-four percent over the last three decades, and that of poultry has increased by sixty-five percent. This trend continues (Putnam & Allshouse, 1998; U.S. Bureau of Census, 1999).

Table 3.1

Per Capita Food Consumption Changes

BY SEGMENT		DIFFERENCE BETWEEN 1980 AND 1996			BY INDIVIDUAL PRODUCT		DIFFERENCE BETWEEN 1980 AND 1996		
	Unit #	1980	1996	Percent		Unit #	1980	1996	Percent
Decrease					Decrease				
Coffee	<i>Gallons</i>	27	22	-18.5%	Whole milk	<i>Gallons</i>	16.5	8.4	-49.1%
Eggs	<i>Number</i>	271	236	-12.9	Shell eggs	<i>Number</i>	236	174	-26.3
Beverage milk²	<i>Gallons</i>	27.6	24.3	-12.0	Table spreads	<i>Pounds</i>	15.8	13.4	-15.2
					Pork	"	52.1	46.0	-11.7
					Beef	"	72.1	64.2	-11.0
					Potatoes	"	51	49	-3.9
Increase					Increase				
Bottled water	<i>Gallons</i>	2.4	12.4	416.7	Fat-free milk (skim)	<i>Gallons</i>	1.3	3.9	200.0
Cheese³	<i>Pounds</i>	17.5	27.7	58.3	Diet drink	<i>Gallons</i>	5.1	11.7	129.4
Carbonated soft drinks	<i>Gallons</i>	35.1	51.9	47.9	Rice	<i>Pounds</i>	9	19	111.1
Flour and cereals⁷	<i>Pounds</i>	145	198	36.6	Turkey	<i>Pounds</i>	8.1	14.6	80.2
Vegetables⁵	<i>Pounds</i>	336	412	22.6	Processed eggs	<i>Number</i>	35	62	77.1
Fruit juice	<i>Gallons</i>	7.2	8.7	20.8	Corn products	<i>Pounds</i>	13	23	76.9
Added fats and oils⁴	<i>Pounds</i>	57.2	64.9	13.5	Frozen Potatoes	"	35	60	71.4
Fruits^{5,6}	"	258	283	9.7	Chicken	"	32.7	49.8	52.3
Total meat¹	"	179.6	191	6.3	Light milk (1% & 0.5%)	<i>Gallons</i>	1.8	2.6	44.4
					Regular drink (nondiet)	<i>Gallons</i>	29.9	40.2	34.4
					Wheat flour	<i>Pounds</i>	117	148	26.5
					Reduced fat milk (2%)	<i>Gallons</i>	6.3	8.0	27.0
					Salad and cooking oils	<i>Pounds</i>	21.2	26.0	22.6
					Shortening	"	18.2	22.2	22.0
					Lard and beef tallow	"	3.7	4.5	21.6
					Fish	"	12.4	14.7	18.5
					Tomatoes for canning	"	64	74	15.6

Notes: Data are per person per year. Based on direct and indirect intake by customers. ¹Boneless weight. Includes lamb, mutton, and veal. ²Includes flavored milk and buttermilk. ³Excludes full-skim American, cottage, pot, and baker's cheese. ⁴Total fat content. Individual items shown on a product-weight basis. ⁵Farm weight. ⁶Includes fruit juice. ⁷ Includes oat, barley, and rye products. Sources: USDA's Economic Research Service (1999)

Table 3.1 shows the annual per capita consumption patterns for 1980 and 1996. The consumption patterns of meat products (beef, pork and poultry) have changed steadily over the last seventeen years. Within those meat products, the important trend is

the growing consumer preference for poultry rather than red meat. Chicken and turkey consumption has increased rapidly; total consumption has increased 52 percent and 80 percent from 1980 to 1996, respectively, compared to the total consumption of meat products, which has increased slightly from 179.6 pounds per capita to 191, which is a 6.3 percent increase. On the other hand, the consumption of beef and pork has decreased by 11 percent, along with a 19 percent increase in fish consumption.

For annual per capita consumption of dairy products, cheese consumption has increased from 17.5 pounds to nearly 27.7 pounds, which is a 53.8 percent increase, while beverage milk consumption has decreased from 27.6 to 24.3 gallons. In the subgroups of beverage milk, reduced fat, light, and skim milk consumption has increased by 27, 44.4, and 200 percent, respectively, while whole milk consumption declined by 49.1 percent. Now consumers buy more low fat and skim milk than whole milk. It is clear that consumers have been substituting one product for another in the case of subgroups of meat and dairy products. Other drinking products, such as coffee, decreased from 27 to 22 gallons, but carbonated soft drinks consumption increased from 35.1 to 51.9 gallons, and the biggest increase was for bottled water, from 2.4 to 12.4 gallons per capita, which is a 416.7 percent increase.

Since 1980, the annual per capita use of fresh potatoes decreased from 51 to less than 49 pounds in 1998, which is almost a 4 percent decrease, while per capita consumption of frozen potatoes (mostly as french fries) increased from 35 pounds to over 60 pounds. The increase in consumption of frozen potatoes may be linked with the increase in the consumption of added fats and oils. Consumption of added fats and oils increased from 57.2 pounds to 64.9, which is a 13.5% increase. It seems that most of the fats and oils' consumption increase is caused by food away from home, based on frequent restaurant visits, and also is caused by customer menu selection habits and a fat and oil-added cooking style. Other than frozen potatoes, the consumption of fruits and fresh vegetables also increased by 10 percent and 20 percent, respectively.

The process of changing consumer preferences should be seen as a continuous process, since consumers are adjusting their preferences gradually over time rather than at a particular time period. Since the estimated preference changes for several commodities were non-zeros and show a continuous direction (negative for beef,

beverage milk, and eggs; and positive for poultry, cheese, and diet products), it might be said that a shift of preferences away from high fat and cholesterol and in favor of a demand for healthy food has occurred in general, including at-home food preferences.

The United States Surgeon General issued a report in 1988 providing strong evidence that diets high in total fat and low in fiber are positively related to high rates of major chronic diseases (The Surgeon General's Report, 1988). Given the scientific evidence, it was recommended that a major priority for dietary change in the U.S. population should be a reduction in total fat intake and an increase in the consumption of fruits, vegetables and whole grain products. Table 3.1 shows positive consumption patterns based on recommendations in the Surgeon General's report.

Taste elasticity is increasing, showing that consumers are more responsive to taste changes. This is because health information is more readily available, consumers are more health conscious, and the demand for convenience increases as more married women are working.

3.3. Economic Change

3.3.1. Disposable income and food expenditure

One of the factors influencing consumer demand is the increase in consumers' income. Income has been shown to be an important indicator in studies of consumption patterns. For example, low-income individuals usually exhibit less healthy dietary patterns such as lower fruit and vegetable consumption (Kushi, 1988).

During the past twenty years, personal disposable income has greatly increased, mainly as a result of sociocultural changes, which include small households, an increase in the dual-income family, and more single parent households. These types of households probably spend less time preparing meals than do traditional, single-earner families. In other words, today's consumers spend less time in the kitchen and are increasingly shopping for conveniently prepared food products that fit faster-paced lifestyles (Lin & Frazao, 1997; Price, 1998).

Disposable personal income has increased to 4,978.4 billion dollars in 1998 from 1,639.8 billion dollars in 1980, which represents an increase over 18 years (see Table 3.2). According to a report by the USDA's Economic Research Service (ERS), a total of 15.4 percent of disposable personal income was spent on food in 1980, including 10.4 percent for food at home, and 4.9 percent for food away from home. In 1998, a total of 12.8 percent of disposable personal income was spent on food, including 7.6 percent for food at home, and 5.2 percent for food away from home.

Table 3.2

Food Expenditures by Families and Individuals as a Share of Disposable Personal Money Income

Year	Disposable Income	Expenditures for food					
		Billion dollars	At home	Away from home	Total		
1980	1,639.8	10.4 %	\$ 170.8	4.9 %	\$ 81.1	15.4 %	\$ 251.9
1998	4,978.4	7.6 %	\$ 375.0	5.2 %	\$ 259.0	12.8 %	\$ 635.0

	Food expenditures at 1988 prices		
	Food at home	Food away from home	Total
	Million 1988 dollars		
1980	\$ 242,511	\$ 175,461	\$ 417,972
1998	\$ 283,994	\$ 267,942	\$ 551,937

Source: Clauson (1999)

The total percentage expenditures for food have decreased. However, in real dollar amounts, food expenditures have increased from 417,972 million dollars in 1980 to 551,937 million dollars when converted to 1988 prices. The increase in food expenditures results mainly from food away from home, and roughly half of the dollars spent for food goes for food consumed away from home.

Table 3.3

Total Expenditures on Food Away from Home

Segments	Year	1980	1998	Percentage Difference
	Expenditures in Million			
Eating and drinking places		75,883 (63.1 %)	238,483 (67.3 %)	314 %
Hotels and motels		5,906 (4.9 %)	17,364 (4.9 %)	294 %
Retail stores, direct selling		8,158 (6.8 %)	25,319 (7.1 %)	310 %
Recreational places		3,040 (2.5 %)	14,085 (4 %)	463 %
Schools and colleges		11,115 (9.2 %)	24,891 (7 %)	224 %
All other		16,194 (13.5 %)	34,212 (9.7 %)	211 %
Total		120,296	354,354	308 %

Source: Clauson (1999)

The fastest growing segment in terms of total expenditures on food away from home is recreational places - 463 percent - followed by eating and drinking places, at 314 percent. The proportion of eating and drinking places account for 67.3 percent in 1998, compared to 63.1 percent in 1980. The lowest increase - 224 percent- was in the segment including schools and colleges. However, the proportion of schools and colleges decreased from 9.2 percent to 7 percent between 1980 and 1998. On the other hand, the proportion of the recreational places segment grew from 2.5 percent to 4 percent between 1980 and 1998 (see Table 3.3).

The demand for food away from home has grown and likely will increase faster than the demand for traditional food cooked in the home since Americans lead faster-paced lifestyles and no longer have a lot of time for preparing meals. This trend is also caused by growth in household disposable incomes and an increase in dual-income households. Consequently, consumers are increasingly spending a higher proportion of their total food budgets at restaurants, and other places away from home. This increase in food expenditures away from home is simultaneously associated with an increase in restaurant selection options (see Table 3.6).

3.4. Demographic Changes

From 1980 to 1998, the U.S. resident population increased from 227.2 million to 270.3 million, which amounts to a 19 percent growth rate. Along with the population

change, per capita food expenditure has increased from \$1,357 to \$2,798 at the current prices, which is almost a double-fold increase. Calculated at 1988 prices, it can be seen that per capita food expenditures at home decreased slightly compared to a dramatic increase in away from home expenditures (see Table 3.4). In fact, the increase in per capita food expenditures was caused mainly by food away from home, indicating that more people consume food products away from home. Additionally, other demographic changes such as population growth may influence these food consumption statistics.

Table 3.4
Per Capita Food Expenditures

	U.S. resident population, July 1 (in millions)	Current prices			1988 prices		
		At home	Away from home	Total	At home	Away from home	Total
1980	227.2	\$ 828	\$ 529	\$ 1,357	\$ 1,067	\$ 772	\$ 1,839
1998	270.3	\$ 1,487	\$ 1,311	\$ 2,798	\$ 1,051	\$ 991	\$ 2,042

Source: Clauson (1999)

Several previous studies pointed out demographic characteristics such as sex, age, household size and education, which share some responsibility in explaining the pattern of household food consumption (Huang & Raunikar, 1978; Salathe, 1979). Moreover, family composition, lifestyles, and other non-economic factors may have affected food consumption patterns. For example, the average size of the household unit has declined from 2.76 members in 1980, to 2.62 members in 1998. This indicates an increase in the overall number of households.

In addition, the participation of women in the labor force has increased substantially, and the average number of children under 18 years of age in the family unit has declined from 1.05 to 0.99 (U.S. Bureau of Census, 1980, 1999). Along with population growth, the effects of increased longevity and a decrease in the number of younger people (under 18) are linked with growth in the mature population by numbers as well as by percentage. The increase in the proportion of elderly people has contributed to a greater demand for healthier food products.

3.4.1. The Mature Consumer

The appearance of a large number of mature consumers on the demographic horizon was first noted in the professional literature in the late 1950s. In 1958, Robert D. Dodge predicted in the *Journal of Retailing* that the mature market would become an important segment. “The numbers in this age group,” stated Dodge, “will continue to increase, and problems will lessen if marketers understand the nature and characteristics of the market” (p. 75).

The mature market refers to individuals age 55 and older (Moschis, 1992). Using this definition, the size of this market was estimated at 58 million in 1999, according to the U.S. Bureau of the Census (1999). The great majority of this group consists of people between the ages of 55 and 64 (24 million or 41%), with another 18 million (31%) between the ages of 65 and 74. Thus, this segment of the population is skewed to the younger ages in the segment. Moreover, the market’s age distribution has changed as the 76 million baby boomers begin to swell into the ranks of the mature consumer market. In approximately fifty years, there will be an even age distribution of older Americans across the three main age brackets (55-64, 65-74, 75+), and its total size is expected to double (Moschis, 1992).

The mature market is a viable and growing market. It differs from markets comprised of younger age groups because of a number of experiential, biophysical, and psychosocial factors. These and other factors that offset consumer behavior are also responsible for the wide heterogeneity in the older population. Thus, it becomes necessary for marketers to carefully examine and analyze the mature market before developing market strategies.

Empirical research on the mature market has been done by Morgan and Levy in their book *Segmenting the Mature Market*, where they investigate the characteristics of the over 50 age group. They separate mature customers into three categories based on food preferences, as the “Nutrition Concerned” (46 percent), the “Fast and Healthy” (38 percent), and the “Traditional Couponers” (16 percent). Those in the “Nutrition Concerned” group cook most of their meals and pay attention to food labels, while the “Fast and Healthy” group are not interested in reading food labels. The “Nutrition Concerned” group also consider that fast food restaurants do not provide healthy food for

mature customers, while the “Fast and Healthy” group favor fast food restaurants. They found that all three groups are more willing to eat fresh vegetables and fruits.

As the mature market grows, marketers for foodservice chains must consider how they will cope and prosper with the changing food needs. These changes force companies to compete to provide the senior market with the types of food they prefer, in order to increase or at least maintain a market share. This will most likely force many foodservice operations to think differently about their target markets. In the quick service restaurant segment, the focus may shift from the younger generation to a greater emphasis on the older consumer.

3.4.2. Multicultural

According to the U.S. Bureau of the Census (1999), The U.S. population is growing at a diminishing rate along with an increasing diversity in U.S. culture. The most significant trend in population change is that the growth rate of the racial ethnic group is increasing while others are decreasing, as can be seen in the table below. The white population has increased only 4 percent from 1980 to 1999, while the non-white population has increased by 26 percent. This can be an important factor that Quick Service Restaurants should monitor.

Table 3.5

Population Change by Ethnic Group

	1990	1999	Percent Change from 1990 to 1999
	As of July 1 (in thousands)		
White	188,581	196,113	4 %
Non-white	60,858	76,765	26.1 %
Black	29,397	33,125	12.7 %
Hispanic	22,575	31,365	38.9 %
Asian	7,084	10,251	44.7 %
Native	1,802	2,024	12.3 %

Source: Yax (1999)

Driven by the development of the multicultural mix in the U.S., and the consumer desire for change, fast food ethnic chains flourished and achieved an early success with no or minimal entry barriers. The leading companies representing these segments are

Taco Bell, serving Mexican fast food, and Manchu Wok and Panda Express, serving Chinese fast food. The Ethnic food category has not formed a new power or a threat for the existing quick service restaurant chains at this time. However, as long as the diversified population continues to grow, the market share will grow, and competition will increase.

Due to the rapid increase in the number of elderly customers, combined with the trend toward a diversified population, America faces a significant change in the food consumption patterns as seen in the last twenty years. The impacts of demographic changes should be continuously monitored, and applied to a readjusting marketing strategy for the quick service segment of the foodservice industry.

3.5. Changes in Chain Restaurants

With today's hectic lifestyles, time-saving products are increasingly in demand. Perhaps one of the most obvious examples is the quick service restaurant segment. The sales-growth of the total restaurant industry was 253 percent, and unit growth was 129 percent from 1985 to 1995, while the top 100 chain restaurants increased their sales by 192 percent and their units by 157 percent from 1985 to 1995. In addition, the market share of the top 100 chain restaurants increased from 45.9 percent to 48.4 percent in sales, and from 26.5 percent to 32.4 percent in number of units (see Table 3.6).

The rate of growth in consumer expenditures on fast food has led most of the other food-away-from home segment. Since 1985, the amount consumers spent at quick service restaurants outlets grew at 192 percent (through 1995), compared with 147 percent growth in mid-scale restaurant expenditures among the top-100 chain restaurants. In addition, units of quick service restaurants increased 164 percent between 1980 and 1998, while mid-scale and up-scale restaurants units increased 102 percent and 236 percent, respectively. The increase in restaurants units and sales indicate that the restaurant industry is growing, and is related to consumer eating and food preference patterns.

Table 3.6

Top-100 Chain Restaurant Units and Sales Trends of Change (sales in thousand dollars)

	1985				1995				CHANGE FROM 1985 TO 1995	
	Sales		Units		Sales		Units		Sales	Units
Quick service	\$36,864	70.9 %	62,157	81.7 %	\$70,832	71 %	101,973	85 %	192 %	164 %
Mid-scale Restaurants	\$10,204	19.6 %	11,300	14.8 %	\$15,019	15.1 %	11,552	9.6 %	147 %	102 %
Upscale Restaurants	\$4,982	9.6 %	2,645	3.5 %	\$13,862	13.9 %	6,254	5.2 %	278 %	236 %
Top 100 Restaurants	\$52,020	100 %	76,102	100 %	\$99,714	100 %	119,779	100 %	192 %	157 %
Restaurant Industry	\$113,400		287,000		\$205,928		369,377		253 %	129 %
Top-100 share	45.9%		26.5%		48.4%		32.4%			

Source: Nation's Restaurant News Research (1998)

The quick service restaurants are responsive to consumer concerns pertaining to nutrient intake and overall public health. The switch to vegetable oils for deep-frying by the largest fast food hamburger chains (i.e. McDonald's, Wendy's, and Burger King) was a response to consumers' concern over the health effects of saturated fat intake. Moreover, Kentucky Fried Chicken changed its name to KFC in order to decrease the stigma placed on it from the word "fried." However, attempts to capture the consumer demand for healthier meal options have not always been successful. In particular, the hamburger segment has tried to clean up its image concerning high fat and unhealthy food.

In 1991, McDonald's introduced the McLean Deluxe, which used a 91 percent fat-free beef patty, and Taco Bell also introduced "Border Lights" low-fat menu items in 1994, but these failed to capture the customers' attention. However, the grilled chicken sandwich has proven more successful and remains on the menus of most of the major hamburger chains.

Chicken continues to increase in terms of consumer preference. Wendy's has introduced "Chicken Burritos" and the "Spicy Chicken Sandwich." And Burger King has introduced the "Chick'n Crisp," "Italian Chick'n Crisp Sandwich" and the "Chicken Club Sandwich." Whether these chicken products have showed great success or not, we think

the introduction of such items will be necessary in the future, even though they may not be “Star” menu items. Their presence could be viewed as a response to changing consumer consumption patterns. Recently McDonald's expanded its business segment through acquiring other restaurant companies, including Chipotle Mexican Grill, Donatos Pizza, and Boston Market. This might be the result of high competition in the hamburger segment as well as a response to demographic and consumer food preference changes. McDonald's strategy of expansion could be a significant threat to their competitors, regardless of their belonging to the quick service restaurant segment.

Although the consumption of chicken has increased, some of the chicken chains suffered set-backs. Consumers could be bypassing quick service eating places, opting instead to pick up fully prepared dinners at the local supermarkets. Grocery store deli-departments have expanded into full-service offerings containing fully prepared entrees and side dishes. This changing consumer behavior may be abandoning upscale quick-service chains like Boston Market and Kenny Rogers Roasters.

In addition, although the introduction of sub-sandwiches was based on niche marketing and product differentiation, in an effort to compete with traditional sandwich chains (McDonald's, Burger King, Wendy's), several sandwich chains, such as Subway, have appeared in the market as a response to consumers' need for healthy food and fresh food. From a marketing point of view these chains have shown dramatic success because of their rapid market positioning. Leading chains in this field are Subway, Blimpie Subs & Salads, and Schlotzsky's Deli. These chains seem to be in the mature life cycle stage in terms of unit sales growth and market share. This indicates that even though consumers are concerned with healthy issues about food, they look for tasty food and have a desire for what they habitually eat at restaurants.