

Food Service

Charlene Price

America has more than 844,000 food service eating establishments. This number continues to grow as the share of dollars spent on food away from home increases (47 percent in 2001). In 2000, food service establishments sold \$358 billion worth of meals and snacks (excluding alcoholic beverages and tax/tips). Real sales rose 5.2 percent in 2000, compared with 4.5 percent in 1999. Total food service sales reached \$400 billion in 2001 and are projected to capture 49 percent of the food dollar by the year 2010.

Introduction

The food service industry in 2000 continued to grow, but at a slow pace. Food service firms competed aggressively with each other and with food retailers for a bigger share of the consumer food dollar (fig. 4-1). Supermarkets are attempting to regain food dollars lost to the foodservice industry by offering their own menu of fully prepared meals intended for home consumption—widely referred to as Home Meal Replacement (HMRs). Large food service firms, particularly fast-food chains, continued to gain market shares by introducing new products that are heavily advertised and promoted with coupons and discounts.

These firms also built new units and bought existing restaurants in prime locations. However, merger activity was down in 1999 and 2000 compared with earlier years. Rather, food service firms are entering nontraditional locations such as supermarkets, department stores, convenience stores, and airports. For example, Little Caesar's now reigns in K-Mart stores and McDonald's arches grace Wal-Mart.

Also growing more popular is the multiple branding concept, whereby several restaurant chains operate at the same location in an attempt to draw more customers (ex., Taco Bell and KFC). Chains that engage in multiple-branding concepts can better absorb fixed operating costs.

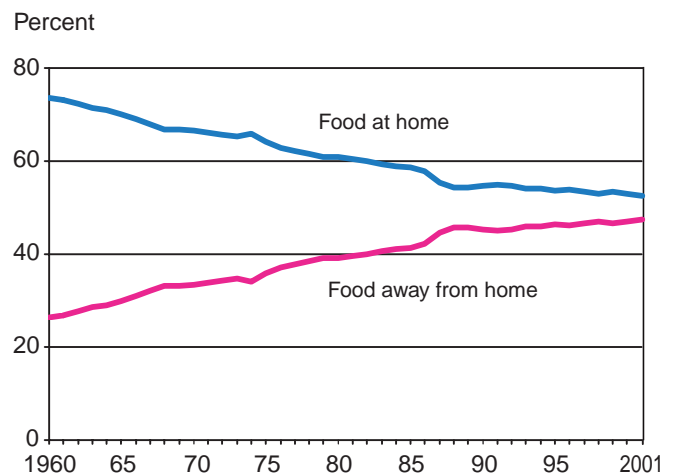
Sales and Leading Firms

Food service sales reached \$358 billion in 2000, an increase of 7.6 percent over 1999 sales (table 4-1). Separate eating places, which derive revenue mainly

from sales of meals and snacks, accounted for \$249 billion or 70 percent of total food service sales in 2000. These establishments include full-service restaurants, fast-food or quick-service outlets, lunchrooms, commercial cafeterias, and social caterers. Another 12 percent was accounted for by commercial outlets such as hotel restaurants and drugstore lunch counters, recreation and entertainment establishments, and separate drinking places (fig. 4-2). Noncommercial segments of the food service industry—like schools, the military, and hospitals—made up the remainder of sales, about \$64 billion.

Figure 4-1

Share of U.S. food expenditures for food at home and away from home, 1960-2001



Source: ERS, USDA.

<http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/Data/table1.htm>

Commercial food service sales reached \$294 billion in 2000, an increase of 8.6 percent over 1999 (table 4-1). Separate eating places account for the bulk of commercial food service sales. Fast-food outlets accounted for 50 percent of separate eating place sales in 2000, followed by restaurants and lunchrooms (46 percent combined). Fast-food and restaurant/lunchroom sales totaled \$239.2 billion in 2000, which was 67 percent of total food service sales compared with 65 percent in 1995. Sales in fast-food or quick-service restaurants are the largest, reaching \$125 billion in 2000, up from 1999 sales of \$117 billion. Sales at restaurants and lunchrooms grew 9.7 percent in 2000.

Catering grew most among commercial segments from 1999 to 2000, with sales increasing 70 percent from \$4.0 billion to \$6.8 billion. Growth in catering can be attributed to the growing number of higher-income households, as well as the rising number of upscale corporate events, marriages, and other celebrations.

Total sales in the **noncommercial** segment amounted to \$64 billion in 2000, up 3.1 percent from 1999. School-based vendors (elementary/secondary schools and colleges/universities) accounted for the largest share of noncommercial sales, 40 percent.

Table 4.1—U.S. foodservice sales by industry segment, 1993-2000¹

Segment	1993 ²	1994 ²	1995 ²	1996 ²	1997 ²	1998 ²	1999 ²	2000 ²
<i>Million</i>								
Commercial:								
Separate eating places--								
Fast-food outlets	87,218	90,752	96,314	98,356	101,430	105,810	117,446	124,943
Restaurants and lunchrooms	75,947	80,100	81,502	85,413	96,904	99,898	104,149	114,284
Cafeterias	3,878	4,143	4,273	4,319	2,579	2,659	2,772	3,042
Social caterers	1,461	1,616	2,130	2,536	3,209	3,696	4,036	6,788
Total	168,504	176,611	184,219	190,624	204,122	212,063	228,403	249,057
Lodging places	11,157	11,727	12,157	12,601	10,859	11,606	12,315	12,942
Retail hosts	12,187	13,038	14,212	15,131	15,830	17,014	18,764	19,963
Recreation and entertainment	8,327	8,764	9,424	10,100	7,616	8,606	9,209	9,836
Separate drinking places	1,561	1,456	1,480	1,478	1,462	1,477	1,474	1,691
Commercial feeding total	201,736	211,596	221,492	229,934	239,889	250,766	270,165	293,489
Noncommercial:								
Education--								
Elementary and secondary	9,463	9,955	10,400	10,960	11,452	11,866	12,536	12,847
Colleges and universities	9,737	10,400	10,992	11,416	11,848	12,235	12,590	12,905
Total	19,200	20,355	21,392	22,376	23,300	24,101	25,126	25,752
Military--								
Troop feeding	984	1,112	1,130	1,102	1,070	1,054	1,040	1,040
Clubs and exchanges	839	844	850	852	858	881	900	923
Total	1,823	1,956	1,980	1,954	1,928	1,935	1,940	1,963
Plants & office buildings	5,537	6,230	5,432	5,273	5,315	5,438	5,498	5,706
Hospitals	3,762	3,646	3,570	3,602	3,576	3,514	3,700	3,738
Extended care facilities	6,030	5,870	5,758	6,158	6,234	6,268	6,344	6,434
Vending	4,497	4,187	3,376	2,744	1,876	1,890	1,908	1,990
Transportation	4,711	4,428	4,101	4,201	4,640	4,720	4,910	4,968
Assoc., incl. civic, soc. & frat. org.	1,167	1,039	913	738	1,059	1,151	1,232	1,288
Correctional facilities	2,470	2,710	3,050	3,072	5,578	6,068	6,396	6,814
Child day care	1,393	1,522	1,675	1,745	1,937	2,054	2,223	2,320
Elderly feeding	154	177	172	169	174	173	177	182
Other	2,219	2,245	2,326	2,440	2,659	2,599	2,707	2,914
Noncommercial feeding total	52,963	54,365	53,745	54,472	58,276	59,911	62,161	64,069
Total	254,699	265,961	275,237	284,406	298,165	310,677	332,326	357,558

¹ Excludes sales tax and tips.

² Sales reporting based on Standard Industrial Classification (SIC) code definitions.

Sources: Census of Retail Trade, various years and ERS, USDA, Food Markets Branch, (202) 694-5384.

Food Service Definitions

Food Service. The dispensing of prepared meals and snacks intended for on-premise or immediate consumption. The following products qualify as food service when other foods are not available: candies, popcorn, pretzels, nuts, and drinks. Vended food service is operated by firms engaged in the retail sale of meals and snacks through vending machines. Such service may be provided at plants, office buildings, and other locations.

Commercial establishments. Public establishments (freestanding or part of a host establishment) that prepare, serve, and sell meals and snacks for profit to the general public.

- *Drinking places.* Establishments with food service that do not operate as subordinate facilities of different and separately identifiable kinds of businesses and the primary function of which is the sale of alcoholic beverages for on-premise or immediate consumption. These include bars, beer gardens, taverns, nightclubs, and saloons.
- *Eating places.* Establishments that do not operate as subordinate facilities of different and separately identifiable kinds of businesses and the primary function of which is the sale of prepared meals and snacks for on-premise or immediate consumption.

These include restaurants, lunchrooms, fast-food outlets, and cafeterias.

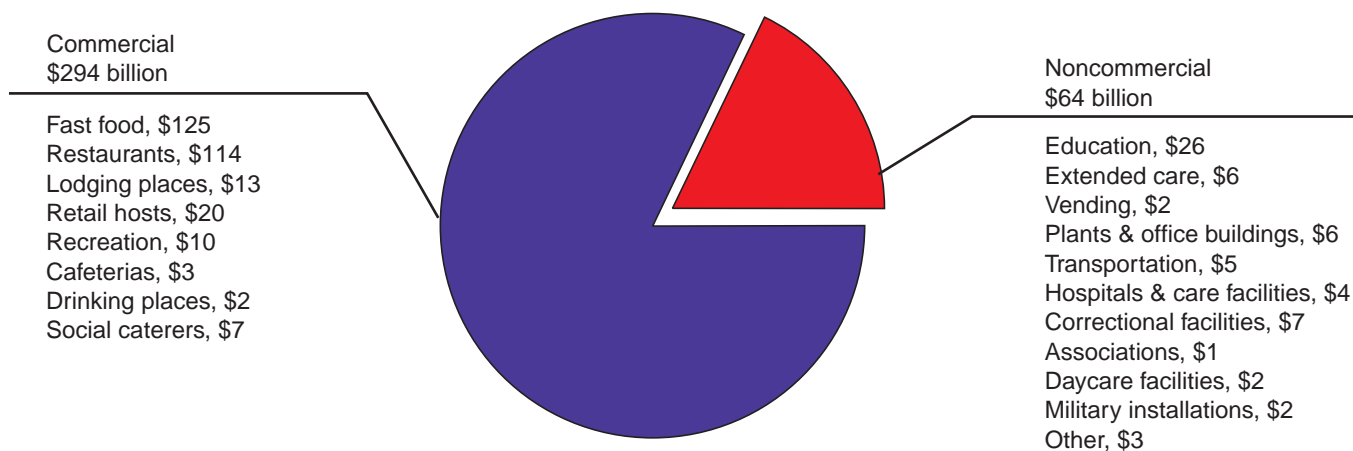
- *Lodging places.* Establishments that provide both lodging and food service to the general public. These establishments include hotels, motels, and tourist courts, but exclude rooming and boarding houses and private residences.
- *Recreation/entertainment.* Food service operations in theaters; bowling alleys or billiard or pool halls; commercial sports establishments (race tracks and stadiums); membership golf or country clubs; public golf courses; and miscellaneous commercial amusement and recreational establishments (tennis clubs, camps, athletic clubs, and amusement parks).
- *Retail hosts.* Food service operations that operate in conjunction with or as part of retail establishments, stores, drugstores, and miscellaneous retailers.

Noncommercial establishments. Establishments where meals and snacks are prepared and served as an adjunct, supportive service to the primary purpose of the establishment. These include schools, colleges, hospitals and extended care facilities, vending areas, plants and offices, correctional facilities, military feeding, and transportation (trains, cruise ships, and airplanes).

Figure 4.2

Foodservice sales, 2000

Sales reached \$358 billion, with commercial sales accounting for 82 percent



Source: ERS, USDA, Food Markets Branch.

As commercial vendors have taken over food service operations in some traditionally noncommercial settings (ex., Pizza Hut in schools), noncommercial sales fell to 18 percent of the food service total compared with 20 percent just 5 years earlier. Correctional facilities had the highest sales growth among noncommercial segments, 6.8 percent, in 2000 (table 4-1).

The four largest restaurant firms in 2000 sales were McDonald's Corporation (including Boston Market, Donatos Pizza, and Chipotle Mexican Grill); Tricon Global Restaurants, Inc.; Diageo PLC (Burger King and Haagen-Dazs); and Wendy's International, Inc. (table 4-2).

Leading Franchised Restaurants

Franchised restaurants, both company owned and franchisee owned, are key to the commercial restaurant industry. The top 50 U.S. restaurant franchisers accounted for 39 percent of separate eating place sales in 2000, up from 28 percent in 1999. According to Technomic, a research consulting firm in Chicago, sales of the top 50 franchisers in 2000 were \$97 billion, 4.2 percent above sales in 1999. The number of units operated by the top 50 franchisers increased 1.4 percent to 112,201 in 2000. Twenty-five restaurant chains accounted for 88 percent of the top 50 franchisers' sales and 85 percent of the top 50 restaurant chains' units (table 4-3). Hamburger, pizza, and chicken restaurants continue to dominate the commercial restaurant industry.

McDonald's, Burger King, Wendy's, Taco Bell, and Pizza Hut were the five largest restaurant franchisers in terms of U.S. sales in 2000. Eighty-five percent of McDonald's restaurants are franchised. In 2000, its U.S. sales amounted to \$19.6 billion, up 3 percent from 1999. Tricon Global's Taco Bell franchises 80 percent of its units, 75 percent of KFC units, and all Pizza Hut units. Though sales decreased slightly at Burger King in 2000, it is still the number two burger chain at \$8.5 billion. In 2000, Burger King had 8,326 units and 94 percent were franchised. Sales from Wendy's restaurants were up 7 percent in 2000 to \$5.8 billion. Wendy's franchises 80 percent of its units. Taco Bell's sales fell in 2000 by 1.9 percent, and Pizza Hut's sales remained stable at \$5 billion (table 4-3).

McDonald's operated 12,804 restaurants in the U.S in 2000. Subway Sandwiches ranked second with 12,253, up 3.4 percent from 2000. Among the top 10 franchisers, Applebee's had the largest growth in units in 2000,

9.5 percent; compared with Wendy's (4.7 percent), Subway (3.4 percent), Burger King (2.3 percent), and McDonald's (1.4 percent).

Market Share by Type of Food Sold

The National Restaurant Association breaks down restaurant sales by segment. Among sandwich chains, McDonald's and Burger King led with 34 percent and 15 percent of the U.S. market in 2000. Pizza Hut and Domino's Pizza led the pizza segment with 42 percent and 23 percent of the U.S. market. KFC controlled 55 percent of the chicken market, followed by Chick-fil-A at 13.6 percent and Popeyes at 13.5 percent. Chicken chains are offering their products in more one-stop shopping establishments such as grocery stores and gas stations. They are also emphasizing "home-style" chicken and an increasing number of side dishes to compete with the home meal replacement market.

Denny's accounted for slightly more than 23 percent of the family restaurants' market share in 2000, followed by International House of Pancakes/IHOP (15 percent) and Cracker Barrel (13 percent). Family chains such as these emphasize value, quality, service, cleanliness, and convenience and cater to all three meals—breakfast, lunch, and dinner.

In the grill-buffet segment, Golden Corral held 37 percent of the market in 2000, followed by Ryan's Family Steak House (29 percent) and Ponderosa (22 percent). Grill-buffet restaurants emphasize budget dining for the family.

Dinner house restaurants are usually more formal, upscale eating places. Applebee's Neighborhood Grill & Bar accounted for the largest market share in this category (15 percent), followed by Red Lobster (12 percent) and Outback Steakhouse (11 percent).

Two chains control nearly 40 percent of the contract food service segment. Contract food service companies provide food and facilities management to corporate, health care, and education markets. Aramark Global Food/Leisure Services holds 27 percent of the contract chains market share, followed by LSG/Sky Chefs with 9 percent.

Home Meal Replacements, Delis, and Other Take-Out Meals

Supermarkets are jumping on the takeout food bandwagon with menu offerings of fully prepared meals

Table 4.2—Top U.S. restaurant companies and chains' sales and number of units

2000 Rank	1999 Rank	Company/Chain	2000 U.S. sales	1999 U.S. sales	Change from 1999	2000 U.S. units	1999 U.S. units	Change from 1999
			----- \$ million -----			----- Number -----		
					Percent			Percent
1	1	McDonald's Corporation	20,415.8	19,171.3	6.5	13,771	12,815	7.5
		McDonald's	19,572.8	19,005.6	3.0	12,804	12,629	1.4
		Boston Market	626.0	NA		707	NA	
		Donatos Pizza	150.0	134.7	11.4	156	148	5.4
		Chipotle Mexican Grill	67.0	31.0	116.1	104	38	173.7
2	2	Tricon Global Restaurants, Inc.	14,500.0	14,500.0	0.0	20,037	20,194.0	-0.8
		Taco Bell	5,100.0	5,200.0	-1.9	6,746	6,879	-1.9
		Pizza Hut	5,000.0	5,000.0	0.0	7,927	8,084	-1.9
		KFC	4,400.0	4,300.0	2.3	5,364	5,231	2.5
3	3	Diageo PLC	8,619.9	8,726.2	-1.2	8,558	8,345	2.6
		Burger King	8,542.9	8,652.2	-1.3	8,326	8,139	2.3
		Haagen-Dazs	77.0	74.0	4.1	230	206	11.7
4	4	Wendy's International, Inc.	5,837.1	5,435.1	7.4	5,215	5,008	4.1
		Tim Hortons	80.1	64.1	25.0	120	108	11.1
		Wendy's Old Fashioned Hamburgers	5,757.0	5,371.0	7.2	5,095	4,900	4.0
5	5	Darden Restaurants, Inc.	3,825.5	3,486.5	9.7	1,109	1,086	2.1
		Bahama Breeze	100.0	35.0	185.7	19	10	90.0
		The Olive Garden	1,644.8	1,519.8	8.2	463	458	1.1
		Red Lobster	2,071.7	1,931.7	7.2	620	618	0.3
		Smokey Bones BBQ	9.0	NA		7	NA	
6	6	Doctor's Associates, Inc.	3,800.0	3,200.0	18.8	12,253	12,008	2.0
		Subway	3,800.0	3,200.0	18.8	12,253	12,008	2.0
7	9	Allied Domecq	3,092.7	2,857.0	8.2	6,416	6,443	-0.4
		Baskin-Robbins	576.7	554.5	4.0	2,439	2,557	-4.6
		Dunkin' Donuts	2,324.2	2,139.8	8.6	3,643	3,611	0.9
		Togo's Eatery	189.8	162.7	16.7	334	275	21.5
8	7	CKE Restaurants, Inc.	3,074.3	3,131.2	-1.8	3,596	3,724	-3.4
		Carl's Jr.	927.0	887.2	4.5	945	908	4.1
		Hardee's	2,050.0	2,138.8	-4.2	2,526	2,673	-5.5
		Taco Bueno	97,316	92,350	5.4	125	122	2.5
9	8	International Dairy Queen, Inc.	2,965.6	2,901.5	2.2	5,319	5,402	-1.5
		Dairy Queen	2,898.6	2,831.0	2.4	5,058	5,113	-1.1
		KarmelKorn	6.0	6.0	0.0	31	36	-13.9
		Orange Julius of America	61.0	64.5	-5.4	230	253	-9.1
10	12	Brinker International	2,805.3	2,462.0	13.9	1,014	929	9.1
		Brinker Specialty Restaurants	58.0	56.0	3.6	13	12	8.3
		Chili's Grill & Bar	1,695.3	1,500.1	13.0	648	597	8.5
		Corner Bakery	107.3	86.8	23.6	60	56	7.1
		Cozymel's	40.2	40.3	-0.2	13	13	0.0
		Maggiano's	120.2	97.8	22.9	13	11	18.2
		On the Border	298.3	262.1	13.8	116	103	12.6
		Romano's Macaroni Grill	486.0	418.9	16.0	151	137	10.2
11	10	Domino's, Inc.	2,647.2	2,660.0	-0.5	4,818	4,629	4.1
		Domino's Pizza	2,647.2	2,660.0	-0.5	4,818	4,629	4.1
12	13	Applebee's International, Inc.	2,624.6	2,316.7	13.3	1,251	1,142	9.5
		Applebee's Neighborhood Grill & Bar	2,624.6	2,316.7	13.3	1,251	1,142	9.5
13	11	Advantica Restaurant Group	2,602.3	2,533.0	2.7	2,071	2,042	1.4
		Carrows	182.7	190.0	-3.8	141	145	-2.8
		Coco's	255.6	264.0	-3.2	179	182	-1.6
		Denny's	2,164.0	2,079	4.1	1,751	1,715	2.1
14	14	Triarc Companies, Inc.	2,409.9	2,266.4	6.3	3,153	3,069	2.7
		Arby's	2,409.9	2,266.4	6.3	3,153	3,069	2.7

Continued--

Table 4.2—Top U.S. restaurant companies and chains' sales and number of units--Continued

2000 Rank	1999 Rank	Company/Chain	2000 U.S. sales	1999 U.S. sales	Change from 1999	2000 U.S. units	1999 U.S. units	Change from 1999
			----- \$ million -----			----- Number -----		Percent
15	15	Outback Steakhouse, Inc.	2,254.0	1,932.0	16.7	702	646	8.7
		Carrabba's Italian Grill	217.0	170.0	27.6	81	72	12.5
		Fleming's Prime Steakhouse	21.0	3.0	600.0	10	3	233.3
		Outback Steakhouse	2,016.0	1,759.0	14.6	611	571	7.0
16	16	AFC Enterprises	2,003.6	1,782.4	12.4	2,962	2,787	6.3
		Church's Chicken	698.7	655.6	6.6	1,218	1,179	3.3
		Cinnabon	171.4	144.4	18.7	389	358	8.7
		Popeyes Chicken & Biscuits	1,095.5	953.8	14.9	1,248	1,160	7.6
		Seattle's Best Coffee	38.0	28.6	32.9	107	90	18.9
17	17	Jack in the Box, Inc.	1,983.3	1,757.6	12.8	1,666	1,517	9.8
		Jack in the Box	1,983.3	1,757.6	12.8	1,666	1,517	9.8
18	21	Starbucks Corporation	1,892.0	1,465.0	29.1	2,962	2,136	38.7
		Starbucks	1,892.0	1,465.0	29.1	2,962	2,136	38.7
19	18	CBRL Group, Inc.	1,857.7	1,677.4	10.7	519	488	6.4
		Camine's Gourmet Market	19.9	12.7	56.7	3	2	50.0
		Cracker Barrel Old Country Store	1,649.2	1,509.7	9.2	434	418	3.8
		Logan's Roadhouse	192.0	154.9	24.0	82	68	20.6
20	19	Sonic Corp.	1,811.4	1,643.9	10.2	2,219	2,056	7.9
		Sonic Drive-Ins	1,811.4	1,643.9	10.2	2,219	2,056	7.9
21	22	Papa John's International, Inc.	1,669.0	1,426.0	17.0	2,533	2,254	12.4
		Papa John's	1,669.0	1,426.0	17.0	2,533	2,254	12.4
22	24	Carlson Restaurants Worldwide	1,530.2	1,364.9	12.1	500	452	10.6
		Carlson Specialty Restaurants	41.0	22.0	86.4	15	8	87.5
		Italianni's	9.2	13.0	-29.2	4	6	-33.3
		T.G.I. Friday's	1,480.0	1,329.9	11.3	481	438	9.8
23	25	Metromedia Restaurant Group	1,334.1	1,274.6	4.7	867	882	-1.7
		Bennigan's	525	460.3	14.0	259	237	9.3
		Ponderosa/Bonanza	635.0	641.1	-1.0	500	536	-6.7
		Steak and Ale	175	173.2	0.8	108	109	-0.9
24	20	Little Caesar Enterprises, Inc.	1,300.0	1,465.0	-11.3	3,300	3,700	-10.8
		Little Caesars	1,300.0	1,465.0	-11.3	3,300	3,700	-10.8
25	23	Shoney's, Inc.	1,217.5	1,398.7	-13.0	1,023	1,106	-7.5
		Captain D's	495.3	498.8	-0.7	564	567	-0.5
		Shoney's	722.2	868.8	-16.9	459	525	-12.6
		TOTAL	98,073.0	92,934.4	5.5	107,834	104,860	2.8

Source: Technomic, Inc.

Table 4.3—Top 25 franchised U.S. chain restaurants, sales and number of establishments

Company/Chain	2000	1999	Change	2000	1999	Change
	U.S. sales	U.S. sales	from 1999	U.S. units	U.S. units	from 1999
	----- \$ million -----		Percent	----- Number -----		Percent
McDonald's	19,572	19,006	3.0	12,804	12,629	1.4
Burger King	8,543	8,652	-1.3	8,326	8,139	2.3
Wendy's Old Fashioned Hamburgers	5,757	5,371	7.2	5,095	4,868	4.7
Taco Bell	5,100	5,200	-1.9	6,746	6,879	-1.9
Pizza Hut	5,000	5,000	0.0	7,927	8,084	-1.9
KFC	4,400	4,300	2.3	5,364	5,231	2.5
Subway	3,800	3,200	18.8	12,253	11,845	3.4
Dairy Queen	2,899	2,831	2.4	5,058	5,113	-1.1
Domino's Pizza	2,647	2,660	-0.5	4,818	4,629	4.1
Applebee's Neighborhood Grill & Bar	2,625	2,317	13.3	1,251	1,142	9.5
Arby's	2,410	2,266	6.4	3,153	3,069	2.7
Dunkin Donuts	2,324	2,139	8.6	3,643	3,611	0.9
Denny's	2,164	2,079	4.1	1,751	1,715	2.1
Hardee's	2,050	2,139	-4.2	2,526	2,673	-5.5
Outback Steakhouse	2,016	1,759	14.6	611	571	7.0
Jack in the Box	1,983	1,793	10.6	1,666	1,552	7.3
Sonic Drive-Ins	1,811	1,643	10.2	2,219	2,056	7.9
Chili's Grill & Bar	1,695	1,500	13.0	648	597	8.5
Papa John's	1,669	1,426	17.0	2,533	2,254	12.4
T.G.I. Friday's	1,480	1,330	11.3	481	438	9.8
Little Caesars	1,300	1,465	-11.3	3,300	3,700	-10.8
International House of Pancakes	1,200	1,081	11.0	925	859	7.7
Popeye's Chicken & Biscuits	1,095	954	14.8	1,248	1,160	7.6
Golden Corral	966	897	7.7	452	455	-0.7
Carl's Jr.	927	887	4.5	945	908	4.1
Total	85,433	81,895	4.3	95,743	94,177	1.7

Source: Technomic, Inc.

called Home Meal Replacements (HMRs). Technomic, Inc., a consulting firm in Chicago, reported that HMR sales by supermarkets rose 3 percent in 1999 to \$12 billion (overall supermarket sales rose 2.9 percent), and projects that HMR sales will grow to \$15 billion by 2004.

Although supermarket delis are part of the retail grocery market, they have been one of the fastest growing outlets for prepared meals and snacks in recent years. The number of supermarkets with delicatessens increased steadily after 1982 and began to level off in 1998 (fig. 4-3). Eighty-one percent of all supermarkets had delicatessens with service employees in 2000. Deli sales increased 6.1 percent to \$13 billion in 2000, the biggest increase since 1996. The bulk of deli sales comes from meat and cheese, with prepared foods second. Fastest growing categories include chicken, sandwiches, and salads (see "Food Retailing").

According to the *Food Institute* report for 2000, takeout food sales totaled \$126.4 billion in 1997 and are

expected to reach \$195.4 billion in 2007, a 55-percent increase in just 10 years. Most of the growth will be generated by supermarkets and full-service restaurants, with fast-food restaurants, business and industry food service, and convenience store sales lagging.

According to *Takeout Business*, in 1997, fast food accounted for 61.2 percent of total takeout sales, but by 2007 that number is expected to drop to 57.6 percent, a victim of supermarket, deli/pizza parlor/bagel, and coffee/donut shop sales.

Nontraditional Food Service Formats

Food service continues to be a growing part of the convenience store (c-store) industry. According to the National Association of Convenience Stores (NACS), food service purchases are trending upward. In 2000, 13.3 percent of all merchandise sales in c-stores, or \$13.8 billion, involved food service products (table 4-4). Food service (food prepared onsite) accounts for the largest share of food-related purchases. Branded fast-food concepts are popular as well, with more than 20 different franchisers established in c-stores. Among

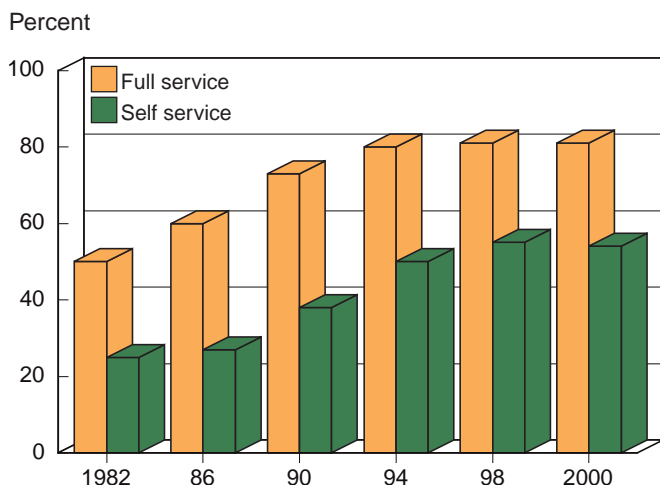
Table 4.4—Food service sales in convenience stores, 1997-2000

Category	Instore sales				Average store sales				Industry total			
	2000	1999	1998	1997	2000	1999	1998	1997	2000	1999	1998	1997
	Percent				Dollars				\$ million			
Foodservice (food prepared onsite)	3.58	3.42	3.00	3.91	31,146	29,275	23,310	29,600	3.4	3.4	2.3	2.8
Cold dispensed beverages	2.63	2.93	3.10	3.62	22,881	25,081	24,476	27,403	2.7	2.9	2.4	2.6
Hot dispensed beverages	3.36	3.30	3.50	2.32	29,232	28,248	27,273	17,562	3.5	3.3	2.6	1.7
All other foodservice	0.75	0.65	1.17	1.13	6,525	5,564	9,089	8,554	0.8	0.6	0.9	0.8
Packaged sandwiches	1.01	0.87	0.85	0.79	8,787	7,447	6,605	5,980	1.1	0.9	0.6	0.6
Frozen dispensed beverages	1.94	2.44	2.18	0.28	16,878	20,886	16,939	2,120	2.1	2.4	1.6	0.2
Subtotal	13.27	13.61	13.90	12.05	115,449	116,502	107,692	91,219	13.8	13.6	10.4	8.7
Total instore	100.00	100.00	100.00	100.00	870,000	856,000	777,000	757,000	104.1	99.8	75.1	72.4

Note: Food service categories were redefined in 1997; therefore, no comparisons can be made from previous years.

Source: *State of the Industry Report*, National Association of Convenience Stores, 1998-2001.

Figure 4-3
Share of supermarkets with delis, 1982-2000



Source: *Progressive Grocer*.

these are A&W, America's Favorite Chicken Company, Arby's, Baskin-Robbins, Blimpie, Burger King, Dunkin Donuts, Hardee's, KFC, Long John Silver's, McDonald's, Pizza Hut, Subway, Taco Bell, Wendy's, and White Castle.

Food service operations are also appearing in department stores. In 2000, Kmart operated over 1,800 instore restaurants in its 2,100-store chain, over 500 of which were Little Caesars franchises. Kmart is overhauling all of its restaurants with Little Caesars, renaming them KCafes, and discontinuing more than 25 separate agreements with regional and local distributors for restaurant service.

Wal-Mart stores house 636 McDonald's. In some locations, customers can even place a McDonald's order at the Wal-Mart checkout, where it is relayed to the McDonald's kitchen, usually in the back of the store. The order can be placed on a credit card and picked up at the front of the store upon departure. Potential areas for growth in branded concepts are hospitals, corporate cafeterias, hotels, and airports.

Employment and Wages

Employees in eating and drinking places numbered 8.1 million in 2000, a 1.9-percent increase from 1999 (app. table 11) but down from the 2.5-percent increase posted in 1999 (excludes all noncommercial eating facilities and commercial outlets such as hotel restaurants, department store coffee shops, and ballpark food). Although the growth slowed, eating and drinking places added more than 153,000 jobs during the year, marking the eighth consecutive year in which the industry's employment increased by at least 100,000. This helped solidify the food service industry's position as one of the largest private-sector employers in the United States, accounting for 57 percent of all food marketing employees. Average hourly earnings of workers in eating and drinking places was \$6.93 in 2000, up 4.7 percent from 1999 (app. table 27).

The overall restaurant industry—which includes food contractors, lodging-place restaurants, institutional-restaurant services, and other foodservice operations—employed more than 11.3 million people in 2000. Most tableservice and quickservice operators responding to a National Restaurant Association survey identified recruiting and retaining employees as the biggest challenge in 2000. They reported that the number of

applicants had declined from 2 years earlier and that it was taking longer to fill job vacancies. Restaurant respondents also reported that turnover among hourly employees had increased in the past 2 years. The labor shortage at tableservice operations was the most significant among kitchen workers and waitstaff, according to the 2000 survey.

In response to the current labor situation, roughly two-thirds of the quickservice respondents reported that they had intensified recruitment efforts, expanded cross-training of employees, and increased hours worked by hourly employees. Tableservice respondents reported the same. Restaurant operators also indicated that a larger portion of their budget would be allocated for training in 2001.

Technological Developments And Productivity

Labor productivity at eating and drinking places increased from an index of 100.6 in the mid-1990's to 104.3 in 1999 (1987 = 100). The Bureau of Labor Statistics has defined output by sales receipts rather than by a physical quantity because food service operators do not generally produce definable hard goods. Labor input in the productivity ratio is defined as the total hours worked by all employees, both supervisory and nonsupervisory. Quickservice operators are trying to improve productivity at their establishments through better working conditions, training, benefits, and technology.

Restaurants are rapidly expanding their presence on the Internet. In 2000, 56 percent of restaurants had a website, compared with 30 percent in 1999.

Restaurants primarily design their website to attract customers. Annual expenditures to maintain an online presence (including site development, ads, and e-commerce) range from under \$5,000 per restaurant to more than \$1 million per chain.

Advances in technology enable supermarket retailers to offer new services, such as electronic ordering and home delivery, for relatively low startup costs.

Cybermeals, the world's largest online meal ordering system, offers consumers the opportunity to order takeout and delivery from supermarkets and restaurants in their neighborhood free of charge. Since its start in December 1996, this service has become available nationwide with more than 13,000 locations under contract. Cybermeals has been named the exclusive online ordering service for America Online, Excite,

Yahoo!, and Lycos. The Great Atlantic and Pacific Tea Company (A&P) signed an agreement with Cybermeals to create individual custom websites for 700 units of their Farmer Jack, Food Emporium, Super Fresh, Kohl's, and Waldbaums stores. A&P will be the first grocery chain to offer online ordering of prepared meals from their delis and bakeries. With Cybermeals' 24-hour operations, consumers can order online from their local stores everything from rotisserie chicken to potato salad and view full menus, hours of operation, instore specials, and store directions.

USA Technologies in Philadelphia, PA, is working on turning vending machines into vehicles for Internet electronic commerce. It is also one of several companies, such as e-Vend-net in Kennett Square, PA, that is equipping vending machines with modems or sensors that relay instant inventory, sales, and other information over computer networks. With such technology, vending companies can better target their prospects. They can know, for example, that workers on the third floor prefer doughnuts, while their colleagues on the first floor want peanuts.

The first food service program to allow students to order school meals from home using either a toll-free number or a secure Internet website (<http://www.myschool-link.com>), called *MyLunch@School*, was launched in March 2000 by School Link Network, Inc. Students can customize and order lunch for the next school day, then pick up their custom lunch at the MyLunch station in the cafeteria by showing their MyCard@School student phone ID card. Students can also pay for their lunch using their MyCard@School student ID card as a personalized debit card.

The Nation's first electronic restaurant, WELL-STEADS, is located in Arlington, VA. It offers takeout and delivery of meals to people who want a healthier, more balanced lifestyle through a patent-pending process that allows customers to order online, on the phone, or in the store (by touching a kiosk screen). This process enables the customer to personalize, name, and save their meals for easy future ordering.

FreedomPay Inc., has developed a network that will enable customers to make cashless purchases simply and efficiently. By simply waving a wand over a sensor at the point of sale, consumers' purchases are automatically deducted from their account through FreedomPay's network. At FreedomPay's website, members can check their personal profile, view their account balance and purchase history, and learn

Significant food service mergers and acquisitions, 1997-2000

Acquirer	Acquired	Amount
Compass Holdings, Inc., Subsidiary of Compass Group, PLC	Daka International, Danvers, MA Daka's 250 restaurant holdings will be spun off into a separate company called Unique Casual Restaurants.	\$200 million
CKE Restaurants, Inc	Hardee's Food Systems, Inc.	\$277 million + CKE convertible note.
Grand Metropolitan, PLC	Merged with Guinness, PLC, forming a new company, Diageo, PLC.	—
Kitchen Investment Group	Country Kitchen	\$218 million
Long John Silver's	Merged with A&W Restaurants to form Yorkshire Global Restaurants.	—
McDonald's	Boston Market	\$173.5 million
McDonald's	Donatos Restaurants Aroma Ltd. Coffee Shoppes	Undisclosed Undisclosed
SR Acquisition Corporation	Scott's Restaurants Inc.	\$236 million
Host America Corp. Hamden, CT	Lindley Food Service Corp. New Haven, CT	Undisclosed
Capricorn Investors III L.P.	TCBY Enterprises Inc., Little Rock, AK	\$140 million
Aramark Philadelphia, PA	Ogden Corporation's entertainment division	\$236 million
American Securities Capital Partners L.P., NY private investment firm	El Pollo Loco, a subsidiary of Advantica Restaurant Group, Inc.	\$128 million

Source: The Food Institute.

about promoted offers. McDonald's has already successfully used the network in its North Carolina, Connecticut, and Idaho facilities. For added convenience on vending machines, FreedomPay's members can access their account using a keypad. The entire transaction takes less than 15 seconds. Canteen, the world's largest vending company, has signed an exclusive agreement to install FreedomPay in 50,000 vending machines by the end of 2002.

Menu Prices and Firm Profits

Growth in menu prices (average prices as measured by the CPI for food) slowed for the third consecutive year in 2000. According to BLS, menu prices increased 2.4 percent in 2000, which was down slightly from increases of 2.8 percent in 1997, 2.6 percent in 1998, and 2.5 percent in 1999. Growth in menu prices fell below the overall inflation rate for the first time since 1996. Driven by strong gains in energy prices, overall

consumer prices increased 3.4 percent in 2000—a full percentage point above the 2.4-percent increase in menu prices. In comparison, grocery store prices grew 2.3 percent in 2000. Menu prices at limited-service restaurants accounted for the strongest growth in 2000. These prices increased 2.6 percent, versus 2.4 percent for menu prices at full-service restaurants. Prices at the establishments serviced by food contractors increased just 1.2 percent in 2000, while vending and mobile-vendor prices increased 1.1 percent.

Profit performance varied widely over food service sector firms. According to *Business Week's* Corporate Scoreboard list, seven food service companies increased their profits significantly during 2000 (table 4-5).

McDonald's Corporation—parent to McDonald's, Donatos Pizza chain, Boston Market restaurants, and Chipotle Mexican Grill—had the largest aftertax profits in 2000 of \$1.9 billion, a 2-percent increase from 1999. Although profits were up in 2000, McDonald's is considering closing 250 poorly performing restaurants in view of the European beef safety crisis and adverse currency movements.

Other firms experienced more dramatic increases in profits. Wendy's International—parent to Wendy's Old Fashioned Hamburgers, and Tim Horton's, the number 1 coffee and baked goods chain in Canada—had profits of \$169.6 million in 2000, a 42-percent increase over 1999. Brinker International—one of the largest casual dining operations in the world, and parent to Chili's Grill and Bar, Romano's Macaroni Grill, Maggianos Little Italy, On the Border Mexican Grill and Cantina, and Cozymel's Coastal Mexican Grill—

had profits in 2000 of \$132.7 million, 33 percent above 1999's. Darden Restaurants, Inc.—number one in casual dining, and parent to Red Lobster, the Olive Garden, and Bahama Breeze Caribbean restaurants—had profits in 2000 of \$191.4 million, up 19 percent.

Mergers and Acquisitions/Divestitures

In 2000, mergers and acquisitions in the food service industry decreased to 61 from 81 in 1999 (table 4-6). Of these acquisitions, 47 were by U.S. food service firms, while 14 were by other types of firms.

Advertising

According to LNA Mediawatch Multi-Media Service, the top three food service advertisers for 1999 (latest year available) were McDonald's Corporation; Tricon Global Restaurants, Inc., parent to KFC, Taco Bell, and Pizza Hut; and Diageo PLC, parent to Burger King (table 4-7). These top three advertisers spent \$1.5 billion on television advertising in 1999, up 7.2 percent from 1998. Network TV accounted for the largest share of restaurant advertising, followed by spot TV, cable TV, and syndicated TV. McDonald's led in television advertising in 1999, spending \$626.2 million, up from \$570.9 million in 1998.

Foreign Direct Investment

Foreign-owned firms with U.S. affiliates accounted for \$9.1 billion in eating and drinking place sales in 1998 (last year available), up 31.5 percent from 1997 sales, according to industrywide BEA data (app. table 43).

Table 4.5—Profits of selected foodservice companies, 2000

Firm	Profits 2000	Change from 1999	Return on common equity over 12-month period ending December 2000
	\$ million		Percent
Bob Evans Farms	50.8	-12	11.6
Brinker International	132.7	33	16.2
CBRL Group	61.5	5	7.3
CKE Restaurants	-107.7	NM	-21.6
Darden Restaurants	191.4	19	19.2
McDonald's	1,977.3	2	22.5
Sodexo Marriott Services	71.0	42	NM
Wendy's International	169.6	2	15.7

Note: Profits are from total revenues, which include sales by company-operated restaurants and fees from restaurants operated by franchisees and affiliates. These fees include rent, service fees, and royalties that are based on a percent of sales with specified minimum payments, along with initial fees.

NM = Not meaningful.

Source: *Business Week*, February 26, 2001.

Table 4.6—Mergers and divestitures in food service

Year	Acquisitions by food service firms	All other firms	Total	
			Acquisitions by food service firms	Divestitures
-----Number-----				
1982	33	18	51	33
1983	43	21	64	35
1984	39	39	78	30
1985	49	24	73	39
1986	58	23	81	35
1987	56	21	77	35
1988	46	29	75	29
1989	38	34	72	30
1990	32	15	47	25
1991	21	15	36	16
1992	39	20	59	34
1993	56	15	71	23
1994	62	16	78	35
1995	71	12	83	24
1996	96	24	120	61
1997	112	46	158	53
1998	111	34	145	47
1999	70	11	81	29
2000	47	14	61	27

Source: Compiled by ERS from *Food Business Mergers and Acquisitions*, The Food Institute.

Table 4.7—Top restaurant company expenditures in U.S. advertising¹

Chain	Expenditures			Increase from 1998
	1999	1998	1997	
-----Thousands-----				Percent
McDonald's Corporation	626,238	570,949	580,458	9.7
Tricon Global Restaurants, Inc.	551,409	496,314	501,137	11.1
Diageo PLC	404,169	407,978	427,501	-0.9
Wendys International, Inc.	219,810	189,731	173,015	15.9
Darden Restaurants	136,884	139,448	138,446	-1.8
Doctors Associates, Inc.	132,380	99,342	85,005	33.3
Domino's	114,025	114,029	122,629	0.0
CKE Restaurants	85,510	84,497	83,460	1.2
Advantica Restaurant Group	71,163	69,576	68,266	2.3
Total	2,341,588	2,171,864	2,179,917	7.8

¹ Includes magazines, Sunday magazines, newspapers, national newspapers, outdoor, network TV, spot TV, syndicated TV, cable TV, network radio, national spot radio.

Source: LNA/MediaWatch Multi-Media Service.

Sales of major foreign investors in U.S. restaurants amounted to \$16.6 billion in 2000, down 3.5 percent from 1999 (includes sales by company-owned and franchised units according to *Nation's Restaurant News* magazine). The number of U.S. units operated by these investors increased 6.2 percent to 38,225 units in 2000 (see table 4-8 for subsidiaries).

The United States spent \$5.7 billion on direct foreign investment in eating and drinking places. In 1998, the latest

year for which data are available, there were 9 U.S. parent companies with 117 foreign affiliates (app. table 42).

Leading U.S. restaurants continue to move into other countries. Industry-level trade data were used by ERS to compile information at the firm and chain level for 1999 (the latest year available). The top 50 U.S. restaurant chains operated 46,863 units outside the U.S. in 2000, up from 41,891 units in 1999. The top 10 chains accounted for 40,178 (86 percent) of those units. McDonald's, the largest food service

organization in the world, had 14,895 units outside the U.S. in 2000, operating in 120 countries and territories. This represents 54 percent of McDonald's total units, compared with 53 percent in 1999 (table 4-9). McDonald's also leads in foreign sales, accounting for \$20 billion in 2000. Major markets include Canada, Japan, Germany, England, Australia, and France. McDonald's Corporation will open the first Boston Market restaurant outside the U.S. in Australia in 2002. KFC, a division of Tricon Global, Incorporated, has the second largest number of international units, 5,974. Fifty-three percent of KFC's total units operated overseas with foreign sales totaling \$4.8 billion in 2000.

Pizza Hut, also a Tricon Global subsidiary, operates 4,157 of its 12,084 units outside the United States. Pizza Hut's foreign sales for 2000 totaled \$2.6 billion.

References

American Institute of Food Distribution, Inc. *The Food Institute Report*. Fair Lawn, NJ. Selected issues.

_____. *Mergers and Acquisitions*. Elmwood Park, NJ. Selected issues.

LNA Multi-Media Service. *Class/Brand Year-to-Date*. Selected years.

Business Week, February 2001.

Convenience Store News. Selected issues.

Nation's Restaurant News. Selected issues.

Progressive Grocer. Selected issues.

Restaurant Business. Selected issues.

Supermarket Business. Selected issues.

USDA-ERS, ERS Food Expenditure Series.

U.S. Department of Commerce, Bureau of Economic Analysis. *Census of Retail Trade*. Selected issues.

U.S. Department of Labor, Bureau of Labor Statistics, *CPI Detailed Report*. Selected issues.