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The Home Meal Replacement Opportunity: A Marketing Perspective

Ronald B. Larson

The Retail Food Industry Center
Applied Economics Department
University of Minnesota
rlarson@dept.agecon.umn.edu
(612) 624-4746

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Dr. Ronald Larson is the Associate Director of The Retail Food Industry Center, University of Minnesota, 317 Classroom Office Building, 1994 Buford Ave., St. Paul, MN 55108-6040, USA. An earlier version of this paper was presented at the Minnesota Food Expo in Minneapolis, MN. The Retail Food Industry Center is an Alfred P. Sloan Foundation Industry Study Center.

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Abstract

Many food retailers perceive home meal replacements (HMR) or meal solutions as major opportunities for sales growth. These fully- or partially-prepared foods appear to solve growing consumer needs: lack of time, lack of skill, and lack of desire to prepare food. However, a recent financial review of the foodservice operations at 10 large supermarket chains found that the average store's prepared food operation was losing money. The study identified three important areas that supermarkets need to improve: product shrink, employee training, and promotion. These three areas are closely linked with the design and marketing of the HMR concept. To increase the profitability of their HMR programs, supermarkets and restaurants need to address the seven key "Ps" of HMR marketing: positioning, product, package, place, price, promotion, and people. This paper reviews these seven marketing issues and summarizes the lessons learned by early HMR providers.

Key words: Home Meal Replacement, Meal Solutions, Prepared Food, Food Marketing Strategy, Convenience, Takeout Food, Supermarket, Restaurant, Central Kitchen, Foodservice

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The Home Meal Replacement Opportunity: A Marketing Perspective

By Ronald B. Larson

Many supermarket operators believe that if they sold more items that reduced or eliminated the consumer's need to cook at home, they could regain some food dollars they have recently lost to foodservice providers. These fully- or partially-prepared foods have been called "home meal replacements" or "meal solutions." Convenience stores and foodservice providers also see this as a potential growth opportunity. Restaurants specializing in this category include Boston Market (about 1200 locations), Kenny Rogers Roasters (about 260 locations), and Koo Koo Roo (about 45 locations). Some home meal replacement (HMR) establishments have been nicknamed "grocerants," "superants," and "restmarkets" because they sell both prepared foods and ingredients.

Flourishing HMR programs are found at several supermarkets. Ukrop's, a chain based in Virginia, produces prepared foods in a central kitchen and sells a variety of high-quality items. Their products have such a strong following that local McDonald's restaurants are selling hot Ukrop's pizza and chilled Ukrop's sandwiches, salads, and entrees (Harper 1997p). While it is not unusual for foodservice brands to be found in supermarkets (e.g., Taco Bell, White Castle, Starbucks, TCBY, Bob Evans), this is one of the first examples where a restaurant decided to sell a supermarket's HMR products rather than develop their own. H. E. Butt opened a meal store called "Greats" inside one of their newer supermarkets. At least six meal planners are on the sales floor to answer customer questions and make suggestions. "Greats" offers hot and chilled prepared foods by the serving, by the pound, and bundled as meals. Although the focus is on takeout, they provide tables and customers can microwave chilled products and eat in the store (Harper 1997r). Price Chopper boosted the awareness of their "Roasters House of Chicken" with billboards headlined "Why Go to

Boston?" and "Why Eat in a Hut?" Price Chopper's chicken also won a local newspaper's taste test (Hammel 1997e). Although these examples suggest that HMR programs can be a success, many retailers have learned that marketing the concept to consumers is more difficult than it first appeared.

Some supermarkets have been disappointed with prepared foods. Restaurants and food courts in many Smitty's Super Valu and Kroger supermarkets were closed and the space was converted to general merchandise (Robertiello 1997d; Neff 1996). Harris Teeter installed 13 cappuccino bars almost simultaneously and only two are doing well. An executive said the chain did not conduct enough marketing research before putting them in (Harper 1995b). The first Home Run Inn pizza kiosk inside a Jewel Foods store was a rousing success, but another unit is struggling (Dulen and Lowe 1997b). Buck Jones (1996d) argues that supermarkets have not taken an active role in marketing HMR initiatives. They install prepared food concepts (e.g., deli pizza, frozen yogurt, rotisseried chicken, crusty bread), sit back, and wait for sales to roll in. When the volume does not appear, managers conclude that the concept does not work in their part of the country.

By learning from mistakes, some stores improved their offerings. In Chicago, Dominick's persisted with their Chef's Collection initiative. Robert Mariano, the president and CEO, said: "Four times, it failed miserably. Maybe we are starting to understand better how to do it. It takes time, patience and understanding" (Lenius 1997). Daniel Lescoe of Big Y Foods said: "We've been extremely successful at failing." After a breakfast pizza program failed, he concluded: "We just didn't start with what should have been our first basic analysis: traffic count" (Hammel 1997j). Smart HMR marketers study consumer needs and find products that can best meet those needs.

The financial performance of HMR initiatives is a concern for supermarkets. An analysis of the foodservice operations at ten major supermarket chains by The Hale Group found that large stores (i.e., $26 million in annual sales) were likely to lose $19,000 per year on prepared foods (Robertiello 1997f). Participating chains had in-store preparation, commissary preparation, and manufactured HMR products. Bill Hale, president of The Hale Group, was surprised by the lack basic enablers (e.g., service, marketing, organization, decision-making, training, specifications of products, and equipment) in supermarkets that are considered essential in restaurants. The study identified three key areas where supermarkets need to improve: product shrink, employee training, and promotion. All three are closely related to the design and marketing of the HMR concept.

Many case studies of unsuccessful HMR projects at restaurants also focus on marketing. Burger King's attempt with dinner baskets and waiters started with considerable fanfare. Dinner sales initially increased 10-15 percent with only small labor cost increases (Howard 1993). After sharp sales declines, the initiative was canceled. Arby's planned to convert all its stores to its "Roast Town" fast-casual concept. Test sites reported sales gains of more than 30 percent, but franchisees were concerned that the new name would dilute the brand equity in Arby's (Bernstein 1996; Kramer 1996). McDonald's was disappointed with its Hearth Express test. The prototype store drew too much dine-in business and not enough takeout (Bernstein 1996; Kramer 1995b). KFC decided not to expand their Colonel's Kitchen concept. The menu confused many customers (Noble and Associates 1996). A KFC marketing executive said: "One thing we learned with Colonel's Kitchen is that it's tough to make money with lots of variety" (Restaurant Business 1996a).

Other restaurants have had difficulty making HMR work. Cracker Barrel's Corner Market units started with chilled carry-out. In response to requests, they added hot items and seating. Labor costs and food waste became difficult to control and shoppers were puzzled by the brand's new personality. When they went to regular Cracker Barrel stores and did not find Corner Market items, customers were frustrated. The units were closed in 1996 (Bernstein 1996; Robertiello 1996b; Moomaw 1996). Amigos, a Mexican food chain, tried selling chilled selections off its menu from refrigerated cases and was disappointed. The marketing director speculated that more advertising and promotion may have been needed than they could devote to the concept (Casper 1996). These examples demonstrate how important marketing can be for HMR programs.

This paper reviews the HMR opportunity for food retailers and highlights marketing strategies and tactics that may boost the likelihood that their programs will succeed. After examining trends that suggest HMR demand will grow, the next seven sections focus on the seven key “Ps” to HMR marketing: positioning, product, package, place, price, promotion, and people. The paper concludes by discussing new options (and potential threats) for food retailing and HMR.

Trends Influencing HMR Programs

Foodservice growth is influencing the entire food distribution system (Larson 1997). According to U.S. Department of Agriculture (1997) estimates, in 1976, consumers spent 13.8 percent of their disposable income on food. By 1996, this had fallen to 10.9 percent. When the spending is divided between food consumed at-home and food-away-from-home, another picture emerges. Between 1976 and 1996, food-at-home, as a percentage of disposable income, fell from 9.7 to 6.7 percent while food-away-from-home increased from 4.1 to 4.2 percent. Over this period, nominal per capita food-at-home spending rose 148 percent and food-away-from-home spending increased 269 percent while the consumer price index grew by 176 percent. This signals a relative shift away from purchasing meal ingredients and toward buying convenient, prepared foods.

Although most consumers still eat their main meals at home, they have changed the items and processes they use for cooking. About 87 percent of shoppers reported eating their main meal of the day most often at home (Food Marketing Institute 1997b). Although the number of meals eaten at home has not changed significantly over the past 20 years (Epmeier 1997), the time allocated for in-home preparation and the amount of scratch cooking has declined. A Yankelovich survey (American Meat Institute 1996) found that 15 percent of consumers typically spent less than 30 minutes to prepare the evening meal. In an NPD survey (1997b), 72 percent usually spent between 16 and 45 minutes preparing dinner on weekdays and only 19 percent spent more than 45 minutes, a significant reduction from the 2 to 2.5 hours spent cooking each evening's meal several decades ago. NPD (1997a) also reported a decline in scratch cooking. In 1996, dinners containing at least one scratch item were consumed 55 percent of the time. Ten years earlier, 64 percent of dinners included a scratch item. This shift is reflected in the sales of baking products. During the last five years, volume of refrigerated cookie and biscuit dough increased 10.6 percent while sales of baking ingredients (e.g., flour) declined 4.5 percent, baking mixes fell 4.4 percent, and baking nuts fell 13.2 percent (Food Institute Report 1997a).

Several factors have contributed to these changes. Microwave ovens are found in more than 90 percent of U.S. households (NPD 1997b). Family life is changing and less time is available for cooking. In 1996, 91.3 percent of men and 66.6 percent of women with their own children under age 18 at home were employed (Bureau of Labor Statistics 1997). Another factor is the decline in cooking knowledge. The Consumer Research Network, Inc., projects that 18 percent of the population are not confident or satisfied with their ability to fix a meal (Noble and Associates 1996). Yankelovich reported that 53 percent of Americans feel they have less knowledge and fewer cooking skills than their mothers and grandmothers (American Meat Institute 1996). This lack of cooking knowledge is most pronounced among young adults, implying that scratch cooking may continue to fall. A Land O' Lakes survey found that only 30 percent of adults aged 18 to 24 were comfortable preparing a full meal, compared with 46 percent of those aged 35 to 44 and nearly half of those aged 55 to 64 (Brewster 1997). The combination of new cooking technologies, greater time pressure, and less cooking knowledge has changed how and where food is prepared.

More meals are being purchased from restaurants (National Restaurant Assoc. 1996a). Consumption of commercially prepared meals grew from 3.7 per week in 1981 to 4.1 per week in 1996 (Figure 1). Meal skipping has also increased from 2.2 to 2.4 per week. Privately-prepared meals declined from 15.1 in 1981 to 14.4 in 1996. Figure 2 shows that more commercially-prepared lunches (2.2 per week) are eaten than commercially-prepared breakfasts and dinners combined (0.7 and 1.3). Over two-thirds of the 21 meal occasions during a week were privately-prepared meals.

If consumers are spending more on food-away-from-home and still eating at home, takeout sales must be increasing. In 1996, more restaurant meals were eaten off-premises than on-premises (Figure 3, Bishop 1997). On-premise meals consumed by individuals 8 years old and older declined almost 9 percent between 1984 and 1996 while off-premises meals increased by 51 percent. Figure 4 (Bishop 1997) shows that off-premise dinners had the sharpest increase since 1984, up 87 percent.

Consumer interest in prepared foods has not gone unnoticed by restaurants or supermarkets. A Restaurants and Institutions/Food Marketing Institute (FMI) survey of leading restaurants and supermarkets found that 84 percent of foodservice and 92 percent of supermarket operators offered made-to-order full meals, salads and sides. Meal solutions already account for more than 20 percent of restaurant business and 7.5 percent of supermarket business (Dulen and Lowe 1997a). In a survey of 200 chain restaurant executives, 48 percent reported takeout sales increases (Litwak 1997c). About 83 percent of shoppers said that their primary supermarket sold ready-to-eat takeout foods

Figure 1. Privately- and Commercially-Prepared Meals (National Restaurant Assoc. 1996a)

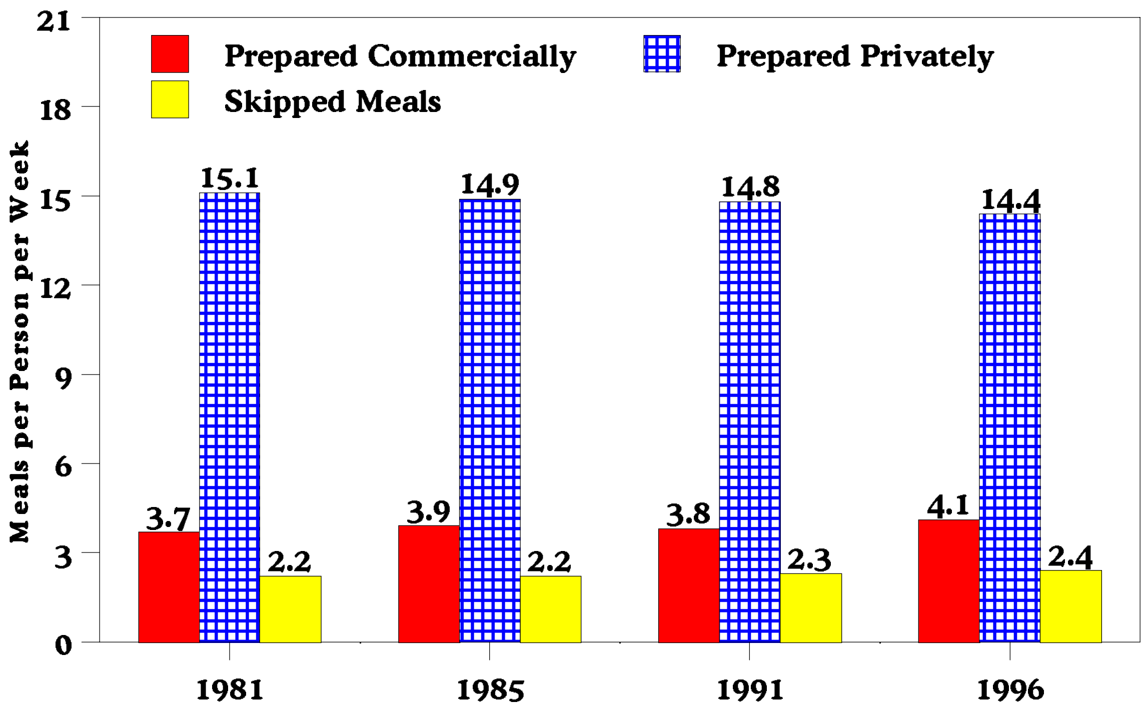


Figure 2. Privately- and Commercially-Prepared Meals per Week (National Restaurant Assoc. 1996a)

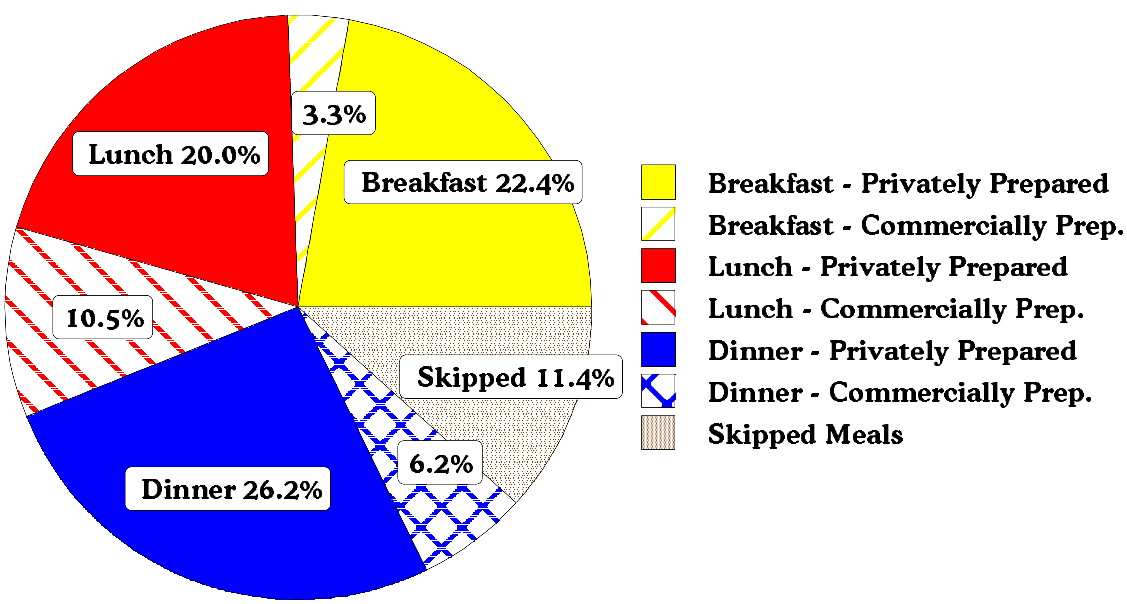


Figure 3. Restaurant Meals Consumed On-Premises and Off-Premises (NPD C.R.E.S.T. data)

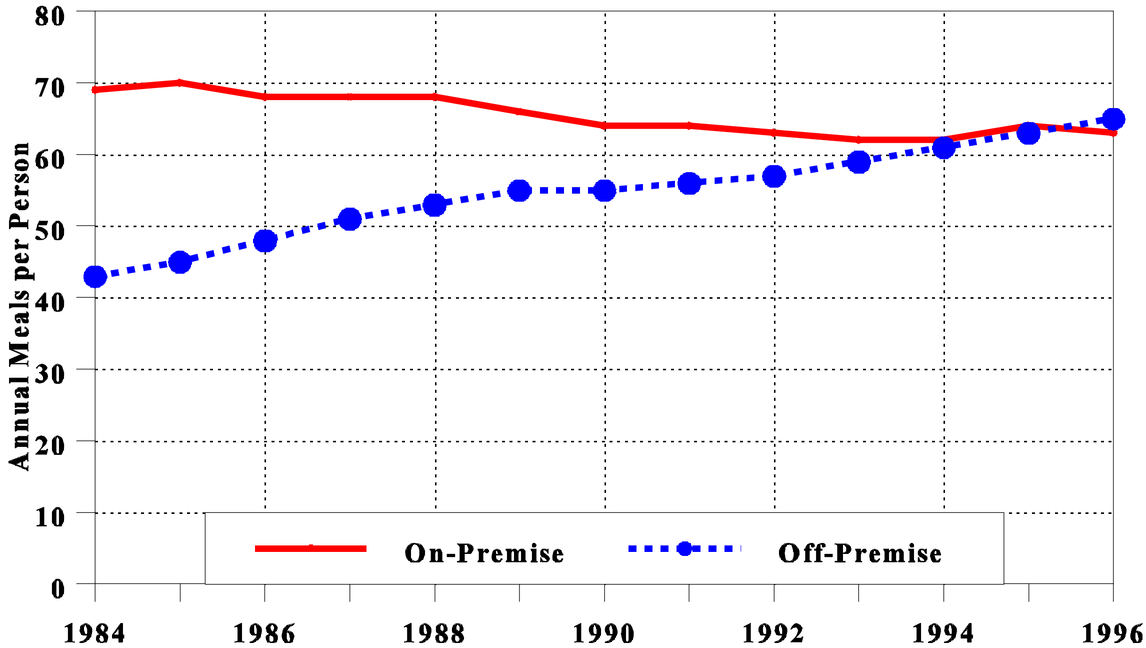
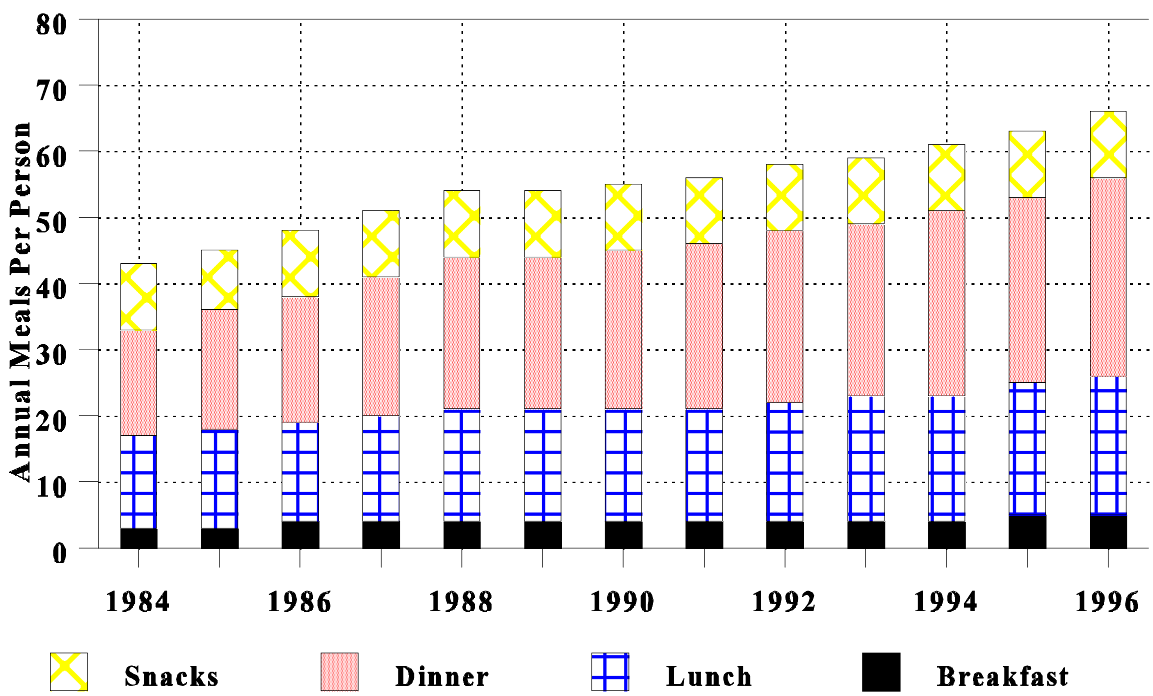


Figure 4. Restaurant Meals Eaten Off-Premises (NPD C.R.E.S.T. data)

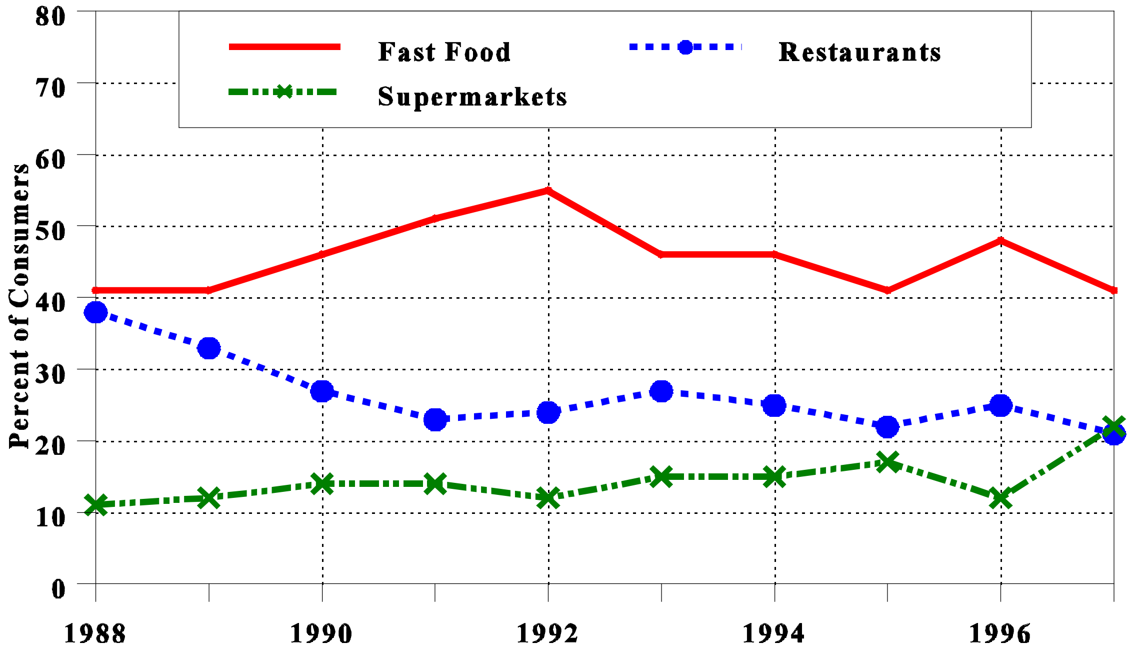


and 46 percent said they made takeout purchases there at least once a month (Food Marketing Institute 1997b). Sales of prepared food in supermarkets have been quite strong. Supermarket foodservice sales in 1997 are estimated at $14.82 billion, more than triple the $4.71 billion rung up in 1990 (Swientek 1997; Food Institute Report 1997e). When consumers were asked where they purchase takeout food most often in 1997, 41 percent said fast food restaurants, 22 percent said supermarkets, and 21 percent said full service restaurants (Figure 5). The gain for supermarkets suggests that more customers are starting to buy HMR products there.

Although meals are daily events, many decide what to have for dinner on impulse. More than 40 percent of consumers do not know at 4 p.m. what they are going to eat that night and 60 percent of those late afternoon planners do not know what they are going to buy when they walk in the store (Kramer 1997a; Spethmann 1997). One might expect consumers to stop on the way home from work and pick up dinner. However, an FMI study concluded that 57 percent of carry-out meals are purchased by people coming from home and that only 13 percent are picked up on the way home from work (Epmeier 1997). These trends suggest that consumers place a low priority on meal planning and that they do not have "top-of-mind" sources for their meal solutions.

When experts look further into the future, some predict more meals will be eaten at home. Popcorn and Marigold (1996) expect more "cocooning" at home for family and safety reasons. Maddock and Fulton (1996) believe at-home meals will increase and anticipate several changes in the foodservice sector. Besides a fall in fast food sales (except at McDonald's), they also foresee a decline at mid-level restaurants. Although the HMR category may grow larger as more meals are eaten at home, restaurants facing declining sales may respond by expanding into the HMR category, intensifying the competition for the consumer's food dollar.

Figure 5. Most Frequent Source of Takeout Food (Food Marketing Institute 1997b)



Generational changes also suggest that HMR sales will increase over the long term. Three consumer generations are active in today's marketplace: Matures, Boomers, and Xers (Smith, Clurman, and Yankelovich Partners, Inc. 1997). Because each generation behaves differently, Boomers may not act like today's Matures when they get older and Xers may not act like today's Boomers when they get older. Marketers often develop different messages for each generational cohort. Matures value experience and established institutions. They would find HMR items, especially traditional foods prepared by their favorite supermarket or restaurant, to be very attractive. Boomers seek relief from stress and are willing to delegate many tasks such as cooking. Xers enjoy fun and are pragmatic about new services. They would appreciate "theater" in stores and may expect HMR prices to be lower than those for on-premise dining experiences. Well-designed and properly-marketed HMR programs may attract large customer followings from all three groups.

Positioning of the HMR Concept

To evaluate HMR programs, three measures, share of wallet, share of stomach, and share of mind, could be used. In the share of wallet battle, the supermarket's lead is shrinking. According to the U.S. Department of Agriculture (1997), the portion of food dollars spent for food at home fell from 70 percent in 1976 to 61 percent in 1996. One share-of-stomach measure, the percentage of meals privately-prepared, gives supermarkets a dominant share. More than 77 percent of the non-skipped meals were privately-prepared in 1996 compared with 80 percent in 1981 (National Restaurant Assoc. 1996a). In the contest for share of mind, supermarkets have the most difficulty. One consumer survey found that 51 percent have never even considered their supermarket for HMR when not in the mood to cook and 66 percent agreed that they "don't think" about going to the grocery store to get already-made dinners (Wellman 1997). Although 67 percent "strongly agreed" that Boston Market and Koo Koo Roo products were "always fresh," only 17 percent said that for supermarket items. Part of the restaurant advantage comes from how shoppers perceive the preparation. Focus groups said that food waiting for them was not fresh and food they had to wait for was fresh (Harper 1997j). David Bishop of Willard Bishop Consulting suggested that supermarkets: ". . . don't yet understand how to prepare food in the store that projects a freshness image" (Lowe 1997). Many restaurants have done a better job of communicating the positive attributes of their takeout products to buyers.

Positioning involves deciding how to explain a concept to customers. Once descriptors are linked with a product, changing the positioning can be very challenging. Wendy's had difficulty attracting people for breakfast and Bob Evans had trouble convincing consumers it was more than a breakfast chain (Nation's Restaurant News 1992). Supermarket HMR programs face a major positioning challenge. Larry Zwain, former president and CEO of Boston Chicken, pointed out: ". . . most people walking grocery aisles looking for milk and cereal and detergent have something different on their minds than a hot prepared meal" (Casper 1996). Given the marketing investment needed to build consumer awareness, properly positioning the HMR concept is very important.

The Variety Positioning

One supermarket operator defined their HMR positioning when he said: "We want to give customers so many choices that they'll have no reason to go anywhere else." Supermarkets have developed a reputation for providing variety. Tom Pierson of Michigan State University believes that shoppers expect a large assortment of HMR products in supermarkets (Harper 1995a). However, a variety positioning lacks focus. Al Ries (1996) argues that the biggest mistake a firm can make is to try to appeal to the entire market. He believes firms must focus to own the words that define a category in the prospect's mind. Without this focus, it is extremely difficult to explain what is available to consumers. George Pauley of Stop & Shop said: "What's important is not the number of selections on a given day, but alternating the menu to keep it interesting" (Harper 1997v). Consumers do not want a wide variety of meal options. Researchers at Fleming concluded that only eight items may be optimal with six base and two rotational items (Lewis 1997). Limited menus may improve the chance of leading with favorable quality impressions.

Ries advocates transforming the HMR section into store-within-a-store to make it a destination for customers (Harper 1997i). One option is to have ethnic theme nights. By associating Monday's with Mexican products, Tuesday's with Italian items, Wednesday's with Oriental foods etc., it is possible to maintain product variety and still develop positive associations. For example, Copps, a Wisconsin supermarket chain, built their reputation with roasted, carved-to-order ham on

Sundays (Harper 1997a). By reminding people about the HMR products available at the store that day, promotions can help develop "ownership" of each day's meals.

To offer a variety of high-quality items, some supermarkets tried a "Supreme Court" concept, combining several brand-name restaurants as a food court inside a store. However, the concept usually did not work well. Many consumers were unwilling to go to supermarkets for sit-down meals (Harper 1995a; Harper 1997q). Because consumers are the driving force behind HMR, their preferences can help guide decisions about what products to offer and about how to describe them.

The Restaurant Positioning

Another positioning that may cause problems is often called "me too." Some believe supermarkets should emulate restaurants because consumers will inevitably compare the products. However, few shoppers will make this link if the items have dissimilar positionings. Claiming that supermarket HMR items are as good as restaurant fare does not generate reasons to buy. Restaurants typically have features that supermarkets would have difficulty matching. Maddock and Fulton (1996) argued that the temporary change in orientation provided by restaurants is a major reason customers are willing to pay the price. Durocher (1997) said: "Restauranteurs are in the entertainment business. The dining room's a stage; the tabletops a set design. The servers -- and sometimes, the chefs -- are the entertainers. And the managers are the directors of the performance." "Eatertainment" is becoming more important for foodservice (Main 1997). The National Restaurant Association (1996b) reported that 24 percent of on-premises dinner occasions were to socialize with family, children and friends. Supermarket food may be just as good or even better than what is found at some restaurants, but the total experience often falls short. David Donnan, a vice president at A. T. Kearney, expects some supermarkets to develop social atmospheres where people can listen to musicians or watch movies (Wall Street Journal 1997). However, many supermarkets may find creating "eatertainment" environments too difficult or expensive. Consumers might respond to HMR promotions that highlight the value and atmosphere of eating at home.

Options exist for creating food experiences in supermarkets that consumers will appreciate. Brian Salus of Salus and Associates believes that creating food preparation theater in stores will boost consumer enthusiasm. Merchandising this excitement can help promote top-of-mind awareness of HMR programs (Litwak 1997b). However, Gary Stibel of the New England Consulting Group argues: "Retailers are increasingly becoming chain restauranteurs themselves, which is not a good solution. It forces them into a business that is not their key strength" (Neff 1996). Consumers will hopefully link supermarket HMR products with something different and better than restaurant fare. A 1997 FMI/Prevention Magazine survey of adult shoppers suggested possible positionings. About 65 percent said that supermarket prepared food is healthier than that available from restaurants and 43 percent said supermarket prepared food is healthier than shelf-stable packaged food (Robertiello 1997h). Besides nutritious or healthy positionings, HMR programs might be positioned as more convenient, higher quality, more service and freshness, greater expertise, natural or organic, gourmet, community-oriented, or safer.

The Convenience Positioning

Convenience is important for HMR buyers. The top three reasons given for buying a carry-out dinner are "pressed for time" (29 percent), "no energy/fatigue" (27 percent), and "want home cooking" (16 percent) (Moomaw 1996). Convenience was rated by 55 percent as the top reason they buy HMR from supermarkets (Store Equipment and Design 1997c). Because Genuardi's Family

Markets knows customers do not want them to waste their time, they use portable cash registers during high-traffic periods (Harper 1997b).

Promoting service speed makes convenience stores (C-stores) potential competitors. C-stores often have more convenient locations than supermarkets and restaurants. New ones are being developed that appeal to the most profitable consumer segment, those who typically visit C-stores at least 14 times per month, who like to be recognized as regular shoppers, and who appreciate in-and-out shopping. At Conoco's new "Breakplace," customers can purchase fresh snacks, specialty foods, and grocery items. Bread is baked fresh on premises and sandwiches are made to order (Gaboda 1997). Some C-stores offer chilled and hot prepared food, fax and copy services, postal and bank branches, internet access, dry cleaning, shoe repair, and takeout delivery from restaurants. Others let customers order items while pumping gas that are delivered to the pump or picked up at a drive-thru window (Food Institute Report 1997c; Chain Store Age Executive 1997; Carrns 1997). Although competing with C-stores based on convenience may be challenging, Pollack and Pollok (1995, p. 12) found some overlap in the buyer segments: "Frequent convenience store shoppers tend to be very frequent shoppers overall. Some 80 percent of frequent convenience store shoppers are also frequent supermarket shoppers, while only about 40 percent of frequent supermarket shoppers are also frequent convenience store shoppers." Many supermarkets have installed gasoline pumps or are considering selling gas to attract these customers (Brader 1997; Coleman and Sullivan 1997).

The Quality Positioning

Supermarkets can build quality images by using primacy and recency principles and by selling signature products. Psychologists have learned that people tend to remember their first and last impressions. To promote a low price image, some stores place items with attractive prices near store entrances and checkouts. To emphasize quality, retailers could send quality signals when consumers enter and leave the stores. Kash N' Karry designed their new foodservice departments to give customers an overwhelming "food feeling" when they enter the store (B. Jones 1996b). At Snyder's Food Mart in Oklahoma City, the HMR center is in front of the store so it is the first and last thing customers see (S. Jones 1996b). Another way to communicate quality is to have unique items. Dorothy Lane Markets sell their own trademarked "Killer Brownies" and D & W's "Stealth-bomber-shaped" store created "soup so good we gave it a new name, 'zuppa'" (Ingram 1997).

The Service Positioning

Another HMR positioning is service. At the Sunset Foods supermarket chain, personnel are on a first name basis with many HMR customers. They will cook what customers want while they shop, take phone orders, and deliver. Instead of "catering," they call it "out of house" foodservice (B. Jones 1996c). At the Talk of the Town supermarket in New Jersey, Frank Guaracini, Jr., said: ". . . we offer to cook our customer's family recipes for them and deliver the meal to their homes" (Store Equipment and Design 1997a). If customers were asked to describe Sunset Foods or Talk of the Town, service, friendliness, and freshness probably would be mentioned.

The Expertise Positioning

Providing other services can build an expertise positioning. At a produce demonstration center in an H. E. Butt store, chefs cook and teach customers about food preparation (Harper 1997w). In Canada, the Provigo and Loeb supermarkets station dietitians at store entrances between 4 and 7 p.m. to suggest menus for the evening and to offer cooking tips (Dunn 1997). Wegman's has trained "cooking coaches" to answer questions about food preparation. They have also opened a cooking school and offer culinary demonstrations in stores (Harper 1997n; Hammel 1997j). These programs signal to shoppers that H. E. Butt, Provigo, Loeb, and Wegman's are food authorities.

Case Study on Positioning

Howard Solganik of Solganik and Associates said: "McDonald's has made it clear that their food is not meant to be taken home, refrigerated and heated up later" (Harper 1997f). Customers understand that they sell ready-to-eat (RTE) products. Marketing success often depends on emotional and psychological bonding with customers. By encouraging visits from school children, building playgrounds, and hosting birthday parties (Mathews 1996), McDonald's creates linkages that separate them from other quick service restaurants (QSRs). Maddock and Fulton (1996) believe McDonald's revolutionized the fast food business by shifting the motivation for dining out from physical survival to spiritual survival (e.g., family fun, family values, love, compassion etc.). However, they do not see a bright future for most QSRs. "Fast food -- with the exception of McDonald's -- may fade, unless menus are changed substantially. One big problem with fast food is that it is positioned at the level of physical survival" (p. 191). If they are correct, HMR concepts positioned as regular fast food could face problems.

Targeting Customer Needs

Developing a good positioning requires customer research. Tom Brewer of Price Chopper said: "To gain credibility, you have to determine what you're going to do based on what your customer wants. You need to profile the customer, not just look at the demographics . . . . Look at what they eat and when, and figure out how you can provide it" (Harper 1997o). However, current offerings may not deliver what consumers want. A survey found that 85 percent felt prepared foods were a compromise, not as healthy or as inexpensive as home-cooked meals. About 64 percent thought these meals were not as fresh as desired and 67 percent perceived them to be lower in quality than homemade foods (Sloan 1997). These concerns could be addressed in the HMR advertising.

Restaurants and supermarkets may be targeting different HMR buyer segments. When asked to describe their meal-solution customers, foodservice operators were more likely to select the 19-29 and 30-45 age groups while supermarket operators tended to select older age groups. Foodservice operators described their customers are regular families while supermarkets saw them as double-income families (Dulen and Lowe 1997a). According to the International Dairy Deli Bakery Association (IDDA), shoppers aged 65 or older are the largest segment buying takeout from supermarkets (Markgraf 1997). However, Management Horizons found that prepared food consumers tend to be concentrated among younger groups and family lifestages in the middle-upper income range (Pollack and Pollok 1995). The National Restaurant Association (1997) divided frequent diners (3.9 times per week versus the average of 2.5 times) into five groups: "Busy Parents," "Care Seekers," "Too Tired to Cook," "Urban Sophisticates," and "Flavor Savorers." The "Too Tired to Cook" segment ate out the most and shopped supermarkets for HMR the most. About 60 percent of these people carried dinner out from a supermarket at least five times per month. They tend to be single adults, adults under 45 with school-age children, and young couples with no children and average incomes less than typical college graduates (Supermarket News 1997c). These findings suggest that restaurants are targeting buyers with more HMR sales potential and that supermarkets could widen their marketing focus to include other segments.

Restaurants and supermarkets may also be targeting different meal occasions. A Restaurants and Institutions/FMI survey found that lunches made up 43.9 percent of foodservice meal solution sales and 53.6 percent of supermarket sales. When supermarkets were asked about their HMR competitors, over half said they considered fast-food and other restaurants as competitors. However, only 28 percent of foodservice operators said supermarkets were competitors (Dulen and Lowe 1997a). Variations in the customer and meal occasion targets may explain some of these differences.

Table 1. Key Points on Positioning
• Describe what consumers should associate with the HMR program and link them together
• Check that the needs of target customers are addressed in the positioning statement
• Beware of positionings that make communicating the concept to consumers more difficult or that increase the number of perceived alternatives

Product Issues for HMR

The second key "P" to HMR marketing is the product. Because there are many options, this may be the most complex marketing issue. Retailers must choose the preparation site, the service level, and the amount of post-purchase preparation by customers. Product decisions should depend on consumer preferences. One chain that relied on the advice of equipment suppliers instead of customers ended up with too much chicken roasting and hot food holding capacity (Hammel 1997j).

Definition of HMR

Before discussing product decisions, it is important to define HMR. Ken Berg, chairman and CEO of Koo Koo Roo California Kitchen, said: "HMR really means not just eating at home, but replacing what you would have made yourself at home" (Casper 1996). Many stores avoid using the HMR term because consumers do not understand it. Donald Harkleroad of the 85-unit Steak-Out Char-Broiled Delivery chain said they did not use the term because 40 percent of their business goes to offices for lunch (Casper 1996). Variations in the definition of HMR yield different estimates of the market size. Ron Paul, president of Technomic, Inc., was quoted as saying:

> "HMR could be broadly defined as any meal that might have been prepared from scratch or from supermarket foods, but because of the convenience provided by the restaurant or other HMR outlet, no longer needs to be. If you define it in that broad sense, to include all items that serve as replacements for any meal cooked at home, you're probably taking about an $80-100 billion market. However, if you define it as fully prepared, full-meal replacements, consisting of a traditional entry and side dishes, you're talking about a much smaller market. When you limit the definition of HMR to those foods most often cooked at home, you're probably talking on the low end of a $20-30 billion potential market" (Casper 1996).

Find/SVP used a broad HMR definition when they recently forecast that HMR sales will exceed $85 billion in 1997 and will surpass $109 billion by 2002 (Supermarket News 1997b). This paper will also use a broad definition of HMR.

Because the category is quite large, breaking HMR into meaningful segments may be helpful. Willard Bishop (1997) divided the HMR opportunity into four subcategories: Ready-to-Eat (RTE), Ready-to-Heat (RTH), Ready-to-Cook (RTC), and Ready-to-Prepare (RTP) items. Retailers could develop products that meet consumer needs in any or all of these four areas.

Some authors differentiate between HMR and meal solutions. According to Jon Kramer of J. Brown/LMC Group, HMR is some form of prepared food purchased away from home for at-home consumption. They are finished RTE or RTH foods. He defines meal solutions as quick, easy to prepare or assemble meals. Kramer questions whether supermarkets can successfully reposition themselves as food retailers instead of just ingredient stores. He recommends that supermarkets focus on "meal kits" because consumers perceive stores to be places for buying the ingredients to prepare meals (Hartnett 1997; Kramer 1997c).

Preparation Site

Supermarkets have chosen different sources for their HMR products. The FMI (1997a) reported that 94.3 percent prepare food in-store, 12.2 percent use satellite systems, 16.3 percent use central kitchens, and 74.0 percent use outside suppliers for some or all of their HMR products. Each option for HMR preparation has advantages and disadvantages.

In-store preparation can create some customer excitement and improve impressions about freshness. Joseph Fisher, president and CEO of Big V ShopRite, said: "When you open a new store or introduce a new concept, you have to convince the customer to give you a trial. So it is important for them to see the item being made" (Harper 1997x). On the other hand, equipping and staffing stores is expensive and product inconsistencies may result. Dr. Marcia Schurer (1997a) said that inconsistency: ". . . can jeopardize repeat purchases of the product and shake the consumer's confidence in the reliability of any other product's palatability as well." Having some stores supply others, a satellite system, could also improve consistency and generate the desired visibility at some sites. However, retailers would still need to make significant capital and labor investments.

Some chains have their own central kitchens. Jim Ukrop, CEO of Ukrop's, said: "[In the late 1980s] we knew quality control -- ensuring food safety and consistency of taste -- would be difficult at store level" (Zwiebach 1997). Centralized operations can support other businesses. Marsh, a chain of 89 supermarkets, has a central kitchen that is also used by its catering division and that supplies their chain of 182 C-stores (Papiernik 1997). Central kitchens require retailers to develop new skills. Burt Flickinger of Management Horizons advises: "If your core competency is not in logistics or in doing fresh product well, outsourcing is essential" (Dwyer 1996).

Other companies with more food preparation expertise can supply HMR products. Von's tested a "Fresh & Ready" chilled program. Outside firms delivered thirty entrees, thirty side items, ten soups, and seven desserts each day to the test store (Crecca 1997). Restaurants can be suppliers and can share in the preparation. One restaurant sells salad component kits to supermarkets and uses its own chefs to train supermarket employees. Stores assemble and sell the salads under the restaurant's name (Robertiello 1997b). Loblaw has teamed up with a market/restaurant firm to open fresh meal stores inside supermarkets and restaurants that will sell co-branded items (Robertiello 1997i). Manufacturers can also supply supermarkets with meal solutions. A collection of frozen items from Green Giant and Tyson includes all meal components so consumers do not need to shop several departments (Food Institute Report 1997d). When outside firms supply items with well-known brand names, the HMR program and store benefit from their quality image.

There are several drawbacks to using outside suppliers. When stores have several HMR suppliers, product displays may lose their continuity and appeal. In addition, the supplier's production problems can become the supermarket's problems. When a leak in the system that moved potatoes through an Orval Kent plant caused possible Listeria contamination, five million pounds of potato salad were recalled, leaving many stores without any product for several days (Harper 1997l; Harper 1997m). Owning and operating the production facility, either in stores or at central locations, lets retailers design their own merchandising and manage some production risks.

Food Temperature

Stores must decide whether to sell hot food, chilled food, frozen food, or some combination. There are logistical and shelf-life advantages with cold products. However, consumers tend to prefer hot items. In a survey of 1000 consumers, over half said if they would buy meals in supermarkets, they would prefer those meals to be hot. About 36 percent said they would be most convinced that the food was fresh if it was hot (Dowdell 1997a). Gardner's Markets tried to sell chilled meals, but were "forced" by customers to also sell hot food (Harper 1997o). If they wanted to, consumers could freeze chilled items. Above their refrigerated case, Eatzi's posted a sign: "Fresh take-home meals.

They take 4 to 6 minutes in the microwave or will freeze for two weeks" (Harper 1997z). One consultant found that consumers who purchase cold products expect to microwave them no more than 2.5 minutes (American Express 1997). Although the advantages of cold food are significant, it is unclear whether consumer acceptance will increase over time.

Service Level

HMR retailers must select the service level for customers. Some buyers are willing to pay for individualized service. Others want to grab prepackaged items and go. In one survey, 64 percent of consumers prefer buying meals from deli service counters instead of self-service cases (Store Equipment and Design 1997b). Although many stores are adding self-service displays, sometimes service counters work better. Stop & Shop found it was easier to maintain hot food sold at a service counter (Harper 1997v). Enhancing service can help distinguish retailers. The Wall Street Deli, a chain with 117 stores, has a central switchboard for phone orders. A customer-service specialist routes orders to the closest unit. The quality of each contact is improved because some store employees lack good English skills or do not communicate well over the phone (Lang 1997). By experimenting and talking with consumers, the right service mix for each store can be found.

Amount of Customer Preparation

Given the wide range from RTE to RTP, retailers need to select items that offer various buyer segments the convenience they want. Some RTP products simplify cooking. Dominick's offers "step-saver" items in the meat department (i.e., already seasoned, stuffed, rolled, skewered etc.) for quick preparation at home (Restaurant Business 1997). Many consumers want RTE single-serve items. According to a 1997 FMI/Prevention Magazine survey, 47 percent said food needed to require little or no cooking time to be considered convenient and 37 percent said individual servings made a product more convenient (Robertiello 1997h). Although RTE products may be preferred, customers also want a role in the preparation. For example, the Chefs Original rice mix line includes one item, "Smokey Cowboy Beans & Rice," that recommends chopping and sauteing an onion before serving. Researchers found that 90 percent of consumers were complying because they wanted to feel like they were participating (Benezra 1997). Sometimes conflicting preferences make it difficult to satisfy consumers. Indigo's Out-to-Go started with meal components that buyers could finish at home. When customers asked for RTE items, they switched to more fully-prepared meals. Then customers started asking for components (Casper 1996). These examples suggest that HMR programs offering both RTE products and items that permit consumers to participate in the preparation may attract a larger customer base.

Competitor Assessment

Understanding HMR competitors can help retailers develop better products. If a need is not being served, the first firm to enter the market has an advantage. Big V ShopRite decided to offer a hot self-service buffet, in part because no one in the area had one (Harper 1997x). By identifying possible rivals, retailers can avoid entering markets that could become highly competitive.

Many firms are exploring HMR. Restaurants (e.g., Bob Evans and Country Kitchen), cafeterias (e.g., Morrison's and Piccadilly), home supply stores (e.g., Home Depot), hospitals, and company cafeterias are experimenting with programs (Kirby 1997; Van Houten 1997; Casper 1997; Harper 1997g; Blumenthal 1997; Stephenson 1996; Dorfman 1996). If employees can pickup dinner as they leave work, retail HMR sales growth may be limited. Before the merger between Marriott International and Sodexho Alliance, Marriott was developing ordering systems for their corporate accounts that would let employees select HMR items, specify pickup times, and pay for them using the company's computer system (Crecca 1997). With the merger, Sodexho Marriott has over 4800 North American accounts and annual sales in excess of $4 billion (Marriott International, Inc. 1997).

Caterers may compete with HMR programs or may be possible sources of prepared food. They could target key segments such as holiday meals or they could function like a central kitchen and supply items to stores. By entering the catering business, HMR retailers could improve the utilization of existing capacity and boost revenue without large capital investments. Larry Cohn, a co-owner of a restaurant, pointed out: "There's a limit to how much a restaurant can grow because of the number of seats. But the potential for catering is truly unlimited" (Lang 1997).

Hotels are improving their foodservice operations and some may develop HMR programs. One HMR specialist, Kenny Rogers Roasters (1997), has partnered with a major hotel company (over 5400 locations) to provide proprietary cooking technology and branded products for room service. A survey by the American Hotel and Motel Association found that 64.6 percent of hotels offer catering services (Brumback 1997). With their food preparation capacity, many hotels could create or supply HMR programs.

Large commissaries that have been supporting other businesses are developing HMR products. To expand their "Deli Central" program, 7-Eleven is building a network of regional commissaries. At least one company that produces airline food is included (Harper 1997d; Hammel 1997b). Another commissary is supplying Price Chopper's HMR program, letting the store focus on merchandising and not on manufacturing (Hammel 1997e). Given their economies of scale, developing alliances with large commissaries may be better than building competing programs.

Although some HMR specialists have had financial difficulties, they are a potential source of competition. A typical Boston Market uses over a ton of fresh potatoes each week (<u>Restaurant</u>

Business 1997). Scott Beck, the co-chairman and CEO, said that 5.5 million people buy their meals at Boston Market every week (Hammel 1997d). If a supermarket faced new competition from an HMR specialist, they may change their product mix and develop more signature items.

Two other HMR concepts have attracted attention. Eatzi's, an upscale Texas chain of two stores, serves over 4500 shoppers a day. In-store chefs create more than 1000 offerings each day. The average sale is $15 and about 95 percent of the items are consumed elsewhere. Although they have about one-third the floor space of a typical supermarket, each Eatzi's store generates more sales revenue (S. Jones 1996a; Dorfman 1996; Neff 1996; Darwin 1997).

The other concept, Emily's, is operating in Scottsdale, Arizona. Although half the size of Eatzi's, it features chef-prepared food, 100 seats for dining in, hot and chilled food takeout, and a small section of groceries. The store is open from 6 a.m. to midnight and accepts phone, fax, and e-mail orders. When in-store customers place orders, they are given beepers and are paged when their food is ready (Hammel 1997f; Harper 1997e). Expansion by these firms could make them important competitors for existing supermarkets, convenience stores, and restaurants.

Local Preferences

There are regional differences in prepared food demand. Residents of New York, Seattle, Portland, and Atlanta eat the fewest meals at home (Sloan 1997). Although pizza is the number one item taken in (12 percent) and sandwiches are second (7 percent) (Restaurants and Institutions 1996), geographic differences limit the standardization of HMR. In the New England region, Stop & Shop found significant variations in the preferences for prepared foods such as pizza (Harper 1997v). What works well in some areas may not work in others. Snyder's Food Mart tried selling calzones and found that Oklahoma customers were not excited about them (S. Jones 1996b). Adding local tie-ins can boost sales. For example, Price Chopper advertises their meals as Wolfpak feasts and Wolfpak value meals, linking them with a local sports team (Robertiello 1997e).

Several options exist for fine-turning HMR items to local preferences. Tony Lisanti (1997) suggests joint ventures with caterers who know the market or with foodservice operations who can create exclusive lines of entrees. “Microfooderies,” small commissaries (similar to micro breweries), are emerging and developing items for local tastes (Hammel 1997c). Given the advantages of central kitchens, these operations could become major HMR suppliers for supermarkets.

Complementary Products

Consumer preferences should not be the only consideration when building menus. Items that use the same equipment or that use waste from other products as ingredients may be profitable. For example, Boston Market’s chicken pot pies use chicken that was not sold the day before and Wendy’s chili is made from hamburgers that were overcooked or were not purchased.

Food Safety

Some foods have more safety problems than others and carry more risk for retailers that sell them. Many critical points exist in food distribution system where contamination and temperature abuse that promotes bacteria growth could occur. Even with perfect production and distribution practices, consumers may not follow safe handling procedures. A Prevention Magazine/NBC poll found that 29 percent of those surveyed wait 2 hours or more before eating takeout foods, without having first refrigerated them (Nelson 1997). When people get sick from food, some may blame the preparer even if the producer was not at fault. The challenge is to develop HMR products and processes that reduce the number of dissatisfied consumers to “acceptable” levels.

Better temperature control can improve HMR product quality and shelf life. Aaron Brody (1997) argues that current practices in production and distribution facilities are barely acceptable. In Europe, HMR producers have developed systems to prevent temperature abuse. Marks & Spencer controls everything from the field through the food chain. The company maintains a cold chain of 40 degrees or below throughout the manufacturing and distribution process. All fresh Marks & Spencer products processed in Britain are sold in Britain within 24 hours or discarded (Epmeier 1997). Some American HMR firms monitor temperatures during transit. Waterbury Fresh Foods can identify potential problems within 24 hours and will immediately ask retailers to hold products that are suspect (Sharp 1997). As more firms develop better temperature controls and new technologies are adopted, the safety and quality of HMR products will improve.

Developing standards for perishable products and building relationships with suppliers can also help reduce risks. Dr. David Theno, vice president of Foodmaker, Inc., the parent of Jack in the Box, recommends that supermarkets set up microbial profiles for suppliers and start testing meat products. Because the foodservice industry is setting up high standards for meat suppliers, products that restaurants reject might be sold to unsuspecting supermarkets (Partch 1997). Ed DeLuca, a restaurant operator and chilled entrees producer, encourages HMR retailers to visit supplier plants with quality assurance people, check microbial studies, and ask about recall procedures (Harper 1997s). However, these steps will only reduce the odds of food safety problems, not eliminate them. Barry Scher of Giant Foods recommended that HMR retailers prepare for food safety calamities: "Even with the best-laid plans, you're going to have a problem" (Hammel 1997k). When a problem occurs, poor crisis management can destroy years of excellent marketing programs. By anticipating and planning for different types of food safety crises, retailers can be better prepared.

Table 2. Key Points on Product
• Develop products that meet customer needs in the RTE, RTH, RTC, and RTP segments
• Prepare some foods in-store and offer other items from central kitchens or manufacturers
• Tailor products to local tastes and explore offering items or entering markets that could increase equipment utilization
• Regularly inspect the production and handling of products at supplier and own facilities
• Practice strict temperature control and test supplies to verify that they pass standards
• Construct crisis management plans for potential food safety problems

Package Issues for HMR

The next key "P" for HMR is packaging. Many examples exist where branded product marketers made small package changes and experienced large sales increases (Hine 1995). With HMR packaging, one consideration is portability. Jon Jameson, a vice president of Denny's, said: "The key in home-meal replacement is making sure you have great products that travel well" (Restaurant Business 1996b). To improve portability, the Lund's chain in Minneapolis developed heat-sealed, nonleaking packages (Harper 1997c).

Another packaging issue is shelf life. Products should be near their peak when the consumers eat them at home. To test their HMR recipes, one restaurant prepared the food and let it sit in the refrigerator for 24 hours before tasting it (Johnson 1996). Separating hot from cold items to maintain their temperature differences while they are transported can be helpful. Modified-atmosphere packaging is being used by manufacturers to give products the shelf life needed to move through distribution systems. Although some chilled items produced in clean environments have shelf lives of 45 to 75 days (Litwak 1996), customers may not perceive products with long code dates to be "fresh." Consumer freshness concerns may lead some stores to add "born-on" dates and times to labels and to schedule "clearances" each day with special prices.

Package materials are important. Many retailers use dual-ovenable plates to make reheating more convenient. One HMR chef said: ". . . we really try to make life easier by preparing our dishes so that they are ready to eat. We even package them in heat 'n eat containers so customers don't have to cook or do dishes" (B. Jones 1996a). A consultant found that consumers prefer round dinner plates for entrees, soup bowls for soup, and side plates for side dishes (American Express 1997). Some customers appreciate packages that use recycled materials or that can be easily recycled. Gourmet to Go, a St. Louis HMR/catering firm, ties each order with a blue ribbon and uses insulated, recycled pressed-cardboard boxes instead of plastic containers whenever practical (Walkup 1996).

Besides blue ribbons, other package attributes can increase the perception of freshness and quality. Sandwiches at Big V ShopRite are in a see-through wrap and have butcher paper wrapped around them to show that they are made fresh in-store (Harper 1997x). Stop & Shop adds stickers to their sandwiches with the meat's brand and logo (Harper 1997v). Many stores use black plates to distinguish their products. Adding colors (except yellow-greens and purples) and pictures may increase appetite appeal as long as they do not conceal the food. By maintaining a color scheme for the line, display cases can create billboard effects, attracting more attention and increasing sales.

Packaging is often linked with other marketing issues. When Harris Teeter's prepackaged meals met with little success, they decided that parents and children may not like the same side dishes and started offering all items in single-serving packages (Harper 1996c). Bundling meal components can be a powerful strategy to increase transaction sizes. Over half of McDonald's meals are sold as bundles (<u>Food Industry Report</u> 1997a). Although consumption rates may increase with larger package sizes (Wansink 1996), consumers may prefer small packages. The Dorothy Lane Market Bread Company reported that customers liked smaller-sized loaves, half loaves, and smaller-count dinner rolls with their HMR meals (Bakery Production and Marketing 1997). Pricing can also be related to packaging. Nancy Rand of Quillin's said: "We want to maintain the $2.99 on all the value meals, so we've decreased the portion sizes and substituted some vegetables" (Harper 1996c).

Consumers are becoming more interested in food labels. When asked about buying a food product for the first time, 51 percent of shoppers said they always read the label for information on nutrition and ingredients (Food Marketing Institute 1997b). Detailed ingredient lists are important for health-conscious individuals and for people with food allergies. In Washington, D.C., a firm called "To Your Health," provides home delivery of gourmet meals. They use organic ingredients and fresh produce and label each item with calories, fat, cholesterol, and carbohydrate information (Carneal 1997). Instead of determining the nutrients for the items made in-store, chains may offer products with nutrition labels from central kitchens or manufacturers. Kmart supercenters tested products from Sara Lee that had two- to three-day shelf lives and full nutritional labeling (Liebeck 1997). If shoppers want ingredient and nutritional information, stores that provide it on some of their HMR items could gain a competitive advantage.

Some buyers may also appreciate instructions on the package that describe how to prepare the HMR items. Ira Blumenthal (1997), president of Co-Opportunities, recommends including recipes, preparation alternatives, and presentation ideas. Ronald Kooser (1997) suggests listing the store's phone number so customers can call with questions. The package could also list other items in the store that could be purchased to complement the HMR products.

It is possible that consumers may not appreciate fancy HMR packaging. For example, The Daily Markets started with black containers, dome tops, and a band around them. They shifted to hinged, totally clear plastic and to simple labels from their scales. They believe customers now perceive their HMR products to be fresher and store costs are reduced (Harper 1997t). This example illustrates why asking customers about packaging can be important.

Table 3. Key Points on Package
• Use packages that make products portable, boost shelf life, attract shopper attention, and increase customer convenience
• Offer information about product preparation on the package
• Consider adding ingredient and nutrition labels

<u>Place Issues for HMR</u>

Place issues deal with the location and layout of the department in the store, the organization, and the equipment. Jim Ukrop, CEO of Ukrop's Supermarkets, said: "If you run a clean, creative, and friendly prepared-foods department, it will make the rest of your store appear that way" (Miller 1997). A competitive advantage for supermarkets is that the average household already visits them 2.2 times per week (Food Marketing Institute 1997b). Most retailers are near heavily traveled roads, increasing the convenience for customers. Some stores thought in-store displays could generate sufficient awareness and were disappointed with the results. At Luby's Cafeterias, many heavy users were unaware that the chain offered takeout (Carlino 1997). Others added HMR without careful planning, creating some interesting predicaments. When Outback Steakhouses tested HMR at several existing locations, the strong sales response created discord in the kitchens and traffic jams in the parking lots (Alva 1997).

Enhancing Customer Service

If people are only interested in purchasing a meal, delays in getting from the street to the HMR products could reduce buyer interest. Congested parking entrances, expansive parking lots, and long walks through the store add to the perceived cost of the purchase. Many retailers have added extra store entrances directly into their HMR departments and short-term parking for HMR shoppers. At Pay Less Supermarkets, the HMR entrances are highlighted with signs that read "Food Court Express Entrance" (Harper 1996a). Blumenthal (1997) recommends setting up multiple HMR points of distribution (PODs) throughout the stores. Because the typical customers only shops about 41 percent of the supermarket (Supermarket Business 1991), these extra PODs will increase impulse purchases among customers who do not visit the HMR department.

Some shoppers who value convenience may prefer ordering by phone, fax, or e-mail. To address their needs, stores could add pickup service from drive-thru windows. Kenny Rogers Roasters units have from 40 to 70 percent of their sales at the drive-thru window (Bernstein 1996). Although drive-thru pickup of these orders could be a key point-of-difference, few stores offer it. A survey of leading restaurants and supermarkets found that less than a third of foodservice operations had drive-thru windows (9 percent planned to add them) and only 3 percent of supermarkets had drive-thru windows (8 percent planned to add them) (Dulen and Lowe 1997a).

Another place issue is where to locate the HMR department in the store. When many supermarkets were designed, perishables were put in the back to boost impulse sales while people walked through the dry grocery department. Now, to attract time-pressured customers, some perishables are being moved to the front, sometimes as end-aisle displays. In Wal-Mart's latest supercenter, the deli and convenience foods are near the entrance. "Speedy" checkouts are across from the convenience foods so people can run in and out for quick meals (Clark 1997). To help HMR buyers check out faster, Grand Union provides “super express” checkout lanes for five items or less (Harper 1996b). Drs. John Stanton and Richard George predict that supermarket aisles of the future will be organized by meal occasion. People interested in lunch would go to the lunch aisles and not shop many ingredient sections to find each lunch component (Litwak 1996). In their scenario, the whole store would be focused on providing meal solutions, not just one department.

Reducing Organizational Conflicts

Supermarkets also face organizational challenges. HMR items may come from several existing departments (e.g., deli, frozen, meat, produce etc.) and dry grocery sales may increase if products are cross-merchandised in the HMR area. Kramer (1997b) observed: “As it stands, every department is a separate silo with its own profit and loss responsibility. This structure plainly poses no incentive to cross-merchandise, which is essential to a meal-solutions orientation.” Some stores have successfully applied team techniques to solve these organizational challenges. At Genuardi’s Family Markets, Ray Taglialatela said: "We all share the store’s space and we get together to figure out what would sell best where" (Harper 1997b). Similar team-based approaches may be needed to identify and exploit all the opportunities produced by HMR initiatives.

Designing the HMR Department

The HMR area needs to adapt to consumer preference changes. Because the menu influences layout and equipment needs, variations in buyer demand (e.g., holiday products, new foods etc.) may require changing the area. IGA developed a modular HMR concept (“Cafe IGA”). Members can start small and expand if sales are high enough (Robertiello 1997g). Besides being designed as ergonomic as possible, Randall's Supermarkets included modular cases and fixtures on wheels, so they can be adjusted whenever demand changes (Jones 1997).

Equipment can also have marketing implications. Taglialatela said: "Here, our food is on stage. We've tried to make display fixtures disappear" (Harper 1997b). Byerly's in Minneapolis uses low-profile cases so employees can have more eye contact with shoppers and so customers can watch the preparation and see the freshness (Grocery Equipment 1997). When a Stop & Shop buffet table well is empty, they cover it with an attractive tile so the table does not look empty (Harper 1997k). Both Emily's and Koo Koo Roo serve meals with metal instead of plastic cutlery (Hammel 1997f; Robertiello 1996a). Time-pressed customers prefer self-serve soft-drink fountains and coffee urns so they can do something instead of just waiting for their orders. Coordinating the colors and designs of the equipment with employee uniforms, packaging, and serviceware may increase the firm's distinctiveness and boost the quality and value consumers assign to the HMR products.

The quantity of food in the display can also send messages to shoppers. Carol Christison, executive director of the IDDA, suggests replenishing HMR cases frequently: "Even if the product wasn't cooked in the last 10 minutes, the perception is that it's fresh, and, to the consumer, perception is reality" (Harper 1997j). By using smaller containers in the service cases and replenishing them more often, consumers will judge the product to be fresher.

One issue that stores wrestle with is whether to install seating near the HMR area. Pierson observed that many managers who resisted devoting valuable space for seats are now adding them (Harper 1995a). Rather than debating whether to install seating, the questions now seem to be how much space and where to locate it. Customer profiles, neighborhood demographics, traffic patterns, and alternative uses for the space may give decision-makers some guidance.

The ordering and payment system can affect HMR marketing. Research by Boston Market suggests that HMR shoppers expect to wait no more than five minutes in line, and one to two minutes for their order (Noble and Associates 1996). By changing from order-then-pay (i.e., pay at the end of the serving line) to pay-while-order-is-assembled, Boston Market reduced the average service time from eleven minutes to five, doubling the number of customers they could serve during peak hours (Crecca 1997). However, the order-then-pay procedure lets customers see more choices before paying and may increase impulse purchases (Merrefield 1996). Perhaps a flexible system, with pay-while-order-is-assembled during rush periods and order-then-pay during other times, would produce the most sales and the highest customer satisfaction.

Table 4. Key Points on Place
• Design departments that reduce customer delays while increasing flexibility
• Merchandise products in multiple places and develop interdepartmental HMR teams
• Use layouts, equipment, and systems that improve customer service and satisfaction

Price Issues for HMR

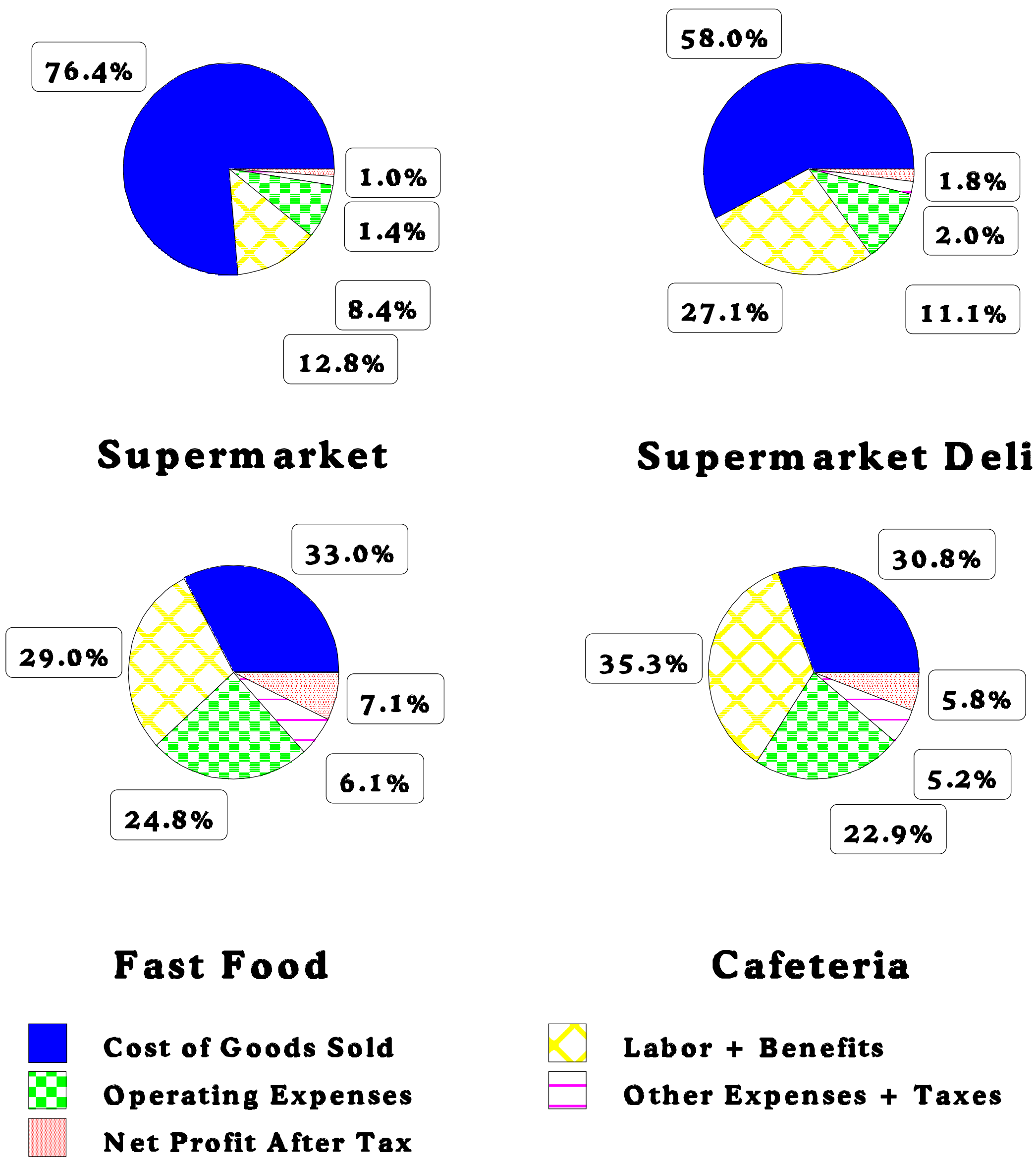
Pricing is one of the most debated issues in marketing. Many managers miss large profit opportunities because they match a competitor's price or use a standard markup instead of considering the consumer's willingness to pay. Because supermarkets and restaurants operate differently, their decisions will vary. Most restaurants receive deliveries once or twice a week and are less concerned about inventories. When measuring profits, they usually average costs on a weekly or monthly basis and do not consider how long ingredients were in inventory (Heller 1997). Supermarkets, on the other hand, may receive daily deliveries, usually count inventory costs in their profit calculations, and often consider inventory turnover when evaluating department managers. Given these variations, their pricing decisions are likely to be quite different.

Retailer cost structures also vary. Figure 6 shows that a typical supermarket devotes more than 76 percent of its revenue to pay for the goods it sells. About 12.8 percent goes for labor, 8.4 percent goes for operating expenses (e.g., advertising, utilities, depreciation etc.), and 1.4 percent goes for other expenses, leaving a net profit after taxes of slightly less than 1 percent. The supermarket deli has a lower cost-of-goods-sold (58.0 percent) and a higher labor expense (27.1 percent). Fast food stores and cafeterias have lower costs-of-goods-sold and higher labor expenses. An HMR specialist such as Boston Market is similar to fast food except that their advertising, franchise fees, and depreciation are higher (Food Marketing Institute 1996). Given these differences, copying a restaurant's price or using a markup from another department does not make sense.

Some shoppers may expect HMR from supermarkets to be priced less than in restaurants. If the product's value has been successfully communicated, a premium price may be justified and may produce more profits. In other cases, prices below competitors will generate the highest returns. Careful market and consumer analysis is needed to select prices that will optimize profits.

If retailers use consumer preferences when setting pricing policies, they probably will not price all their products by the pound. David Bishop said: "Pricing by the pound and not by the item creates confusion for the consumer" (Harper 1997j). Because many consumers buy meals for a certain number of people, they prefer seeing prices for a specific amount of the food. For example, Pay Less Supermarkets sells "Home Style" foods prepacked in three sizes of heat-sealed, dual-ovenable containers and by the pound (Harper 1996a).

Figure 6. Financial Comparison of Foodservice Operations (Food Marketing Institute 1996)



Another consumer pricing topic is price points. NPD researchers found that households on average spend \$9.94 for takeout and \$15.49 for sit-down meals in restaurants (Dowdell 1997b). The average per person cost is \$4.23 for restaurant meals and \$1.42 for homemade meals (Food Industry Report 1997b). Many customers may be willing to pay up to \$5 per serving for complete HMR meals. Going above that threshold for an entree, two sides, and a dessert may produce sharp sales declines. Several stores appear to use similar pricing principles. For example, Lund's offered Dinners for 4 to 6 (serves 4-6 people) for $19.99 (Partridge 1997).

Ending prices with two nines may also boost sales. When Schindler and Kibarian (1996) analyzed a catalog pricing experiment, they found that prices ending with two nines (i.e., 99 cents) produced sales revenue 8 percent higher than prices ending with two zeros or with two eights. Prices ending in nine also may send consumers positive signals about product quality and value.

Table 5. Key Points on Price
• Understand how competitors differ in their operations and decision making
• Study consumer willingness to pay and price some products by the serving or package
• Learn about key price points and thresholds for HMR items and end prices with nines

<u>Promotion Issues for HMR</u>

Promotions are important marketing tools. About one in ten QSR choice decisions involves promotions and more than 50 percent of menu choice decisions are influenced by promotions (Litwin 1994). Because many consumers do not think of supermarkets as a source of prepared foods, timely advertising (e.g., radio ads during rush hour) and incentives (e.g., discount coupons) may be needed to encourage trial. Joint promotions across departments may produce large sales gains. Harris Teeter advertised "dinner and a movie," an HMR meal and a video rental (Alaimo 1997). However, some promotions create problems. QSR promotions have increased transaction times and slowed service, have been too complex for store personnel to understand, or did not fit in cash register drawers or through drive-thru windows. Other promotions expected personnel or customers to do too much, took up too much storage space, or included displays that blocked the customer's view of the menu

(Litwin 1994). When promotions are contemplated, pretesting the options can help firms avoid mistakes.

Product Guarantees

Guarantees emphasize product quality. Many restaurants are known for standing behind their products. Meals that are not right are fixed or customers are not charged. In some supermarkets, it may be difficult to find a manager or customer service specialist, let alone receive a refund. HMR retailers may want to offer and promote satisfaction guarantees to show confidence in their products.

Cross-Merchandising

Because most HMR buyers make their meal decisions right before purchase, arranging products by category can boost impulse sales. Solganik suggests organizing cases so that meal components are in a logical order, facilitating quick decisions. By separating chilled pizza from prepared hot pizza and from pizza by the slice, the customer's choice is simplified (Harper 1997f).

Items that complement each other in areas like taste, texture, and color or are usually eaten together sell better when displayed together and stocked near where customers make their HMR purchase decisions. One consultant criticized the in-store execution of Kroger's chilled prepared food program in Cincinnati stores because the HMR items were at least 20 feet from the service deli and no signs directed shoppers to the packaged meals (Harper 1996d). Simple Simon, a New Jersey chain of two convenience stores, cross-merchandised complementary products. Above the sandwich case were bags of chips, cookies, and brownies and adjacent were fresh fruit (item-priced) and pre-cut fruit salads (Klepacki 1996). At D & W's new store, they cross-merchandise cooking utensils, cookbooks, spices, and sauces in the HMR area (Hammel 1997i). By displaying products around the department that may interest buyers, sales per square foot can be increased.

Sampling

Sampling is another tactic to highlight HMR items. In Japan, prepared food sampling is continuous and store departments appear to compete to get people to taste their products (Harper 1997u). Pennington Supermarkets has two “open house” events each year for prepared food sampling (Lewis 1997). Three tips can help boost the gains from sampling. First, hire people that promote the store’s image. Richard Donckers of Retail Strategies International suggests hiring waiters or waitresses or people from culinary schools (Harper 1997y). Second, train them on how to sell. When customers were told about the price of the bread being sampled and asked to buy it, sales increased an average of 27 percent (Weller 1992). Third, sample products in their prime. Dr. Schurer (1997b) believes too many stores offer items that look like leftovers or that are out of code.

Loyalty Programs

Loyalty or frequency programs are another option. These strategies range from birthday clubs or direct mailings targeted at regular customers to punch cards where the tenth purchase is free or electronic point programs where points can be converted into prizes. D & W has an innovative program to reward high-volume, frequent shoppers. At their cooking classes, they demonstrate recipes, usually a low-fat dish and a gourmet dish each week. They distribute recipe cards at these classes that fit into 3-ring binders that D & W gave their target customers (Hammel 1997i). This is a simple way to encourage people to return to the store each week.

Menus

Another powerful promotion tool is the menu. Jack Allen of Michigan State University believes that displaying menus make it simpler for consumers and give the impression of greater variety (Harper 1995a). Some HMR retailers distribute their menus by mail or post them so customers know what will be available. Pay Less Supermarkets offer about half their HMR line at any one time. By setting the rotation schedule three months in advance, associates can let customers know when their favorites will be available (Harper 1996a). A few supermarkets promote meal plans based on each week's ingredient specials (Turcsik 1996). By encouraging shoppers to plan their meals for a week, stores may regain some sales. Kramer (1997b) wrote: "If consumers easily plan a full week's schedule of at-home meals during their weekend stock-up, they are far less likely to call out for pizza, roaster or chow mein during the week." If customers to map out each week's meals using the ingredient specials and HMR menus, supermarkets may boost their market shares.

Developing menus is an art. Poor menu planning is a major cause of restaurant failure. To avoid poor menus, Nancy Scanlon recommends knowing the market, knowing the competition, and knowing the average price that customers are willing to pay. She also suggests keeping menus simple with only 12-14 items and using photographs of real products (Kramer 1995a). Good menus include core (classic or base) items that have little seasonal or price variations and rotating items that add interest such as trendy, seasonal, ethnic, or spicy products (Solganik and McKee 1995). Most supermarkets rotate their HMR menus weekly (55.0 percent) and seasonally (59.7 percent) and nearly a third change them thematically (32.2 percent) and at specific times of day (31.5 percent) (Food Marketing Institute 1997a). Schurer (1997b) advises stores to identify customer food preferences and engage their participation in selecting menus. Kash N' Karry used focus groups to develop their recipes and product mix (B. Jones 1996b). A customer suggestion box may also help HMR managers adjust their menus to keep them exciting and avoid menu fatigue.

To layout an attractive menu, Banger Smith of Menus for Profit recommends: 1) categorizing foods in a way that people can understand and having at least three items per category;

2) listing some key ingredients, describing the preparation, and identifying the product source to boost sales; 3) using upscale names, brand names, and bright colors on the menu (except blue); and 4) not placing signage on the food (Zimmerman 1997a). In one survey, 70 percent said they were more likely to order desserts described as "freshly made" or "homemade" (Rousseau 1997). Therefore, these and similar descriptive words could be included in menus. Gregg Rapp of the Menu Workshop suggests leaving dollar signs off all prices except the top one (Crossen 1996).

Co-Branding

Retailers who want to build quality images quickly may highlight the brand-name ingredients in their products. Stores without strong quality and freshness images may promote manufacturer brands (or develop new ones) instead of emphasizing their own names. One consumer survey found that showing brand names may build traffic, improve a restaurant's quality image, and boost buyer willingness-to-pay (Nation's Restaurant News 1997a). Many manufacturers offer incentives for showing their brand names. A survey of 200 chain restaurant executives found that about one-third participated in co-branding promotions. Among those who participated, 67 percent said they inserted the partner's logo into their menu and close to half used tent cards (Supermarket News 1997a). Some suppliers also support joint promotional events for co-branded items.

Visual Aids

Having good visual aids can be very important for HMR merchandising. Kevin Armata of the Windsor Marketing Group said signs must be the right size and in the right places to be effective. During busy hours, customers may block product cards in glass deli cases by standing in front of the cases. Sign verbiage should describe product benefits in concise phrases. Although chalk boards may give the impression of product freshness, they can be difficult to read and can be inadvertently rubbed

(Harper 1996e). Solganik believes three levels of HMR signage should be used in stores. Overhead/departmental signage should be visible from a distance. Over-the-case/program signage should show the variety. In-case/product signage should give information about each product (Litwak 1997b). By using easy-to-read graphics, HMR visual aids can contribute to sales success.

Showmanship

Another tool for promoting HMR is showmanship. When turkey comes out of the oven at Koo Koo Roo, employees shout "Hot Turkey, Hot Turkey!" (Robertiello 1996a). At Dorothy Lane's in-store bakery, employees ring a copper bell when bread comes out of the oven (Bakery Production and Marketing 1997). Enticing scents can also influence sales. Schurer (1997a) tells retailers: "Great aromas attract customers and create impulse sales, while foul or disinfectant odors can lose you a customer for life." Atmosphere can also increase product appeal. Harps Food Stores added faux windows with pans, brass pots and pans, and knick-knacks, creating some warmth and homeyness to their new "Martha's Kitchen" departments and emphasizing their from-scratch cooking of fresh meals (Harper 1996g). By using these promotion tools wisely, sales of HMR products can increase while the perceived value of the products rises.

Table 6. Key Points on Promotion
• Pretest promotions to verify that their benefits outweigh their costs
• Use promotion tools (e.g., co-branding, guarantees, showmanship, and sampling) that attract customer attention and that communicate the product's high quality
• Design attractive menus that have items customers want, rotate menus regularly, and cross-merchandise complementary products

People Issues for HMR

The final key for HMR marketing is people. Having the right people preparing the products and interacting with customers can be pivotal for success. Creating a "food theater" for customers requires hiring "actors" (chefs). The employees who provide customer service are very influential. Robert Mariano, president and CEO of Dominick's, said: "The person behind the counter is critical to the success of the operation. Don't get too technology oriented. That person talking to customers is very important" (Lenius 1997). To build a strong program, it is necessary to hire the right people, provide superior training, and change the company culture to include foodservice perspectives.

Hiring the Right People

Many supermarkets are hiring people with foodservice experience. The FMI (1997a) reported that 44.6 percent of supermarkets are employing foodservice professionals and 79.6 percent are hiring associates with restaurant or other foodservice backgrounds. The consumer's perception of the employees frames their perception of the food and the store. The IDDA found that consumers do not think of supermarket employees as they think of restaurant personnel. They think of them as employees and not cooks (Litwak 1997b). Because supermarket staff must sometimes persuade shoppers that the food is fresh, having foodservice credentials can be beneficial.

HMR retailers must decide whether to hire professional chefs. About 28 percent of supermarkets employ chefs (Markgraf 1997). Having chefs prepare food on location makes stores dependent on them. If a chef calls in sick or resigns, someone from the backroom cannot be called over to fill in. This is one reason many retailers use central kitchens or satellite systems.

Supermarkets may hire more chefs in the future. Keith Keough of the California Culinary Academy concluded that within the next three years, one out of every three graduating chefs will be employed by supermarkets (Pizzico 1997). Many chefs are attracted to supermarkets by the standard hours and vacation benefits. Because restaurants and supermarkets operate differently, chefs may have difficulty adapting to supermarkets. Some retailers have been disappointed by the contributions from the chefs, while others found them to be valuable assets. At Rice Epicurean Markets, chefs advise the produce department on ordering and selection, oversee the quality of fresh foods, supervise employees, and act as customer liaisons (Heller 1997). Chefs can supervise the HMR area, reducing conflicts between departments, and can adjust recipes for regional tastes. Differences in chef interests and skills may contribute to the variations in retailer experiences. Bill Pizzico (1997) suggests there are two classes of chefs: those that are business savvy and those that are culinary artists. He believes hiring a chef without some business skills can destroy an HMR department.

To staff their HMR department, some supermarkets have hired people away from restaurants. The limited pool of experienced people has lead others to try different techniques. Randall's Food Markets has a college internship program (Robertiello 1997c). To hire associates who are excited about food, H. E. Butt managers ask applicants about how they feel about cooking, how often do they cook, what they cook, which cooking shows they watch on television, and what they have at home in their refrigerator (Harper 1997w).

Training the Managers and Employees

Managers need to keep up with the latest innovations in HMR. Wegman's sends their executives and general managers to the Culinary Institute of America for several days of training in the kitchen (Hammel 1997j). Fleming offers operators who use its HMR concept a five-day "food service university" seminar (Wellman 1997). More educational programs will be developed as consumer demand for HMR increases.

The HMR associates also need training about the products, selling and customer service skills, food safety and equipment procedures, and the food business. The skill level of the associates may influence what products are offered. David Friedman, the director of new products for Boston Chicken, Inc., said his main responsibility was: "To try to develop good-tasting food that high-school kids can execute in 1000 stores" (Walkup 1997). Servers may need to describe the products and answer questions about contents, nutrition, preparation, and taste. Schlossberg recommends using manufacturers for training: "Food manufacturers do this very well, going into restaurants and training servers, doing demos about new items, telling servers how to describe the item, what words to use" (Robertiello 1997a). At Andronico's supermarkets, employees learn about cheese varieties at in-house programs and seminars by the California Milk Advisory Board (Zimmerman 1997b). Having handy references can also help associates. Gardner's Markets prints serving suggestions and directions on how to reheat the items on the backs of product cards so associates can read them. The front of the cards contains product descriptions and ingredient lists (Harper 1996f). Because they interact with customers, the HMR staff needs basic sales and customer service skills such as making eye contact with customers, smiling, offering greetings, and knowing how to deal with dissatisfied consumers. Associates who work with the food and who use, clean, or maintain the equipment need specific training to reduce food safety risks and equipment breakdowns. Some chains include several hours of lectures on food safety as part of the orientation for all employees. Good training can help HMR retailers distinguish themselves from competitors.

New employees need to learn about the food business and about the role their store plays in the food distribution system. At Ukrop's, new associates attend a 15-hour program called the Ukrop's Culinary Institute to learn about the food business. They wear lapel pins after they have committed the company's vision, mission, and shared values to memory. Experienced associates, called service leaders, gain management experienced by serving as on-the-job mentors for new hires (Hammel 1997h). By investing in training, stores can keep current employees excited and challenged and attract more top applicants who are impressed by the opportunities with the job.

Changing the Culture

Leading an HMR department may be difficult for people who have a grocery background. Ed DeLuca said: "Grocery thinking is to keep the shelves full, but it's OK to be out of stock when you're selling prepared foods. As a restauranteur, I was always thinking about freshness, not about keeping my buffet table full or cooking enough ahead of time for the rush" (Harper 1997h). The change from being an ingredient retailer to being a food store will require many changes. To be successful with HMR, Tim Hammonds, president of the FMI, said retailers must shift: 1) from focusing on discipline to focusing on innovation; 2) from concentrating on off-peak stocking to just-in-time preparation; 3) from designing stores for consumers with shopping lists to designing stores for ideas; 4) from low labor and low shrink to high labor and high shrink; 5) from choices for lists to ideas for meals; 6) from driving prices down to foodservice pricing; 7) from the "deli" approach of foodservice to the "sales team" approach (across departments); and 8) from product-by-product departments to customer solution departments (Mathews 1997b). Some supermarkets may have to go outside their firm to find managers who can instill this new culture.

Stores will deal with several new labor issues. When Giant Foods developed their HMR program, they asked the restaurant union to help create a system where the cooks in a supermarket were treated on the same level as they were in restaurants (Litwak 1997a). Labor issues are also involved in decisions about in-store preparation. Blumenthal suggests outsourcing the preparation of items that are very labor intensive (e.g., lasagna) (Harper 1997q). By using an outside firm to pre-marinate their chicken, Price Chopper improved consistency and increased sales (Harper 1997s).

One labor principle is to schedule the most and best service people when customer traffic is the highest. By teaming up with a fast-food restaurant, one supermarket learned about scheduling employees for short shifts, as little as three hours, to lower labor costs (Hammel 1997a). Daniel Lescoe of Big Y Foods recommends managing labor by managing the product mix. When associates are not selling one item, they can work on related products (Harper 1997o).

New measures and different evaluation systems are also needed for the HMR department. Managers in traditional grocery stores did not have much control over sales and were given strong incentives to watch costs. Howard Solganik of Solganik and Associates said:

> [In HMR departments], there's a lot more choices along the way that can affect the end results, and the people in the stores have a very big effect on sales. We need to change our evaluation methods to put greater emphasis on sales while not losing sight of the appropriate controls" (Litwak 1996).

The criteria used to evaluate HMR managers and departments will differ from those used for nonperishable departments. Given all changes needed to make HMR programs succeed, retailers need planning and patience while the new initiatives become profitable.

Table 7. Key Points on People
• Establish procedures and incentives to promote the evolution of teams and the development of a foodservice culture in the HMR department and store
• Build relationships with schools that offer foodservice training and enroll managers and employees in their courses
• Assess whether the skills of each job applicant are consistent with HMR area needs and with the new foodservice culture

The Future of Food Retailing and HMR

The seven key "Ps" to HMR marketing (e.g., positioning, product, package, place, price, promotion, and people) can help retailers develop and promote programs that meet customer needs. The trends point to continuing HMR growth. However, in-store programs may be vulnerable to the development of four prepared food options that offer consumers greater convenience.

Order-Ahead Depots

The first potential threat is the order-ahead depot. If, instead of driving to stores, consumers could pick up their grocery and HMR orders at conveniently-located distribution centers, in-store sales could decline. Anthony Tedesco, one of the designers of Eatzi's, believes these order-ahead depots present a major business opportunity (Hammel 1997g). Depots may look like small C-stores where orders could be picked up and HMR items could be displayed. One central kitchen could supply many store-front depots, eliminating the need for chefs and preparation equipment at each site. A depot-like restaurant, without a kitchen, is already operating in New York. Their menu lists items from nine restaurants who deliver to the store. They make money on the drinks they serve with the food (Stamler 1997). Another firm uses day care centers as HMR depots. Orders and payments are taken from parents when they drop off their children in the morning and the meals are ready for pickup when parents return for their children at night (Nation's Restaurant News 1997b).

Kiosks and Express Units

The second potential threat is the kiosk or express unit. These conveniently-located miniature kitchens offer limited menus. Because they require less space and labor, they can be found in skyways, on sidewalks, or in vehicles (Foodservice Equipment 2000 1995; Schechter 1996). Find/SVP estimated that there are 29,700 foodservice carts and branded kiosks at nontraditional sites in the U.S. that will generate sales of $7 billion in 1997 (Food Institute Report 1997b). Several manufacturers have their own kiosk concepts (e.g., Oscar Mayer's Hot Dog Construction Co., Dannon's Yogurt Cravings, Kraft's Maxwell Cafe, and Pillsbury's Poppin's Fresh Express). These kiosks are already producing high returns (Progressive Grocer 1996). About 70 percent of C-stores have branded food concepts or kiosks (Benezra 1997). C-store foodservice sales in 1997 totaled $6.45 billion (Food Institute Report 1997e). McDonald's operates similar "Express" units in strip malls, airports, hospitals and retail stores, on military bases and college campuses, and at train stations and gasoline stations (Crecca 1997). These express units may generate up to 70 percent of the revenue of a fast-food restaurant with only half the operating costs (Hammel 1997a).

Vending Machines

Instead of having people serve the food, vending machines could sell it. A prepared food vending machine works in areas where traffic is too low to support a kiosk. Experts say it takes 400 or more customers to make manual foodservice a going proposition while 100 potential customers can make full-service vending profitable. Vending Times estimated that $28 billion was spent in vending machines during 1996. Sales of canned cold drinks and other beverages totaled $18.0 billion and sales of snacks totaled $5.2 billion (Rousseau 1996b). New technologies make it possible to heat frozen and chilled food inside the machine so items are hot when consumers receive them.

Home Delivery Systems

HMR convenience could be enhanced if it was delivered directly to the consumer's door. A survey by Restaurants and Institutions/FMI found that home delivery is more common in foodservice establishments (31 percent) than in supermarkets (19 percent) (Dulen and Lowe 1997a). A survey of 200 chain restaurant executives found they were quite positive about the future of home delivery.

About one out of three restaurants in the sample offered home delivery. Of these, 78 percent expected their home delivery sales to increase in 1998 (Litwak 1997c).

Some restaurants use third-party delivery services. These services negotiate discounts of 20-30 percent on the products they deliver besides charging customers a delivery charge. Takeout Taxi, probably the largest service, delivers about $1 million of restaurant meals per week through 99 franchisees that cover 200 territories (Hammel 1997g; Rousseau 1996a). Other delivery services such as Cybermeals (1997) and World Wide Waiter (1997) have internet sites that accept orders.

In many cities, customers can order groceries by phone, by fax, or by e-mail. Firms such as Peapod, OnCart, and Streamline probably deliver groceries to more than 85 thousand households each week. They also deliver HMR products. Streamline customers order the day before delivery. A central kitchen receives HMR orders by e-mail before 11 p.m. and has all the products prepared and delivered to Streamline's fulfillment center by 8 a.m. for delivery that day (Hammel 1997g).

Some people question whether consumers will trust someone else to select perishable items for them. Current users of home shopping systems seem very willing to delegate those decisions. Peapod sells more produce, as a percentage of the average order, than most stores (Hammel 1997g). A Cornell University study of five home-shopping systems found that 56 percent of the 20 most frequently purchased products were fresh produce (Stickel 1996).

If households are willing to outsource their shopping, there are few barriers limiting the expansion of grocery and HMR home delivery. Andersen Consulting forecasted that in seven to ten years, alternative grocery shopping systems will represent 8 to 12 percent of consumer packaged good sales (Cleland 1997). If this prediction comes true, home delivery systems could be the most serious challenge to in-store HMR programs.

These potential threats do not imply that supermarkets and restaurants should curtail their development of takeout programs. Rather, all four of these options, order-ahead depots, kiosks, vending machines, and home delivery, may represent additional HMR distribution points and volume opportunities for the retailers who aggressively pursue them. Exploiting these opportunities could increase awareness, build brand equity, and even boost in-store sales.

To design a home delivery program, some tips from restaurants with notable systems may help. Successful systems tend to have separate delivery kitchens, dedicated baggers who stand ready to pack the food and route it to drivers, high-quality packaging, and limited menus (Bertagnoli 1996). Restaurant Business (1997) recommends having a separate phone line for takeout orders.

There are benefits and costs with home delivery services. Much of the volume for the stores supplying the service can be incremental. When Byerly's offered home shopping, at least half of the delivery service customers did not use Byerly's as their primary grocery store (Blair 1997). An experiment by Peapod at 12 Chicago Jewel Stores found that about 20 percent of the dollar volume at those stores was from computerized shoppers. Loyalty card shoppers who ordered by computer increased their purchases at Jewel by 62 percent (Food Industry Report 1997c). However, some delivery services have had financial difficulties. An analysis of Peapod's operations found that, for every consumer transaction it fulfilled from 1989 through 1996, the firm lost $53 (Hammel 1997g). Expanded home delivery can also change customer shopping habits and break store loyalty bonds, making shoppers less reliant on any store (Pettit 1997). Most home delivery customers still do some shopping in stores. A typical Streamline customer spends 80 percent of their grocery dollars through the delivery service (Mathews 1997a). However, when they shop from home, customers are not influenced by store merchandising. Most are probably indifferent to which store supplied the items as the deliveries meet their needs. Therefore, store-supported delivery systems may have difficulty building the customer loyalty that can be important for long-term marketing success.

Restaurants and supermarkets are not the only firms offering home delivery. Many companies sell food through catalogs or the internet. Back Home Foods (1997) prepares frozen restaurant-style meals for two, accepts phone and e-mail orders, and ships the meals to customers. Even major manufacturers are testing home delivery. The Campbell Soup Company developed the “Intelligent Quisine” collection of dietetically-correct frozen meals that are delivered frozen by United Parcel Service to consumer’s homes. Participants in the program add fruit, vegetables, and low-fat dairy products to meals. People on these diets have reported significant improvements in some medical conditions. The program costs $79.95 per week for three meals and a snack each day. Less than 10 percent of the clients who enrolled for the 4-week or 10-week plans failed to finish and about 40 percent have signed up for extensions (Weber 1997; Bennett 1997; Kaydo 1997). If more producers move toward direct marketing, retailers will need to market themselves and their services. Fresh HMR products may become an important marketing tool to attract customers back to stores.

HMR can be a major growth opportunity for food retailers who design their initiatives based on sound marketing strategies. This paper highlighted many principles that can help strengthen HMR programs. Although some attempts have failed and others have not generated profits, consumers want items that reduce or eliminate their need to cook and are willing to pay for them. Like many innovations, the acceptance of meal solutions will increase over time. Retailers who build strong programs using the seven key “P’s” for HMR marketing (positioning, product, package, place, price, promotion, and people) and are patient will likely see sales continue to grow.

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