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An Overview of the Food Service Industry

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The market for food eaten away from home—the food service industry—has grown rapidly since the early sixties. This growth has had a mixed impact on total demand for farm commodities.

The retail value of food and nonalcoholic beverages consumed away from home in 1978 was estimated at \$87.4 billion.¹ Of this total, farmers received approximately \$21 billion; food processors received about \$31 billion; and the wholesale value was approximately \$39 billion.

The significance of this market is apparent when its output is compared with the value of total food consumed—about \$250 billion, or \$1,144 per person in 1978. The retail value of food moving through food service outlets approximated \$400 per person, or \$1 out of every \$3 spent on food.

At no other period in U.S. history has a shift in food purchasing practices been more pronounced. As incomes increase consumers have been spending relatively more dollars on prepared meals and snacks purchased from food service establishments and less for food purchased from grocery stores for preparation and consumption at home.

Since 1960, the retail value of the market for food away from home has grown at a compound rate, adjusted for inflation, of about 3 percent annually. Expenditures on meals and snacks away from home increased from about \$1 out of every \$4 spent on food in 1960 to \$1 out of every \$3 in 1978.

This increase is associated with rising disposable income and changing lifestyles. The demographic composition of the population has also changed. Examples include teenagers frequenting snack shops and hamburger stands; college students often without facilities, inclination, or time to cook for themselves; working wives with less time to prepare meals at home; and older people less able to cook at home.

¹See "Total Food Expenditures: Some Further Delineations," *National Food Review*, No. 5.

Future changes in these factors, with the possible exception of those involving relatively more teenagers and college students, should impact positively on the market for food away from home. Thus, this market likely will continue to grow at a rate faster than the total market for food.

Market Composition

The market for food away from home, including both public and institutional eating places, consists of more than 500,000 outlets. Public eating places—which exist primarily for profit—may be part of a larger facility, such as a soda fountain in a drug store or a snack bar in a bowling alley. Or they may be separate eating places in which most revenue is derived directly from sales of prepared meals and snacks. Separate eating places account for as much as 85 percent of the value of meals and snacks sold by public eating places.

The institutional sector includes establishments where the food service operation usually is supportive and often non-profit such as universities, sanitoriums, and homes for children. Schools and hospitals are the largest markets in the institutional sector. An institution usually serves three times more people than does a public eating place. But because of the relatively small numbers, institutions account for less than 40 percent of the retail value of all food consumed away from home.

Patterns of Change

Historical data are not available on all segments of the industry, but information is available from the Census of Business which reflects trends among retail business that provide meals and snacks. These data also reflect trends in market shares among types of food service firms of different size and ownership.

Between 1963 and 1972, sales of meals and snacks by the retail trade increased 48 percent, after adjusting for inflation. Eating places—whose major source of revenue is meals and snacks—main-

tained average sales increases similar to those of the total retail trade.

Food vending operators and food service in grocery and department stores also increased significantly. Apparently grocery stores did not place much emphasis on selling meals and snacks until 1967, and actually incurred a total sales decrease of 10 percent between 1963 to 1967. From 1967 to 1973, however, constant dollar sales of meals and snacks by grocery stores increased 94 percent. Grocery stores are expected to increase their participation in food service in the future.

Shifts in the market shares of the different types of food service establishments are important since they reflect changes in the nature of consumer food demand. Such changes impact on suppliers to the away-from-home market.

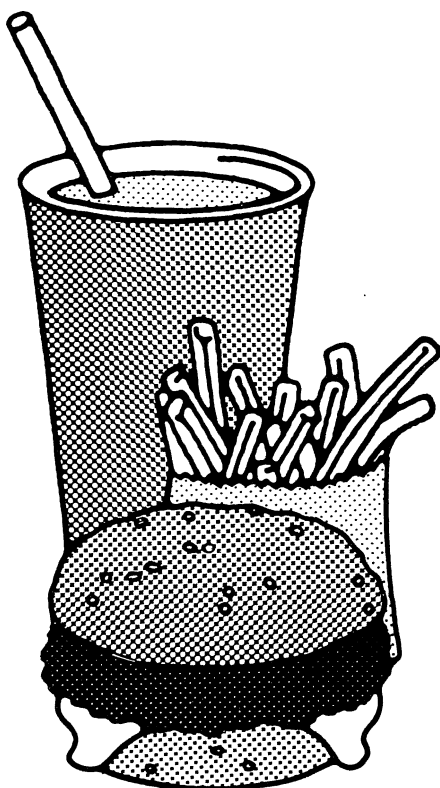
There are five types of eating places—restaurants and lunchrooms, cafeterias, refreshment (fast food) places, caterers, and food contractors. Since 1963, real sales in cafeterias and by food contractors increased slightly as a percent of total eating place sales, and sales of caterers decreased slightly. The greatest shifts in market shares, however, involved fast food places and restaurants and lunchrooms. While fast food places more than doubled their share of sales of all eating places—from 15 to 32 percent—between 1963 and 1978, the share

Constant Dollar Sales Per Eating Place

Number of units	1963	1967	1972
	Thousand dollars		
Single	63	68	71
Two or three	104	142	144
Four to ten	145	185	182
11 or more	206	214	253
Average	71	80	92

¹1967=100

Source: U.S. Bureau of the Census, Census of Business for the respective years.



of sales in restaurants and lunchrooms declined from 71 to about 50 percent.

Fast Food and Franchising

The increased demand for fast foods gave impetus to developments in franchising, although a few franchisors were in business prior to general national acceptance of fast foods. In 1972, franchise holders and franchising firms together operated an estimated 33,000 fast food outlets with total sales of \$7 billion. By 1978, sales had increased to about \$17 billion.

Growth was spectacular for some

franchising firms. Between 1965 and 1977, the number of fast food franchising firms included in the top 100 firms more than doubled according to an annual listing by *Institutions*, a trade publication. Growth was so rapid during this period that some fast food franchising firms now included in the top 100 firms were not in business or large enough in 1965 to be included as one of the 400 largest food service firms.

Size and Ownership

Establishment size, as measured in constant dollar sales, has increased substantially since 1963 for all firms that operate eating places. Real sales per establishment increased 30 percent between 1963-72. In 1972, sales per establishment for single-unit firms were only half as large as for firms with 2 to 3 outlets and about one-quarter that of establishments operated by firms with 11 or more outlets.

Although single-unit firms still have more total outlets and account for a greater percent of total eating place sales, their share in both categories is declining rapidly. Single units accounted for over 80 percent of total eating place sales until 1963. By 1967 their share had dropped to 77 percent, and by 1972, 66 percent. Multi-unit firms with 11 or more outlets captured much of the market share lost by single units, in-

creasing their share from 11 percent in 1963 to 23 percent in 1972.

Although the decrease in number and sales of single-unit firms from 1967 to 1972 was twice as much as in the preceding 9 years, the data may understate the actual decline of the independent operator. This is because, in 1972, many of the single-unit firms were affiliated with a franchise concern.

It is expected that single-unit operators will continue to leave the industry until the remaining single units either affiliate with other food service operators or wholesalers to gain efficiencies and services needed to compete with the multi-unit firms, or they are left to fill the food service needs not adequately provided for by the larger firms.

Implications

Consumers probably will continue to spend relatively more on meals away from home as incomes rise and as the number of women employed outside the home increases. The total cost for preparing food purchased for consumption away from home is higher than for food prepared at home. As consumers increase their share of food consumed away from home, their total food expenditures also will rise since gross margins are higher in the away-from-home market.

Growth in the food-away-from-home market probably will not reach the record-high levels established during the sixties in the near future. Thus, competition is expected to intensify among eating establishments. The result will likely be an increase in market share by multi-unit firms.

Growth in the food service market will have a varied impact on the demand for agricultural products and the manner in which they are processed, packaged, and marketed. Farmers, commodity groups, and suppliers that recognize and are able to adapt to these changes and to the special requirements of food service firms should benefit from the expected continued growth in away-from-home eating. ■

Distribution of Eating Places by Size of Firm

Number of units	Establishments			Sales		
	1963	1967	1972	1963	1967	1972
	Percent					
Single	90.8	90.4	85.3	80.4	77.4	65.9
Two or three	4.0	3.0	4.0	5.8	5.3	6.3
Four to ten	1.4	1.6	2.4	2.9	3.7	4.7
11 or more	3.8	5.1	8.4	11.0	13.6	23.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: U.S. Bureau of the Census, Census of Business for the respective years.