Evolution of the Food-Away-From-Home Industry: Recent and Emerging Trends

Patrick W. McLaughlin and Christopher W. Dicken*
USDA Economic Research Service

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Introduction
Americans increasingly consume more food-away-from-home (FAFH) both in terms of food budget and the share of total calories consumed, which are trends that have been observed since at least the early 1970’s. This largely continued the past decade, with a slight decline during the Great Recession, with FAFH consumption now rivaling that of food-at-home. For instance, the average American spent roughly 43% of her food budget on FAFH compared to 25% forty years ago (USDA ERS 2014). The newly dominant role of FAFH in Americans’ food consumptions partially contributes to increasing worry over individuals’ diets and nutrition, as FAFH is often more dense in calories, fat, and added sugars yet relatively devoid of other key nutrients compared to food-at-home. Excess consumption of these types of nutrients have negative demonstrated implications for the healthiness of children and adults, and hence is a concern for nutrition and health policy. Additionally, this trend has implications for the food industry broadly, as total expenditures on FAFH now rival that of FAH.

Contemporaneously, the size of the supply of FAFH, in terms of sales and number of establishments grew, with subtle changes in the composition and structure of firms. This paper presents and discusses some key changes in this industry over the past decade using government and commercial data, as well as industry and popular publications.

Market Size and Structure
In the past decade, the FAFH industry saw significant net increases in both the total value of sales and the number of restaurants operating in the United States. The primary driver of this growth was gains in the number of chain QSRs, while other formats stagnated or
slightly declined in numbers. This continues the trend of QSRs overtaking FSRs as the modal establishment (Stewart 2011), with the numbers of chain QSRs and predominant independent FSRs approaching each other. One implication may be a decline in the healthiness of food environments, as QSRs may tend to offer less nutritious yet calorie dense food at low prices (Lin and Gurthrie 2012). In addition, QSR growth continues to drive the increased dominance of chain restaurants in the industry. In contrast, the presence of independent QSRs remained relatively constant.

Table 1 Growth Rates of Total Sales for FSRs and QSRs. Source: U.S. Census Bureau Monthly Retail Trade and Food Services

<table>
<thead>
<tr>
<th>Time Period</th>
<th>FSR</th>
<th>QSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-2000</td>
<td>6.5%</td>
<td>4.8%</td>
</tr>
<tr>
<td>2001-2007</td>
<td>5.8%</td>
<td>5.8%</td>
</tr>
<tr>
<td>2008-2010</td>
<td>0.04%</td>
<td>2.4%</td>
</tr>
<tr>
<td>2011-2015</td>
<td>6.4%</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

Some trends in format growth seemingly weathered the time period encompassing the Great Recession of December 2007 to June 2009 unscathed. In general, the FSR sector fared worse than QSRs, especially chains, which continued to steadily grow, as will be depicted in a figure to come. In addition, QSR sales grew at an anemic 2% during this time, while FSR sales stagnated (Table 1). With the economic recovery, both sectors returned to previous trends with sales growing at roughly 6% per year. The share of FAFH sales between the two formats continued to be roughly equal, after QSR sales rose to rival those of FSRs in the late 1990s (Stewart et al. 2004).

The geographic patterns of growth will be reported here following advances in data quality and understanding, and will comprise the bulk of this piece.
As a characteristically highly competitive industry, FAFH saw low sales concentration ratios among brands and brand owners, despite several high profile mergers and acquisitions among key firms.\textsuperscript{1} FSR sales are highly unconcentrated with four-firm and twenty-firm concentration ratios being roughly 7\% and 16\% over the past decade. The QSR sector, on the other hand, is comparatively more concentrated with 30\% of all sales accruing to the top four brand owners (Figure 1).

![Figure 1 Concentration of QSR Sales Among Top Ranking Firms, 2006-2014. Source: Euromonitor Passport.](image)

In general, the relative position of dominant firms remained constant (Figure 1).\textsuperscript{2} In addition, the shares of sales to QSR restaurant categories remained the same, with most sales accruing to the fast-food burger market (Table 2). An exception to this characterization can be observed in the twenty-firm concentration ratio for QSR sales, which grew by nearly 10\% from 2006 to 2014 (Figure 1). This change reflects the

\textsuperscript{1} For example, Restaurant Brands International owned by private equity firm 3G Capital acquired Burger King and Tim Hortons. Both of these brands consistently rank among the top ten of all QSRs.

\textsuperscript{2} That is, one QSR brand remained the first-ranked in share of sales throughout the decade.
growing dominance of chain fast casual restaurants (discussed in a subsequent subsection) in this sector. For example, the top fast casual chains ranked near twentieth place or below in terms of sales in 2006, but climbed to nearly the top 10 by 2014. Table 2 also reflects this shift: a modest decline in the share of the hamburger category occurs with small upticks in the shares of the Subs/Deli/Other Sandwich and Mexican categories, to which Panera and Chipotle, the two largest fast casual chains, respectively belong.

Table 2 Concentration of QSR Sales Among Top Ranking Menu Categories, 2006-2014. Source: Euromonitor Passport.

<table>
<thead>
<tr>
<th>Category</th>
<th>2006-2008</th>
<th>2009-2011</th>
<th>2012-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hamburger</td>
<td>44.9%</td>
<td>44.4%</td>
<td>42.4%</td>
</tr>
<tr>
<td>Subs/Deli/ Other Sandwich</td>
<td>14.8%</td>
<td>16.6%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Pizza/Italian</td>
<td>10.6%</td>
<td>10.3%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Mexican</td>
<td>6.6%</td>
<td>6.9%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Other</td>
<td>23.1%</td>
<td>21.8%</td>
<td>22.0%</td>
</tr>
</tbody>
</table>

**New Trends in Formats and Menu Quality**

Industry reports point to changes in menu offerings with implications for the market structure of agriculture and healthfulness of American diets, including those of children. In addition, changing formats of menus may influence how some consumers make FAFH choices. Several distinct culinary trends are reported to drive recent changes in menu offerings with consequences for agricultural markets. These decisions can be driven by expansions into certain food-type segments or achieving certain qualities of the final product.
One such trend is the increased availability of breakfast options, especially at QSR establishments. For example, in Fall 2015, McDonald’s began offering breakfast items for the duration a restaurant is open, where previously such items were only sold in a time period limited to the morning (McDonald’s 2015). Other QSR chains have also recently introduced breakfast menu items or experimented with menu offerings and prices, although the share of breakfast sales for most firms remains low (Jargon 2016). As many of the fast-food breakfast options include eggs, some analysts have predicted a rise in the prices of eggs or shortages of the product, although to date, recent fluctuations in egg prices have been attributed to an avian influenza outbreak (Strom 2015, Kuhns and Harvey 2016). Nevertheless, the QSR industry that serves egg-focused breakfast items is bound to have an effect on the cost of the egg producing industry as, for instance, chains, such as McDonald’s, are increasingly pledging to migrate towards using only cage-free eggs in the near future (Baertlein and Ramakrishnan 2015).

Additionally, across all segments of FAFH, chefs and food producers report increasing the availability of items using ingredients that are deemed locally and/or sustainably sourced, including meat or seafood and produce (NRA 2015). Some full-service restaurants have also focused on “hyper-local” sourcing, especially of produce, where restaurants may operate or have a close buyer relationship with farms or gardens. These types of establishments may also go by “farm-to-table”, implying ingredients and other inputs are sourced directly from growers or small intermediary buyers. Overall, restaurants report increasingly modifying their menus to cater to health concerns and dietary restrictions, including children menus. However, these types of food quality claims are not regulated by any government agency and incidental reports of
fraud in this area have emerged. For example, the Tampa Bay Times ran a series of exposés on local restaurants claiming to offer menu items with certain qualities (e.g., sourced from a particular supplier) that were later verified to be false.

**New Formats**

The past decade also saw the emergence or growth of several unconventional restaurant formats. Mentioned in previous sections, one of the most prolific new formats is the so-called “fast casual.” While no formal industry definition exists, a fast casual restaurant is loosely interpreted as a hybrid of QSR and FSR restaurants. The QSR elements fast casuals embody tend to be are counter-service (as opposed to servers taking orders), convenience (e.g., food prepared quickly in assembly line format) and relatively lower prices; however, the perceived higher quality of menu offerings and ingredients as well as the ambiance of casual FSRs is retained. This is consistent with larger consumer-driven trends towards higher quality, potentially healthier menu items but at relatively low prices.

The idea of the fast casual first emerged, primarily as an industry-specific term, sometime in the late 1990s to early 2000s, where annual sales in this segment already reached $1 billion (Zuber 2000). Much of early fast casual market share went to large chains, eclectic in menu offerings, including Chipotle Mexican Grill, Noodles & Co., and Cosi. Since then, fast casuals have been consistently the fastest growing segment of the FAFH industry. Although the sales of fast casual chains sales do not rival those of historic QSR juggernauts (e.g., McDonald’s), this segment saw 13% and 16% in sales growth in 2012 and 2013, respectively (NRA 2015). This is more than double than the growth experienced by the QSR segment as a whole (Table 1).
Another fast growing segment is mobile food services, which includes food trucks.

References


