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Improved Food Service Marketing Strategies Reflecting Changing Consumer Values

by

Harry F. Krueckeberg, Ph.D.
Professor of Marketing
College of Business
Colorado State University
Fort Collins, Colorado

Introduction

The USDA in its recent report *Food Marketing Review*, reported that food sales in the United States reached approximately one-half trillion dollars in 1985, a 3.5 percent increase. Some of the additional highlights were:

- The proportion of take-home pay spent for food in 1985 was 15 percent--down from 17 percent--and a loss mainly by grocery retailers.
- 58 percent of food expenditures were for food items eaten at home--down from 73 percent in 1960. 42 percent away from home, up from 27 percent in 1960.
- The market for food away from home will continue to grow through the 1980s but at a slower pace.
- Continued experimentation with new retail and food service formats will likely occur.

Issues Reflecting Consumer Values

These statistics reflect changes motivated by consumers and implemented by the food service industry. These statistics reflect changing issues facing the industry as a result of changing consumer values. Some of the issues facing the food service industry that reflect changing consumer values are:

The desire for greater convenience and leisure

Age difference influences; significant "age" market segments

Time constraints as a result of working spouses

Grazing

Nutritional awareness

Quality needs

Diversity of tastes and preferences

Home entertainment growth

The changing economic situation presents opportunities also:

The economy is in a slow growth or recession period.

There are opportunities for a more effective reallocation of resources to meet convenience and entertainment needs.

Marketing to a consumer who apparently wants to make do with the basics.

Labor market developments need industry attention also:

How will the industry adapt to the teen and the elderly employee labor markets?

Employment strategies that face the relative extreme competition for workers will be required also.

Then there are the other issues:

Legal issues (smoking, liability)

AIDS

Labor regulations (salary and meal credits)

Tip reporting

Government regulations

Meeting Changing Values

What is the food service industry doing to meet and accommodate these issues? Some of the tactics that can be observed in the food service industry are:

1. Offering nutritional information
2. Providing:
 - Healthier alternative foods
 - More vegetables
 - Leaner meat, etc.
3. Offering take out, carry out and delivery
4. Recognizing new competition
5. Moderately increasing menu prices
6. Expanding the menu
7. Upscaling units
8. Using computers
9. Using non-traditional sites

10. Using more frequent promotions

. . . to mention just a few.

Competition and New Concepts

Competition continues to increase between retail food stores and food service operations; as well as among food service operations. Competition is successful because it is filling a need. The following represent a partial list of developments:

More effective differentiation from competition

Satisfying diverse consumer tastes

Increasing home and work delivery

Creating food courts

Developing and serving new items such as:

- Barbecue products
- Pasta
- Pizza
- Gourmet hamburgers
- Premium ice cream
- Asian fast food
- Cajun dishes
- Hot dogs
- Bakery items

Offering lite menu items

The food service industry must understand (and not just *try* to understand) customer motivations and values. The industry must meet the needs of the consumer on mutually beneficial grounds--value for the consumer--profits for the industry--by building business that will not only survive but grow as well.

Change and Its Results

Frank Panyko in his introduction to *Menu for Change* [8] stated that:

Our analysis of the available data found that the tremendous strides made by the limited menu, fast-food sector changed

the nature of the eating-out business, as it responded to consumers' requirement for convenience. We also found, however, that fast-food growth has slowed in "real" terms in the past few years, as overbuilding in the industry spread consumer expenditures among more and more units. Meanwhile, emerging demographic patterns appear to favor the more traditional, full menu restaurant. At the very least, limited menu establishments will continue to be forced into changes in their methods of operation if they are to satisfy the consumer.

What really caused the "change" in the nature of eating out? Was the food service industry the cause or the effect? As stated above, change was a "response" to a desire for convenience. Will this requirement continue? This question in part is answered by Panyko when he stated that:

What has assisted the growth of the away-from-home food and drink market so strongly over the past decade is the expanded willingness to allocate ever-growing shares of income to eating out. Lifestyle alterations necessitated the change to a great degree, certainly, and affluence allowed for these discretionary consumer expenditures. But all across the U.S., even in areas where economic growth was not as prevalent, we found the share of disposable income allotted to eating out increasing significantly. Thus the role played by the commercial foodservice industry took on more importance in the everyday lives of Americans. If the industry can maintain this role continued growth is likely, even as the nature of the business changes to meet new demands on it.

Whose Figures Do You Believe?

Have you ever tried to predict and substantiate projection figures for food service sales? The 1986 sales projections for the food service industry were:

	<u>Billion</u>
Restaurants and Institutions	\$172.3
National Restaurant Association	\$185.9
Private Consulting Firm	\$203.9

SOURCE: Reference [12].

Are these projections definitionally flawed? Are the differences due entirely to the assumptions used? How accurate were the bases of these projections?

Each of the three projections is probably valid to a certain extent, given the circumstances.

The industry is trying to respond to figures that vary a great deal. There is a "problem" of accurate definition, valid data and reliable prediction tools in the food service industry.

Are accurate projections a problem in trying to satisfy the needs and values of the customer?

Measuring the Signs of the Times

Projections are very important for measuring trends and market developments--the signs of the times. The experiences of food service management represents a pool of resources for fulfilling the wants and needs of the customer based on trends and projections. How can this pool of resources better be used to facilitate decisions which can more positively affect tomorrow's performance?

Can the trends in sales volume, in total and by segment; distribution of sales; average check size; inventory turns; and payroll accurately assist management in measuring the economic signs and the consumer wishes?

The food service industry is in the computerized century representing a potential for very accurate sales analysis, research projects and sophisticated management techniques. The industry must keep pace by accurately

determining acceptable and potential new concepts.

Restaurant Concepts

As Conroy [11] has stated in her article:

Competition in the food service industry has operators scrambling to explore new ways to differentiate themselves from others while still satisfying diverse consumer tastes and needs.

Most popular in 1986: Barbecue, pasta and pizza delivery; 50 percent of consumers patronized these three during the first quarter of 1985.

Who was willing to try new concepts? In 1985, the market segments most eager to try new restaurant concepts included:

- Working women, 18-24 years old
- College graduates
- Individuals with household incomes of \$30,000 a year or more

How can management determine that a new concept trend is developing?

Can management create a concept trend?

Responses to Nutritional Concerns

There is significant literature [10 and others] documenting the concern for nutrition among consumers. This concern has been manifested in such ways as:

1. Greater awareness and concern for nutrition
2. Conscious eating habits
3. Desire for more vegetables, fish, and salads
4. Consumption of less fat, meat, salt, sugar
5. Popularity of light and lean meals

The food service industry has reacted positively in a number of ways. Manufacturers

have developed numerous new products to meet consumer needs. Restaurants have made available such things as diet beverages, decaffeinated coffee, and fresh fruits. There has been a concerted effort to accommodate special requests for products and special preparation requests. Health and nutritional menu selections are being provided. Nutritious fares are being promoted as well as changes in reaction to customers' preferences for more salads and lean meat items.

Ingredient Disclosure Programs

A number of states, through their state's attorney general, have asked restaurants to institute an ingredient disclosure program. Consumers and consumerists are "asking" for this type of information. Consumers have developed definitions for junk food. Junk food used to be any food someone else decided I shouldn't eat. Now it is becoming those foods I decide for myself that I should not eat.

Ingredient disclosure was not an industry initiative. It has taken legislation to force the issue, but legislation is the result of changing consumer values. As a result, the industry is being forced into marketing strategies that better serve the consumer and their needs and values.

Food production in food service units is changing also. Recipes are being revised to conform to the wishes of the consumer--and many chefs never thought it could or would ever be done.

Crisis in Service and Service Training

Recently a food columnist for the *New York Times* said [13]:

Many servers seem to take no pride in their work. They don't know how to clear a table. They are extraordinarily inattentive. They are never there when you need them.

The server is the interface between the consumer and the operation--until the food arrives.

There are rising expectations by consumers. Society is becoming more experienced--if not older.

There is a probability that the problem will get worse as the number of job openings exceed the number of applicants.

In part these developments have been in response to the franchise boom of the 1960s and number of jobs available with little or no pressure to do well. Others report that changes in family structure and public education have weakened the values intrinsic to delivering good service. Some say that employees have no staying power, while others feel that hospitality management schools fail to emphasize good service. What is the remedy? Jerry Goodwin, and again quoting from *NRA News* [13] said:

Youngsters who fail to learn "the ethic of courtesy" at home or in school may never really master that concept when they enter foodservice jobs

Providing the proper quantity and quality of training is a prerequisite for quality and consistent service. Why is it not being provided? Who should provide it? How can it best be accomplished? And what will be the overall result of a better trained food service employee?

Employee Turnover

The cost in time, skill and dollars of investing in human resource development reflects reasons why so little training is being done. Service is poor, people are rude and ungroomed, tables are not clean, plates are poorly presented--all symptoms of little or no training or retraining.

One reason is employee turnover. What is an efficient rate of turnover? What rate is too high? Too low?

The NRA and Bureau of Labor Statistics [15] reported employment of 1,464,000 waiter/waitress and assistants jobs in 1984 and, at the same time reported 746,000 replacement

jobs for 1984. This represents a turnover rate of 50 percent nationally for 1984.

To make matters worse, a study by Arthur D. Little, Inc. used as a basis for NRA's Current Issues Report. *Foodservice and the Labor Shortage*, "projects that by 1995 the foodservice industry will experience a shortage of 1.1 million workers unless employers make adjustments to such factors as pay and benefits or tap new labor resources" [14, 15].

Increased Minimum Wage

There have been several bills introduced recently in Congress raising the minimum wage. It is proposed to raise the current level of \$3.35 per hour to \$3.65 in 1987 and \$3.95 in 1988. One proposal indexes the wage to inflation and would increase the minimum wage by 5 percent annually beginning in 1987.

What would be or could be some of the results? The NRA [18] reports that an increased minimum wage would put inflationary pressure on all wages; increase the average hourly earnings, increase unemployment and increase menu prices.

Impact of the Senior Boom

The number of persons age 65 and over (and living to tell about it) is increasing rapidly each year--approximately 28 million persons in 1984; and the percent of the total population reaching age 65 and older is approaching 11.9 percent [17].

This continued growth in the number of older Americans will influence the marketing strategies of restaurants and the food service industry.

The changes will occur because of a larger population segment with substantial purchasing power and special dietary needs. Some of these changes call for the serving of smaller portions, lunch time "dinners," reduced calorie items, less sodium, less sugar with light menus, more adult fare provided by the fast food industry, and renovated eating environments.

Restaurant Survival or Failure

Dun and Bradstreet [9] reported that 157.6 eating and drinking places failed out of every 10,000 concerns in operation in 1984, second only to apparel and accessory stores. Why this failure rate? Dun and Bradstreet reports that nine out of ten business failures are due to poor management.

Good or bad? What are the implications for the industry? Failures are a reflection of management's ability to adapt to or accommodate, in a profitable way, the changing wants and needs of the consumer.

Failures reflect competition and the ease of entry into the market. Should failures be prevented? "No," because entry means improvement--improvement in the value of eating out to the consumer. "Yes," because failures mean that somebody--you and I--have to pay for the liabilities created by the failures.

Why do restaurants fail and how can failure be avoided or at least the chances reduced of going bankrupt [9, p. 39]?

The Franchise Concept

Adams [16] in the *NRA News*, reported that:

- Restaurant franchising accounted for an impressive 41.5 percent of total eating place sales in 1984, compared to 21.3 percent of sales in 1970.
- Hamburger franchise restaurants continued to dominate with 50.7 percent of sales, while
- Mexican franchise restaurants experienced the strongest sales again in 1984--an impressive 25.6 percent increase.

(Note: Franchise restaurant sales are projected to reach \$53.8 billion in 1986; roughly a 20 percent increase)

Why is the "franchised" restaurant so successful? The concepts being franchised are better satisfying the needs and reflecting

the values of the customer. New concepts being franchised are better able to compete for customer patronage.

C-Stores and Food Service

To quote Anna Papa in *NRA News* [6]:

C-store owners are not likely to be knocking down grocery shelves to make room for 100 percent, full-fledged fast food operations in the near future. But when evaluating the market place, food-service operators would be wise to recognize C-stores as significant competitors in the fast food market.

As reported in the *1985 State of the Convenience Store Industry* fast food sales in 1984 were 9.7 percent of non-gas sales compared to 8.9 in 1983 and 1.5 percent in 1972--a 547 percent sales growth in 12 years. And, 95 percent of the stores reported microwave equipment in 1984 [5].

Convenience stores represent new competition in the food service market place. C-stores will influence restaurant sales and other food service operator's sales. What are the implications of this sales growth?

Why C-store growth in food service sales? Research conducted for Circle K found that 70 percent of the customers who shopped Circle K outlets did so primarily for convenience--"right around the corner." C-stores have high market penetration and visibility in many markets; they stay open 24 hours; and supply gas and groceries.

Customers have come to expect a wide variety of grocery items on the C-store shelves and this has carried over to fast foods and this variety is an attractive selling strategy. C-stores have built their reputation on an ability to provide fast service--completing a transaction in two to three minutes.

The Future for the Small Distributor

Mergers and acquisitions have left many food service markets void of extensive competition among food service distributors. Does

this mean a void exists which might be filled by a small distributor or vendor? What is the future of the small distributor?

The Future for the Small Food Processor

New items, entrees and meals are the life blood of the food industry, both retail and food service. What is the opportunity for the small processor in the food service market? Marketing a product today is no easy task but can a small single item processor or manufacturer "make it" in food service?

A partial answer to this question is implied in a statement by Goodman [18], who said:

I think the foodservice market is easier for the smaller processor because he does not have to put all his money into advertising to promote his name. He mainly has to put out a good quality product and service his customers well.

What is the future of the small processor?

In Conclusion

The purpose of this paper has been to highlight some of the many significant developments in the food service industry reflecting reactions and new marketing strategies resulting from changing consumer values.

The food service industry has had to react to consumer tastes and preferences for natural foods, no additives, and "real" products. The consumer has expressed a great desire for convenience and comfort--ideal locations--and new channels of distribution: drive-up windows, carry-out, catering and self service.

Ideal locations are becoming more scarce but at the same time more units are being built. This has created a high demand for employees who have traditionally been young and are now in scarce supply. Alternative labor pools are being tapped, namely the elderly.

New channels of distribution, namely the C-store and the food store are having an important impact on food service. These two outlets reflect the desire for convenience and are now acceptable sources of food to be eaten away from home or at home.

I define marketing as "the activity facilitating the exchange of value at a net gain to both the buyer and seller." The food service industry has had to fight and scrap to maintain the balance of value exchange but has been successful because of its willingness and ability to reflect changing consumer values.

Questions to Consider Regarding . . .

Improved Food Service Marketing Strategies Reflecting Changing Consumer Values

- A. Assume that the problem is one which immediately faces the *food service operator*.
1. What is the food service industry doing about it today? (Who is doing it?)
 2. What can or should the food service *operator* do to solve the problem . . . and what needs to be done now?
 3. If the problem immediately faces the operator, what can or should the food service *distributor* or supplier do to *assist* in solving the problem?
 4. What role could the food service *manufacturer* play in solving the problem?
 5. What role could the *trade association* or local, state or federal *government* play?
- B. Assume that the problem is one which immediately faces the *food service distributor*.
1. What is the food service industry doing about it today? (Who is doing it?)

2. What can or should the food service *distributor* do to solve the problem? What needs to be done now?
 3. If the problem immediately faces the distributor, what can or should the food service *operator* do to *assist* in solving the problem?
 4. What role could the food service *manufacturer* play in solving the problem?
 5. What role could the *trade association* or local, state or federal *government* play?
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