New Insights Into the Home Meal Replacement Opportunity

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A recent survey by Restaurants and Institutions of more than 1,800 adults found that 71 percent did not decide what to have for dinner on a weekday until after 4:00 p.m. (Waters, 1998). The magazine also said that $136 million are spent on dinner each night, suggesting that more than $100 million in consumer food spending is up for grabs every weekday evening. To address this opportunity, food marketers (for example, restaurants, supermarkets, convenience stores, distributors, and manufacturers) developed home meal replacement (HMR) or meal solution initiatives, consisting of partially or completely prepared meals and meal components. Many HMR concepts have already attracted a large customer base. A National Restaurant Association study found that 70 percent of households make at least one carryout food purchase during a typical month (Research Alert, 1998). Since many HMR programs are relatively new, there is still much to learn about the market for convenient, prepared foods.

Developing a generally accepted definition of HMR has been challenging. Category boundaries affect the size and projected growth of the opportunity. For example, Technomic, Inc., defines HMR as freshly prepared, away-from-home items, including both ready-to-heat and ready-to-eat foods, for immediate consumption at home. They estimated that HMR sales totaled $47.0 billion in 1997 and will increase to $67.0 billion by 2002. Supermarket HMR sales will increase from $8.9 billion in 1997 to $14.3 billion. Technomic, Inc., also tracks a much broader category that they call convenient meal solutions (CMS). CMS includes HMR, ready-to-make foods, and frozen foods along with foodservice meals and components that are fully prepared and eaten away from home. Estimated CMS sales in 1997 were $142 billion, and predicted sales will reach $182 billion in 2002 (Litwak, 1998; IDDBA, 1999). Another source, Find/SVP, projected that meal solution sales will increase from $85.2 billion in 1997 to $109.9 billion in 2002 (Food Management, 1998). Takeout Business predicted that the takeout market will grow from $126.4 billion in 1997 to $195.4 billion in 2007 (Food Institute Report, 1998). Other definitions make the HMR opportunity appear even larger or suggest that it will grow even faster. No matter how HMR is defined, there seems to be general agreement in the food industry that consumers will buy more convenient foods in the future.

This paper summarizes what has been recently learned about the HMR or meal solution category and about how to market these foods to consumers. The first section addresses five common misconceptions about the HMR opportunity. Then, seven useful tools for HMR marketers are discussed. The final section looks at what actions retailers, manufacturers, and academics should consider to facilitate the growth of HMR.

Misconceptions About Home Meal Replacements

Five misconceptions could affect how food marketers approach the HMR opportunity. The first misconception is that consumers have recently changed the manner in which they prepare food. In reality, changes in meal preparation and in foodservice spending have been quite gradual and somewhat limited. The percentage of in-home dinners containing at least one completely homemade item has fallen less than 10 percentage points since 1985, from 63.5 percent in 1985 to 54.7 percent in 1998 (NPD Group, Inc., 1997; Progressive Grocer, 1998). A National Restaurant Association (1996) analysis of the 21 traditional meals per week showed that more than 77 percent of the non-skipped meals were privately prepared in 1996 compared with 80 percent in 1981. The proportion that were commercially prepared increased less than three percentage points during that 16-year period. One important shift has been in the place at which commercially prepared meals are consumed. The number of restaurant meals consumed off-premises now exceeds the number consumed on-premises. In 1985, the average adult purchased 70 restaurant meals (or snacks) for consumption on-premises and 45 meals for consumption off-premises. By 1997, on-premise meals had fallen to 64, and off-premises meals...
meals had risen to 66 (Bishop, 1997; NPD Group, Inc., 1998). This trend toward more takeout food sales contributed to the interest in HMR by many food marketers.

Some people assume that most HMR consumers are time-stressed families with children. If HMR marketers target families when most consumers are adults without children, they may miss much of the potential volume. At the national level, 41 percent of restaurant take-home dinner purchases involve children, either the products are consumed by children only or by adults and children. The remaining 59 percent of restaurant take-home dinners are for adults (NPD Group, Inc., 1997). In many areas, HMR marketers should highlight products that appeal to adults to attract most of the takeout business.

Another common error is to assume that most HMR buyers purchase their evening meals on the way home from work. Research by the NPD Group, Inc., (1997) revealed that 57 percent of households were at home prior to buying a restaurant dinner to be eaten at home. Only 13 percent were at work. Although most consumers do not decide what they are going to eat until after 4:00 p.m., most HMR customers go home, perhaps to discuss what to buy with other household members and then go out to buy the evening meal. Eventually, marketers may be able to encourage more HMR shoppers to plan ahead and stop on the way home from work. However, using marketing messages today that suggest customers stop on their way home from work may not be particularly effective.

The fourth common misconception is that shoppers usually choose what HMR items to buy when they are in the store. One model of the consumer’s decision about where to eat a main meal is shown in Figure 1. About two-thirds of the time they will eat at home. If they choose to eat at home, about 9 percent of the time they will order takeout (NPD Group, Inc., 1998). However, focus groups suggest that another factor plays a major role in the decision process. Instead of discussing whether to order takeout, many households decide what entree they would like. The entree choice affects the likelihood that the meal will be takeout. For example, if they decide to have pizza, takeout is quite probable. On the other hand, if they decide to have fish, it is very likely that they will make it at home. This finding suggests that many HMR buyers are seeking a particular entree when they are shopping, reducing the number of choices made in stores.

Figure 1. Consumer Decision Process on Where to Eat.

![Figure 1: Consumer Decision Process on Where to Eat](image-url)
The final misconception is that supermarkets can easily enter the prepared food business. A McKinsey study by Farell, Mitchell, and Allredge (1996) concluded that all incremental U.S. food sales in the next 10 years could be captured by the commercial foodservice segment and could encourage many changes in the food industry. Retailers were initially enthusiastic about going to "war" with restaurants over the growing takeout business. After several years of experience with prepared foods, many operators now express concern because some "battles" have not gone well. A study of the foodservice operations in 10 major supermarket chains concluded that the average store is losing about $19,000 per year on HMR (Hale Group, Ltd., 1998). Boston Market's bankruptcy and subsequent closing of more than 15 percent of their stores added to the industry's anxiety about HMR. An executive of 7-Eleven summed up the problem: "Like everybody else in the industry, we've learned that [HMR] is not nearly as easy as it sounds." (Burgess, 1998)

New concepts often take many months after their introduction before they become profitable. HMR has an added problem because most supermarkets and convenience stores lack the necessary skills to run a foodservice operation. Research by McKinsey and Company (1998) found that food costs as a percentage of sales were 10 to 20 points higher for grocery-related HMR formats than they were for restaurants. Higher food waste was the main difference. Labor costs for grocers were 10 to 15 points higher. Bill Reynolds—associate vice president of the Culinary Institute of America—said, "Preparing fresh food is not an offshoot of retailing. It's a different business." (Tosh, 1998) Even some restaurants who tried to expand into the takeout market had difficulties (Larson, 1998). These five misconceptions and other limitations with the HMR concept can be overcome. If retailers have a customer base that will support HMR, over time, they can learn to fine-tune their production systems to reduce waste and to raise labor productivity, to enhance their marketing efforts, and to improve the financial returns from prepared food.

**Key Marketing Tools**

**for Home Meal Replacements**

Larson (1998) described seven key "Ps" for HMR marketing that can help manufacturers and retailers to improve their performance. Positioning is the first tool. If customers perceive a store to be a place to buy ingredients, they may not think of it when they are considering a takeout purchase. In a survey cited by McKinsey and Company (1998), only about one-third of the customers who buy prepared food in grocery stores either plan these purchases in advance or go to a supermarket solely to buy prepared foods. Given the process that many consumers may employ when deciding where to eat, top-of-mind awareness of what major entrees are available is important. To boost shopper awareness that a retailer sells prepared food, they must explain the program and position the store as a source for meals and meal components. In the United States, this may mean describing HMR as a substitute for eating out or as something that restaurant-quality food buyers can eat at home. For Europe, Deloitte and Touche (1998) suggest positioning HMR as an alternative to shopping for ingredients and preparing meals at home. A similar positioning could work in the United States because, in one survey, 73 percent said their primary alternative to HMR was cooking at home, not eating at fast-service or full-service restaurants (ID, 1998). No matter what positioning is selected, once consumers develop the associations and linkages that describe a business, changing the positioning is very difficult.

Product is the second tool. Consumer preferences may affect many marketing decisions, including the recipes used, the production equipment employed, and the service provided. HMR marketers should go beyond tangible product attributes and work to enhance their product's image in the freshness area. In one survey, 45 percent of respondents strongly agreed that they would buy more takeout foods if they could be sure that the food was fresh (Vosburgh, 1998). Marketers also should consider food safety. Besides following good food safety procedures, training the production and sales personnel, and setting standards for suppliers, educating customers about food safety may be necessary. In a survey by Prevention magazine and NBC, 29 percent of respondents admitted eating unrefrigerated takeout food more than two hours after buying it (Dulen, 1998). To employ the product tool, HMR marketers must ensure that their products meet or exceed their customers' needs and expectations.

The next two marketing tools are package and place. Package issues include making products portable, boosting shelf life, attracting and
informing buyers, and improving convenience. Place issues include reducing customer delays, adding flexibility, and providing the services that buyers want. Both tools can contribute to the success of an HMR program.

Price is the fifth tool. The profitability of a program can be hurt if prices are too high or too low. Marketing research on competitor pricing and on consumer demand at different price points can help marketers select a pricing strategy. Some evidence suggests that supermarket takeout buyers tend to have lower incomes than restaurant takeout buyers (Abt Associates, Inc., 1998; NPD Group, Inc., 1997). Besides analyzing the local market's willingness and ability to pay for HMR, marketers should consider pricing by the bundle (for example, whole meal pricing) and by the serving instead of pricing by the pound. In some markets, customers may expect HMR prices in supermarkets to be lower than they are in restaurants. By using marketing tactics that highlight and enhance product value, the buyer's willingness to pay for HMR items may increase.

The next HMR marketing tool is promotion. Advertising and promotion are important for communicating a positioning, for building customer traffic, and for generating trial. Product guarantees, sampling, cross-merchandising, loyalty programs, and co-branding have all been used to enhance HMR sales. Because some promotions are very expensive or can create logistical problems, pretesting promotions can help reduce the number and severity of marketing mistakes.

The final marketing tool is people. HMR marketers have been hiring people with foodservice training and experience to develop products and to manage operations. Building a team environment and creating a foodservice culture may help to strengthen an HMR operation. Having the right people preparing the food and interacting with customers can be pivotal for success. Robert Mariano, President and CEO of Dominick's pointed out: “The person behind the counter is critical to the success of the operation.” (Lenius, 1997) Besides hiring the right people, HMR marketers need training programs that keep their staff up-to-date on new operations and marketing developments. By combining good people who are well-trained with the six other key marketing tools, HMR marketers can dramatically improve their sales and financial performance.

**Implications for Retailers, Manufacturers, and Academics**

HMR appears to be a long-term growth opportunity for food retailers, distributors, and manufacturers. As retailers gain experience and develop their prepared food skills, their HMR departments' sales and profitability will improve. Retailers who emphasize HMR should consider local marketing programs, adjusting their offerings to local preferences and reviewing each item’s profit potential by store. They may need a research program that regularly examines the decision rules that buyers employ and the sensitivity of customers to price changes. HMR retailers will also need to hire people with foodservice production, finance, and marketing/marketing research skills. Some of these people will have college degrees in food science or business and will work in central kitchens to improve operations or at company headquarters to plan and evaluate HMR initiatives.

As consumers become more comfortable with HMR, retailers may use alternative points of distribution. These could include children’s day-care (where buyers place orders in the morning and pick up prepared meals at night), kiosks and order-ahead depots (where customers can conveniently stop and buy HMR or can submit orders in advance and pick them up), and restaurants and convenience stores (where branded items that were developed by the HMR retailer could be sold). Some HMR marketers may contract with delivery services although these services usually receive a 30 percent commission (HMR News, 1998). Making the process that consumers employ to order and acquire food more convenient presents additional opportunities.

Retailers who market HMR also face several risks. Negative publicity about unsafe handling practices at one HMR retailer could hurt the reputation of the whole industry. An economic downturn might reduce the number of people who buy commercially prepared food. New competitors may enter the HMR market. Ron Paul, President of Technomic, Inc., predicts that, within three to 10 years, major restaurants will launch small, carryout concepts in big cities (Ramseyer, 1998). In spite of these challenges, the future for retailers who carefully plan and market their HMR concepts looks bright.

For many years, distributors and manufacturers of foodservice products have advised restaurants on marketing, finance, and operations issues. As HMR
sales increase, restaurants will ask more questions about takeout food, and other retailers will seek advice. Distributors and manufacturers will need to enhance their expertise in the HMR area and to make preparations to provide counseling to new foodservice clients who specialize in takeout.

By partnering with retailers, manufacturers can improve the execution of HMR programs. Packaged food manufacturers can support new “meal solution” marketing initiatives at stores by developing more joint promotions with complementary products. These promotions might include recipe giveaways in which the recipes list several branded ingredients or joint displays where consumers can select all the items needed to prepare a meal. To help retailers distinguish themselves in the HMR marketplace, manufacturers could supply private-label HMR items to stores. Given the volume potential of prepared foods, the suppliers of HMR retailers are also likely to see significant sales growth.

The recent growth and long-range potential of HMR also has implications for academics. The market for prepared foods is relatively unexplored. Retailers, manufacturers, and policymakers need more analysis on the range of convenient food options, on the willingness of consumers to pay for convenience, and on the tradeoffs that HMR buyers make. Because the prepared food business has many unique characteristics, more classroom training on foodservice marketing/marketing research and food finance is needed to provide the skilled employees that HMR marketers seek.

HMR is a major growth opportunity for food retailers, distributors, and manufacturers who design their initiatives based on sound marketing strategies. Five misconceptions about the HMR market have been discussed in this paper, and seven marketing tools that can help to strengthen HMR programs have been highlighted. Although some attempts have failed and others have not generated profits, consumers want foods 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. Firms who are patient and are building strong HMR concepts will likely see their sales continue to increase.

References


