CHANGES IN CONSUMER FOOD EXPENDITURES PATTERNS AND THEIR RETAIL IMPLICATIONS

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Background

In recent years, considerable changes have been taking place in the nature and amount of food expenditures by the American consumer. These changes have affected every form of retail food operation - supermarkets, convenience stores, fast food operations and restaurants. Although recognized and even shaped by some in the business community, these changes have been inadequately measured or articulated.

The purpose of this article is to enumerate how food expenditures have changed and to identify the present relationships between such expenditures and selected socio-economic variables.[1] From these analyses, the possible retail implications are detailed and discussed.

The recent publication by the Bureau of Labor Statistics of the results of a national consumer expenditures survey of 27,000 families conducted between 1972 and 1974 now provides detailed information on average weekly food expenditures and how they have changed since the previous study in 1960-1961. The survey was conducted by the Census Bureau for the Bureau of Labor Statistics (BLS) and included both diary and recall questionnaires.

The diary survey collected information on expenditures on foods and certain routinely purchased nonfoods, such as housekeeping supplies and personal care products. Information on other less frequently purchased goods, such as household durables, was obtained through quarterly recall surveys during 1972-1974.

At the time of writing, the published food expenditure reports are limited to data from the first year diary survey, i.e. representing the reported expenditures of a sample of 11,065 families throughout the U.S. in 1972-1973.[2,3,4]

It should be noted that the data analyses reported in this paper are based on 1972-3 information. Food expenditures, and their relationships with population characteristics, cannot be assumed to be static. They have changed since 1973, and will continue to change throughout this decade.

Implications of the Recent Trends in Food Expenditures

Having outlined how food expenditures vary according to socio-economic and geographic variables, what are the implications of these relationships for food retailers and their future market strategies?

Firstly, identifying the relationships - and their recent alterations - enables retailers to understand the difficult market conditions of the recent past more clearly. Some of the more significant aspects of these were as follows:

A. Changes in life-styles (especially the number of married women working) and expenditure preferences related to food consumption enabled and encouraged the rapid development of convenience stores, restaurants, and fast-food operations over the last 10-15 years. Further, the increasing number of fast food outlets have by themselves stimulated more eating out; there has been an increase of 34% in the number of eating places from 1967 to 1972.

These trends brought these forms of retailing into direct competition with supermarkets, and grocery stores, and placed constraints on the opportunities for market growth by the latter.

B. Food consumption is relatively inelastic and rising incomes during the 1960's did not produce equivalent increases in the total market for food. In addition, the rapid food price inflation of 1973-75 (when consumers' total food expenditures rose from 16.3% to 17.1% of after-tax income) taught consumers to economize on food purchases, in order to maintain their living standards in relation to other commodities and activities. In view of the major life-style and demographic changes of the last decade, this consumer reaction affected food purchased in grocery stores to a greater degree than that sold through food service operations.

C. The net effect of (A) and (B) has been to produce a stagnating market for supermarkets and grocery stores. By our estimates, per capita grocery store sales declined about 4% in constant dollars from 1971 to 1974. By comparison we estimate that eating place sales rose about 7%.[5]

These trends have stimulated the industry-wide trend to discounting and encouraged supermarket retailers to broaden their product ranges to include a greater mix of general merchandise in order to maintain profit-growth as the food market became more and more competitive. Such range extensions have inevitably brought supermarket operators into greater competition with drugstores, variety stores, and general merchandise discount stores. This "domino" effect has heightened retail competition in general and placed an ever-increasing premium on management skills.

Secondly, the findings outlined above lead to some suggestions for store and merchandise planning by food retailers in the future:

A. The rapid growth and success of fast-food and restaurant operations indicates that supermarket retailers - and particularly those serving a young affluent clientele - should actively consider the possibility of providing greater ranges of prepared foods in their delicatessen, frozen food, and bakery departments. Speed of access and service will be crucial to the success of any such attempt to compete with fast-food operations. It is significant that 73% of all convenience stores are already providing prepared foods, this category representing 2.6% of all convenience store sales. An example of convenience store efforts is Southland Corp.'s "Hot to Go" program featuring in-store microwave ovens. A number of supermarket chains are also experimenting with limited prepared foods ranges (the National Tea Company's "Ziggy" delicatessen operation is one example), but efforts in this direction have generall[y] been half hearted.

It is difficult to forecast the future growth of the food away from home market; much depends on the extent of income growth, the continuance of present demographic and life-style trends, and the relative costs of eating out to home food preparation. Some sources forecast a sales growth rate for fast food outlets in the next five years as high as 30%. Fast food outlet sales did increase 6% in constant dollars, 1975 over 1974 and are projected to grow 5%, 1976 over 1975.

However, it is the authors' view that an aging population and the possibility of an increased birth rate amongst couples in their late 20's and early 30's may place some constraints on the future growth of food service operations. Such an effect would obviously be dependent on the future marketing actions of fast food and restaurant operators.

Whatever the extent of growth in expenditures on food away from home, it is clear that grocery retailers who fail to take the potential for continued significant growth into account may be placing themselves at a competitive disadvantage.

B. The narrowing range of food at home expenditures between higher and lower income families suggests a need for chains serving the high income segment of the food market to broaden their appeal to the middle and lower income groups.

Otherwise, high income segment chains will be progressively locked into a declining total market with larger and larger populations necessary for both existing and new stores.

C. In view of the rapid changes in food expenditure patterns, and what is now known about their relationship with population characteristics, food retailers must even more vigorously review their product ranges and marketing practices in relation to their customer profiles.

D. It is no longer reasonable for supermarket location analysts to assume that the income of a population is by itself an indicator of the market potential available for a new store. Besides the population size, potential is determined by aggregate age and family size characteristics, as well as by region, area type, and income! All these factors need to be taken into account as part of a rigorous statistical analysis of market potential.

For instance, at mid-1976 price levels, we have found that typical per capita weekly food expenditures range from \$11.60 in lower-middle-income suburbs of northern SMSA's with two to three children and a head of household around 40 to \$15.35 in high income suburbs of northern SMSA's with small family sizes generally with no children in the household.

E. While supermarket developers can no longer simply analyze income and population numbers to determine market potential, fast food operators also need to look beyond a simple focus on youthful, affluent populations. The BLS survey results indicate the major significance of family size in controlling market potential for food service operations.

This conclusion leads to two marketing implications for restaurant and fast food operators. First, the total market for away from home food can be deliberately expanded by pricing policies which attract larger families and attempt to offer them the same scale economies which they can derive from home food preparation. Secondly, food service operators should not ignore the middle-aged groups in the population. Exemplifying the need to bear these groups in mind is the 45-54 year group. This group - owing to rising incomes and falling family size - spends only 6% less per capita on food away from home than do the under 25's.

To conclude, food retailing is dynamic because of changing consumer needs and preferences and competitors' activities. Such instabilities place a constant premium on the need for accurate, ongoing market research.

Footnotes

[1] It is not the intent of this article to detail and evaluate such changes and relationships for specific food product groups, e.g. meats, frozen foods, canned vegetables, although Government data now available does allow such analyses.

[2] BLS Releases Partial Results from 2-Year Survey of Consumer Expenditures. Bureau of Labor Statistics, U.S. Department of Labor. Release No. 75-212. April 16, 1975.

[3] Additional Results from Latest Survey of Consumer Expenditures Released by BLS. Bureau of Labor Statistics, U.S. Department of Labor. Release No. 75-276. May 15, 1975.

[4] Selected Weekly Expenditures Cross-Classified by Family Characteristics. Bureau of Labor Statistics, U.S. Department of Labor. Report No. 448-1.

[5] These estimates are based on the adjustment of the Consumer Price Index for changes in product mix sales utilizing data from the SMI inflation factor exchange.

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