Fast Food Chains Penetrate New Markets

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The sluggish economy has spurred stiff competition among fast food operators—pushing for higher sales with price wars, "value meal" discounts, coupon promotions, and expanded menus. Many are making inroads to new markets with smaller mobile units and supermarket and school outlets. And, fast food companies are continuing to expand into foreign countries.

From 1954 to 1992, the share of food dollars spent on foodservice increased from 25 percent to 46 percent (fig. 1). These away-from-home meals and snacks accounted for 22 percent of all food consumed in 1954 and 33 percent by 1992. This occurred despite the fact that prices for food prepared outside the home rose 37 percent more than prices of food bought in grocery stores.

Rising incomes and changing lifestyles are primary reasons for the increase in spending. Multiple-income households, more women working outside the home, and the desire for quality, convenience, and service provide incentive for eating out.

Most of the growth in away-from-home eating has been in the fast food sector. Fast food's share of away-from-home food spending rose from 8 percent in 1948 to 35 percent in 1992. Fast food sales rose 1.8 percent in 1991 to $78.1 billion and another 9.1 percent in 1992 to $85.2 billion.

Fast food outlets are establishments in which food is ordered and picked up from a counter. Most, but not all, fast food establishments have eating facilities located elsewhere inside. Fast food outlets offer more limited menus than generally available in table-service restaurants.

Franchising has become a popular vehicle for the fast food sector's growth, because the parent firm expands operations with limited capital investment. Most franchises closely resemble large corporate chains—with trademarks, uniform identification symbols and storefronts, and standard products and prices.

Fast food's share of the away-from-home food dollar had soared from 8 percent in 1948 to 35 percent by 1992. New points of distribution offer even more expansion opportunities.

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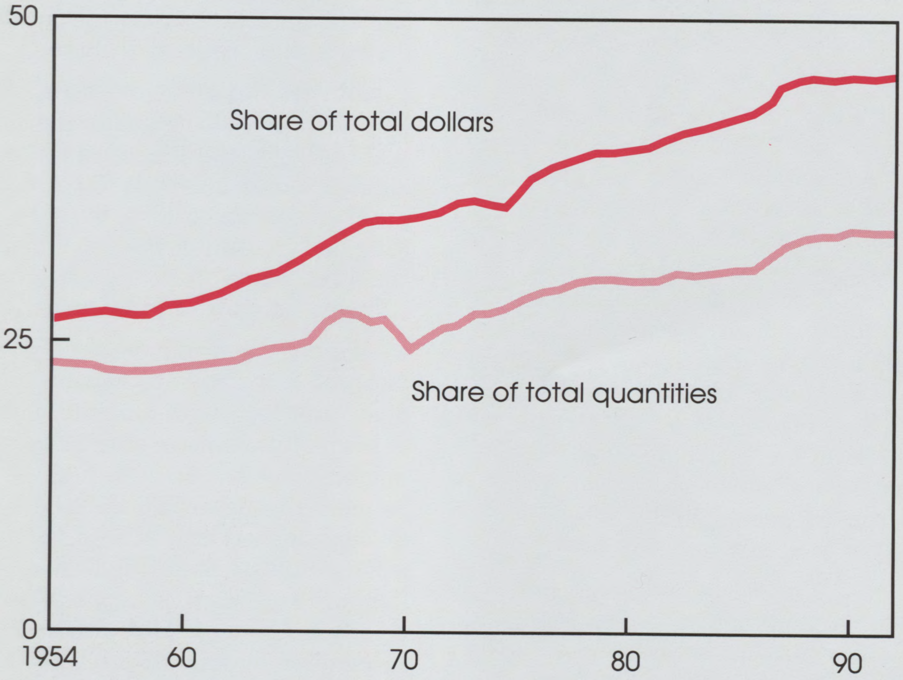
Figure 1

Foodservice Captures an Increasing Share of the Food Dollar



Source: Manchester 1991 and updates.

Off-Premise Traffic Growing...

In addition to providing dining areas, fast food places also offer services for off-premise consumption, such as drive-thru's, carryouts, or delivery.

According to data collected by the NPD Group (an industry research firm), with continued demand for convenience, growth in off-premise traffic (visits or phone calls) has outpaced growth in on-premise traffic. In 1990, 46 percent of restaurant traffic was off-premise, up from 44 percent in 1987. At the same time, on-premise traffic declined from 56 to 54 percent.

Carryout, the dominant form of off-premise sales, had been losing sales to drive-thru's and delivery, but seems to be on the upswing. Carryout sales accounted for the largest traffic growth in 1990, increasing 4 percent from 1987 levels, followed by 3 percent for drive-thru's. Deliveries posted no growth between 1987 and 1990.

...As Are Alternative Outlets

Flat sales per unit, rising real estate costs, and near saturation in many markets are driving fast food chains to search for new or alternative points of distribution.

Mobile Units

Many fast food chains are turning to mobile and downsized units to increase sales and market exposure. Sometimes called carts or kiosks, these units are smaller versions that can be placed where a full-size eating place cannot.

Mobile lunch coaches have been around for years, but now the concept has caught on with fast food chains. Some units move from outdoor concerts and zoos on the weekends to high schools and office buildings during the week. These units are relatively inexpensive, ranging from $30,000 for a Taco Bell cart to $200,000 for a KFC unit. In contrast, a typical fast food restaurant requires a $1-million investment.

Pizza Hut, considered the pioneer in mobile units, operates about 250 kiosks. Taco Bell has about 25 mobile units. Other fast food chains and snack food merchandisers, including KFC, TCBY, and Dairy Queen, also use mobile units as the route to rapid growth.

Supermarkets

Supermarkets also offer a market for fast food firms, which bring a strong name-brand visibility into the stores. Pizza Hut has negotiated to put 75 kiosk-style outlets in supermarkets operated by ABCO Foods in Phoenix, Arizona. The kiosks will feature a limited menu and will be located in the deli-bakery sections of the supermarkets.

Fast food chains serving Mexican-style foods opened units in supermarkets in 1992. For example, Chi-Chi's entered a Price Chopper supermarket in Kansas City, Missouri.

Smitty's Super Value, a 25-store supermarket chain in Phoenix, has entered into agreement with Morrison's Hospitality Group to take over Smitty's foodservice operation with kiosks from Pizza Hut, Taco Bell, Cinnabon, and Subway. Morrison's will lease 5,000-8,000 square feet of space per store.

Schools

Schools are another market targeted by fast food chains—especially Pizza Hut and Taco Bell. Pizza Hut already operates in many school systems. Palm Beach County, Florida, schools began offering Pizza Hut, Taco Bell, Subway, and TCBY products 3 years ago.

Arapahoe High School in Littleton, Colorado, turned over its entire foodservice operation to Taco Bell, which rents space in the school's kitchen. Schools in Edina, Minnesota, offer fast food by alternating Taco Bell and Pizza Hut

Supermarket Foodservice

Responding to consumers' desire for convenience, supermarkets are expanding their offerings of fully prepared foods.

A degree of foodservice has always been available in supermarket delicatessens, with a variety of cold cuts and cheeses. But today, customers can purchase anything from hot fried chicken to a slice of fresh cooked pizza—and often sit in the store and eat it.

Such expansion is reflected in sales. In 1992, sales by supermarket delis reached a new high of $16.5 billion—a substantial increase of 12.3 percent over the $14.7 billion in 1991. The number of service deli units also increased to 22,913, up 4.2 percent over 1991.

The deli gained slightly in its share of store sales between 1980 and 1992. Deli sales now account for 4.9 percent of total store sales and contribute an average of 18.2 percent of total store profits.

Sliced meats still dominate deli sales, but prepared foods have continued to make inroads. While sliced meats' share declined from 36.3 to 33.8 percent, sales of hot and cold entrees increased and will probably continue to gain. Entrees grew to 11.8 percent of deli sales in 1992 from 9 percent in 1982. Pizza increased from 3.8 percent of deli sales in 1982 to 8 percent in 1992. Fried and barbecued chicken rose from 6.2 percent of deli sales in 1982 to 9.9 percent in 1992.

Soup and salad bars have become commonplace—now in about half the Nation's supermarkets. Sections serving hot pizza are offered in 48 percent of supermarkets, fresh pasta sections in 43 percent, yogurt machines in 15 percent, and sushi bars in 7 percent.

Figure 2
Sliced Meats Account for Over a Third of Deli Sales, But Prepared Items Gaining

Source: *Supermarket Business*, selected issues.

days with days of regular school lunch menus. Sales reportedly jump 55 percent districtwide on the days that fast food is offered.

Colleges and universities also offer fast food. Taco Bell has outlets on 17 college campuses, and Pizza Hut has kiosks on about 100 campuses. As of March 1993, Burger King had 25 campus outlets. Other fast food chains on campus include Subway, Carl's Jr., and Hardees.

Arrangements to have national fast food firms operate on campuses are made with the colleges or through their foodservice contractors, such as Marriott, ARS Services, or Morrison's. ARA Services has opened its first branded fast food outlet, featuring Baskin Robbins Ice Cream, at Loyola University in Chicago. ARA also has agreements at other colleges to serve Taco Bell, Dunkin Donuts, KFC, and Pizza Hut products.

Most units on college campuses are kiosks. Chains operating full-scale units have been less numerous. Some campuses are converting cafeterias into food courts, with lease slots available to national fast food chains.

Sales reportedly explode when national brands are sold on campus. For example, the University of South Carolina in Columbia sells over 1,000 doughnuts a day at its campus Dunkin Donuts, 10 times above previous sales of its own doughnuts. After installing two Pizza Huts on campus, Central Missouri State University quadrupled its former pizza sales to 2,000 pies a day.

Healthcare

McDonald's and Morrison's have teamed up to pursue joint contracts for foodservice operations in healthcare facilities. Their agreement allows Morrison's to operate patient feeding and cafeteria services, while McDonald's runs a separate, public facility in a nursing home or hospital.

The Marriott Corporation has opened Dunkin Donuts, TCBY, and Domino's Pizza outlets in hospitals where it has foodservice contracts.

Foreign Markets Expand

Growth overseas has produced marketing opportunities for fast food firms. In 1971, only 980 restaurant units operated overseas. By 1991, there were over 13,000 units. Of the top 20 U.S. fast food chains operating outside the United States, KFC takes the lead with 40 percent of its 8,480 units abroad (table 1). Baskin Robbins has 31 percent, followed by McDonald's 29 percent, and Dunkin Donuts' 22 percent.

Sales by fast food chains in international markets for the most part have fared better than domestic sales in recent years (table 2). In 1991, McDonald's, the largest U.S. hamburger chain, had only a 3-percent growth in domestic sales, compared with 14 percent in international markets. In 1991, only 3 of the top restaurant chains reported a domestic growth rate higher than growth in the international market. (Subway reported an annual growth rate of 24 percent in domestic sales, the highest of the U.S. fast food chains that have foreign sales.)

Future Ripe for Growth

Foreign countries—particularly in Europe—offer many expansion opportunities for U.S. fast food chains since chain penetration is low. *Restaurant Business*, a trade magazine, estimates that U.S. chains could command a 20-percent market share of Europe's foodservice establishments by 1995.

KFC hopes to triple its number of European units over the next 5 years, with plans to open eating places in Spain, France, and Germany, and franchises in eastern and southern Europe. With an agreement to open 60 franchise out-

Table 1
U.S. Fast Food Chains Penetrate Foreign Markets

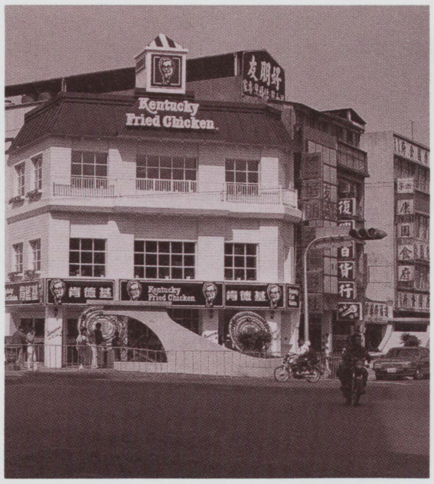
Restaurant chain	Total units, 1991	Foreign units, 1991
	Number	*Percent*
KFC	8,480	40
Baskin-Robbin's	3,315	31
McDonald's	12,430	29
Dunkin Donuts	2,755	22
Pizza Hut	8,000	17
Burger King	6,698	14
Dairy Queen	5,205	11
A & W Restaurants	713	10
Church's Fried Chicken	1,136	10
Arby's	2,649	9
Wendy's	3,741	9
Domino's	5,600	8
Big Boy	980	6
Denny's	1,377	5
Subway	6,181	5
TCBY	1,800	4
Little Caesar's	3,823	3
Taco Bell	3,500	2
Popeye's	870	2
Hardee's	4,230	1

Source: *Restaurant Business*, March 1992.

Table 2
Fast Food Sales Up at Home and Abroad

Restaurant chain	Change in sales, 1990-91	
	Domestic	Foreign
	Percent	
McDonald's	3	14
Burger King	1	6
Pizza Hut	3	19
Hardee's	7	13
KFC	7	8
Wendy's	8	17
Taco Bell	8	45
Domino's	-2	36
Dairy Queen	5	4
Little Caesar's	16	16
Red Lobster	9	0
Denny's	10	3
Subway	24	18
Arby's	4	15
Shoney's	11	0
Jack In The Box	3	0
Sizzler	-4	40
Dunkin Donuts	3	16
Long John Silver's	2	25
Ponderosa	0	3
Carl's Jr.	7	40
Bennigan's	4	0

Sources: *Restaurant Business* and *Nation's Restaurant News*, selected issues.



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lets in the United Kingdom over the next 7 years and another deal for 30 outlets in The Netherlands over the next 5 years, Arby's will enter Europe for the first time. Negotiations are also underway in Poland and Germany.

Fast food firms have just touched the tip of the iceberg of alternative points of distribution. We will likely see more kiosks and carts in the future. Taco Bell's goal is to triple the number of U.S. outlets to 10,000 over the next decade—a significant share will be kiosks and/or carts. Burger King plans to use kiosks as a primary vehicle for future domestic expansion. KFC expects to have kiosks and/or carts on 200 college-university campuses by the end of 1993, and intends to add 50-60 a year after that. One consultant predicts the number of new fast food units on campuses will grow 20 to 30 percent a year.

The trend toward greater emphasis on service in fast food operations will likely continue, as operators try to win and retain customers. For example, Rally's, the chain offering the most twin drive-thru's, has begun a large-scale investment in customer service with installations of a state-of-the art interactive video device for the drive-thru's to allow consumers and servers to see each other and to double-check orders and prices.

Burger King has been using a toll-free phone number for comments on customer service. It also began more than a year ago offering limited tableservice at 900 locations. McDonalds offers a "satisfaction guaranteed" policy, which gives the customer a free meal if, for any reason, they are not satisfied with food quality or service.

Fast food establishments have traditionally relied on the teenage laborforce, which has been declining since the late 1980's. But, according to the U.S. Department of Labor, this decline is nearing an end. The number of 16-19 year olds in the laborforce will increase gradually from 7.4 million in 1990 to 8.8 million by 2005. However, that number will still be 1.2 million below that in 1979.

Some fast food managers have dealt with the declining pool of teenage workers by employing people over 55 years of age. The number of senior adults in the laborforce will continue to grow.

Fast food companies will increasingly cater to the tastes of consumers who have become more interested in health and nutrition. For example, older Americans tend to favor foods that are low in cholesterol, salt, calories, and fat, and they appreciate having nutritional information available. Americans over 50 years of age represent 25 percent of our population, and will grow to 30 percent by the year 2040.

And, many fast food eating places are responding to their interests. Lower-fat items, such as salads and broiled chicken sandwiches, have become commonplace. Some firms have reduced the fat content of their hamburgers and ice cream products. For example, beef tallow—a highly saturated fat used to cook and flavor french fries—was dropped in 1990 by three of the largest fast food chains: McDonald's, Wendy's, and Burger King. By using vegetable oils instead, the saturated-fat level of french fries is reduced by 50 percent.

Fast food chains are also providing more nutrition information to the public through pamphlets, posters, tray liners, and toll-free telephone hotlines.

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