

THE RESTAURANT BUSINESS

Courtesy of Four Seasons Hotel, London.



THE PURPOSE OF THIS CHAPTER

This chapter first presents an overview of the restaurant business. It then focuses on two basic markets served by restaurants: the dining market and the eating market. Under dining, we are primarily concerned with the “casualization” of fine dining and the growth of the casual and upscale casual food service segments.

A still-growing part of the eating market is in off-premise operations, such as home meal replacement (HMR). We also look at the contemporary popular-priced restaurants that are the largest segments of the existing restaurant industry: quick-service and midscale operations, such as family restaurants. This discussion of the major components of the restaurant industry closes with a look at restaurants in retail settings such as malls.

THIS CHAPTER SHOULD HELP YOU

1. List by size the major components of the food service industry, and describe the economic impact that the food service industry has on the economy.
2. Understand the changes that have shaped the restaurant business in recent years, such as new delivery approaches.
3. Define the terms *dining market* and *eating market*, and describe and contrast the major kinds of restaurant operations in each.
4. Identify the food service segments that currently are growing or declining, and explain the reasons for these trends.
5. Describe the relationship that exists between shopping and dining and how healthy this particular segment is.

THE VARIED FIELD OF FOOD SERVICE

The word *restaurant* covers a broad range of food service operations. The term comes from the French word *restaurant*, meaning “restorer of energy.” The term was used as early as the mid-1700s to describe public places that offered soup and bread. Today, any public place that specializes in the sale of prepared food for consumption on- or off-premise can be described as a restaurant. *Food service* is generally used to represent the broader term, which encompasses all sorts of public and private locations that provide food for sale.

Food service is a basic part of the North American way of life and a growing part of life in other parts of the world. Americans now spend some 48 percent of their food budget (or **food dollar**) on **food away from home**.¹ Most of that amount is spent in commercial restaurants, as described above. Virtually everyone in North America has eaten in a restaurant, and, on average, roughly half the population eats in a restaurant at least once in any given month. In fact, one study found that, on average, Americans eat out nearly one out of every four meals and snacks.² And consistent with our earlier discussions of sustainability and environmental responsibility, the National Restaurant Association reports that 70 percent of adults are more likely to choose a restaurant that offers locally produced food items.³

Food away from home may be purchased in a variety of locations. This wide availability speaks to the size and scope of the food service industry, which includes employee cafeterias, convenience stores, traditional restaurants, hotel facilities, casinos, and taverns, among others. Even supermarkets are realizing this fact, and many suburban supermarkets now include a dining area. Most of these segments are experiencing positive growth—a trend that has been sustained for over four decades. (The industry even experienced positive growth in 2001 and during the recession in late 2008 and 2009.) In 2009, even in a bad economy, **full-service restaurants** increased by 1.0 percent while **quick-service restaurants (QSRs)** by 4 percent.⁴

The other major food service sector, on-site food service (sometimes referred to as institutional or noncommercial food service), represents a smaller but equally important part of the greater food service industry. (Chapter 7 discusses the on-site sector of the industry in depth.) This part of the industry is composed of contractors and caterers (who serve food in places such as manufacturing plants and office buildings, health care facilities, sports arenas, and schools and colleges) and those institutions that own and operate their own food service (self-ops). Managed services (the contract side) account for 7.1 percent of total food service industry sales while those that provide their own generate 8.4 percent of sales. An additional 1.9 percent of sales are made through vending machines. Over 15 percent of food-away-from-home expenditures are accounted for by the on-site market. These estimates are summarized in Table 3.1.

Food service plays an important role in all environments, including tourism destinations. (Courtesy of LEGOLAND® CALIFORNIA.)



TABLE 3.1

Major Areas of Food Service, 2009

	FOOD AND DRINK SALES (2009) ^a	
	SALES (\$ BILLIONS)	PERCENTAGE OF TOTAL
Eating places	377.9	66.8
Bars and taverns	17.1	3.0
Food service in lodging	27.9	4.9
Managed services	40.1	7.1
Other commercial	52.9	9.3
Institutions operating own food service	47.8	8.4
Military	2.1	0.4
TOTAL	565.9	100.0

^a Dollar amounts and percentages shown are based on estimates for 2009 made by the National Restaurant Association.

Source: National Restaurant Association, *2009 Restaurant Industry Forecast* (December 2009): 5.

The relative shares of the market held by the segments identified in Table 3.1 tend to be rather stable from year to year. Such seeming stability, however, hides important evolutionary processes that are going on within each category. In fact, the industry is in the throes of change.

Although food service sales overall grew 2.5 percent between 2008 and 2009, some areas actually have decreased. Within the employee restaurant services segment (employee cafeterias and dining rooms), there was a substantial decrease (mostly a result of businesses outsourcing their food service to managed-services companies) as well as decreases in self-operated secondary schools and colleges and universities food service operations.

For some years, the biggest growth in food service has been in operations such as **takeout, drive-through**, and **delivery**, which we will call collectively **off-premise** sales. In fact, off-premise food service has accounted for the lion's share of the growth in total restaurant sales since the late 1980s. (McDonald's reports that 75 percent of its sales comes from the drive-through.) Even though on-premise (i.e., in-restaurant) sales have increased each year since 1992, off-premise sales have done even better in recent years. Off-premise options are no longer limited to QSRs, either. One of the growth areas is in full-service restaurants with higher-than-average check averages, although fast food and pizza still command a large share of this market. (The average check represents the amount that the "average" customer spends and is calculated by dividing the total food and beverage sales for the period by the total number of customers for the period). Applebee's[®], a **casual-dining** chain, has recently added separate entrances (and service systems) for its "Carside to Go" customers. The trend in many segments of the restaurant industry is toward a higher proportion of takeout, delivery, and drive-through.

During the 1960s and 1970s, quick service altered dramatically the meaning of what a restaurant was. The trend toward off-premise consumption suggests that another fundamental change in the business definition of restaurants may be evolving.

Another set of changes involves **fine dining**, for years the mainstay of the upscale restaurant segment. By and large, fine dining, with its trappings of formality, has been declining in relative importance, whereas casual dining has been growing very rapidly. To some degree, fine dining's decline appears to be a result of consumers' apparent interest in value in food service and a sensitivity to the relatively high prices fine dining must charge. Today's consumers also are more predisposed to a casual-dining experience. Food tastes are changing as well. All of these factors have resulted in a change in the way that the fine-dining experience is perceived. Some suggest that the decline is just part of a cycle, though, and that fine dining will someday achieve its previous stature.

Many of the changes in food service result from changes in the age composition of North America's population, as discussed in earlier chapters. Members of the huge generation born in the 20 years following World War II, the baby boomers, are approaching



Applebee's "Carside to Go" program is a great example of how casual-dining restaurants are evolving. (© 2009 Applebee's IP LLC)

retirement. As they do so, their lifestyles are changing. They were raised with fast food and prefer an informal ambience. Now, as older parents or grandparents, they find a casual atmosphere more comfortable for the whole family. More will be said about the importance of casual dining later in the chapter.

QSR sales continue to rise also, by 4.0 percent in 2009 over 2008, partly owing to the declining economy—people are accustomed to dining out, but need to spend less in order to continue eating out as often. Finally, we should note that on-site sales have also shown healthy growth, with contractors and caterers (private companies providing food service to institutions) continuing to capture market share from self-operated units even in segments that have traditionally been self-operated, such as public schools.

THE OUTLOOK FOR FOOD SERVICE

The changing picture of life in the twenty-first century shows that fewer people have time to prepare elaborate meals. This means we purchase more convenience food items and eat more food away from home or purchase prepared food to eat at home. People recognize

that purchasing meals in restaurants, getting food to go, or having prepared food delivered provides opportunities to socialize or allows more leisure time that otherwise would have been spent on cooking and cleaning. These changes may explain the National Restaurant Association's industry report that says even in a down economy, 45 percent of Americans claim that restaurants are an essential part of their lifestyle.

Still, the same study reports that one of three adults say they are not eating out as often as they would like and 35 percent are not purchasing take-out food or having food delivered as often as they would like. What does this mean for the nation's 945,000 restaurants? First, restaurant operators are focusing more than ever on value. Second, keen operators are adding more healthful options to their menus, including more healthful options for children. Finally, restaurateurs are embracing more green initiatives, such as reducing energy and water use. Doing this saves money, is better for the environment, and is in step with restaurant goers' interests.

THE RESTAURANT BUSINESS

Describing the restaurant business is like trying to hit a moving target: The restaurant market is constantly changing. One could go so far as to say that it is constantly reinventing itself. There are so many types of restaurants that it is difficult to devise a model to fit them all. Nevertheless, we need some basic terminology to describe the field, even if in general terms.



More customers are looking for restaurants that offer comfort and value. (Courtesy of Mimi's Café.)

First, we need to consider the basic distinction between the dining market and the eating market. We will look at dining operations such as fine-dining and casual-dining restaurants, and at the other extreme, we will discuss the rapidly growing off-premise operations, such as takeout and delivery (much of which is referred to as **home meal replacement**), that are accounting for major growth in the eating market. In the next major section of this chapter, we consider contemporary popular-priced restaurants that represent the largest segments of the restaurant business today. These include the QSRs and midscale operations such as **family restaurants**. The chapter concludes with a consideration of restaurants as part of larger establishments.

THE DINING MARKET AND THE EATING MARKET

One of the twentieth century's most innovative restaurateurs, Joe Baum (former president of Restaurant Associates), suggested that the primary role of a restaurant is to transform the act of eating into something greater and more civilized. This is one of the great challenges of the restaurant operator today.

Building on this idea, we can say that restaurants serve both our social needs and our biological needs. We can divide restaurants into those serving predominantly our social needs (the **dining market**) and those serving our biological needs (the **eating market**). Nearly all meals eaten in the company of others have a social dimension, just as the most formal state dinner has its biological aspect. The main purpose, however, is usually clear.

DINING WELL

People dine out for a variety of reasons, including to escape from boredom, to socialize, to avoid drudgery, to be waited on, to have foods different from those served at home, and for convenience.

Because dining (as opposed to eating) is predominantly a social event, service is important. Servers are expected to be friendly—as signified by a warm smile—and accurate. The role of the server is, therefore, much more than a mechanical one. In the relatively expensive restaurants serving the dining market, the operation that falls short on service is likely to lose customers quickly. (Service is discussed in more detail in the final chapter of the book.)

The demographics of such customers, as always, are important. The guest who dines in a fine restaurant usually is older, is more highly educated, has a higher-than-average income, and is well accustomed to dining out and traveling. We now try to break the dining market into further subsegments.

FINE-DINING RESTAURANTS. Most full-service, fine-dining establishments—typically having an average check of \$40 or more—are small, independent operations, some seating fewer than 100 guests, which is quite small by today's standards. Despite their modest capacities, these restaurants succeed (or don't) because of their quality. Many are staffed by trained professional chefs who have brought with them a craft tradition that dates back to the Middle Ages.

Excellence is the absolute prerequisite in fine dining because the prices charged are necessarily high. An operator may do everything possible to make the restaurant efficient, but the guests still expect careful, personal service: food prepared to order by highly skilled chefs and delivered by expert servers. Because this service is, quite literally, manual labor, only marginal improvements in productivity are possible. For example, a cook, server, or bartender can move only so much faster before she or he reaches the limits of human performance. Thus, only moderate savings are possible through improved efficiency, which makes an escalation of prices inevitable. (It is an axiom of economics that as prices rise, consumers become more discriminating.) Thus, the clientele of the fine-dining restaurant expects, demands, and is willing to pay for excellence.

These distinguished operations generally require the right combination of three elements: a large market, skilled workers, and devoted management. First, because of the high prices they must charge, most such establishments are located in or near large population centers or in major tourism areas where there is a sufficiently large number of people with high incomes to ensure a satisfactory sales volume. Fine dining accounts for only about 2 percent of total food service sales each year, but the majority of its customers are repeat customers. Getting and keeping customers is critical in most segments but is particularly important in fine dining.

A second requirement of these restaurants is having qualified personnel: chefs, servers, and the like with highly polished skills. It was, for a time, difficult to find this kind of staff, but the growth in culinary education and training programs has reduced the shortage somewhat. People with these skills are most likely to be found in large metropolitan areas, although there are some obvious exceptions to this generalization.

A third and most important requirement for successful fine-dining restaurants is a special devotion from the key operating personnel, especially the owners and/or managers. The hours tend to be long, and the owners, although they may be amply compensated, generally devote their lives to their work.

As we have already noted, fine-dining sales have been falling for the last two decades due to a growing preference for all things casual. According to an article in the *Wall Street Journal*, fine dining sales plummeted 12 to 15 percent in 2009 and, as we still observe, have yet to return to pre-2008 levels.⁵ Although some part of this decline may be due to price sensitivity, the recession, and health concerns about rich foods,



Fine dining offers the experience of luxury and enhances the importance of special occasions. (City Club of San Francisco; Courtesy of ClubCorp.)

there seems to have been a basic shift in consumer service preferences as well. Older patrons have been accustomed to the kind of service rituals that characterize these operations. As younger customers advance in income and age to the point where they might be customers for fine dining, they may be put off by overly formal dining. In many instances, they prefer an upscale experience that is more casual. Although fine dining has declined in popularity in recent years, it is certainly here to stay: Consumers are simply viewing the fine-dining experience in a slightly different light. For a large segment of the population, casual upscale dining offers an attractive alternative.

CASUAL UPSCALE DINING. The question that arises, then, is what has taken the place of the fine-dining segment? One of the fastest-growing segments of food service is what is referred to as “casual dining.” Casual dining appeals to consumers on many levels. In fact, the casual segment can be further segmented by price and service level. Casual upscale dining represents those restaurants that are at the top end of the casual segment. They may even be referred to as “casual fine dining.” Some examples, on a national level, include Houston’s, which is setting the standard and has a very devoted clientele, the Cheesecake Factory, and P.F. Chang’s. Casual upscale dining, in particular, seems to have filled part of the void left by fine dining.

The movement of the baby boomers into their peak spending years partially explains the growth of casual upscale dining. As consumers age and more restaurant options are available to them, taste preferences become more sophisticated. Excellence in food is one of the appeals of these restaurants. The menus in casual upscale dining restaurants, and in casual dining in general, have become increasingly sophisticated and interesting in recent years. Another appeal is the topflight service that is offered by many such restaurants. Although meals here are less time-consuming and elaborate than in more formal and higher-priced restaurants, successful casual upscale restaurants deliver professional and attentive service at a significantly lower price than in fine-dining restaurants.

Most casual upscale restaurants have a unifying theme that is pervasive in the design of their menu, interior decor, and often the exterior of the building. Menu specialties are increasingly highly varied, and wine lists are extensive. Part of the reason for the more significant role that this segment is playing is due to the increase of large chain operators. Multiple-concept chains such as The Hillstone Restaurant Group (formerly Houston’s) play a critical role in defining the casual-dining landscape. The Hillstone Restaurant Group operates several concepts in addition to its flagship brand, including Bandera, Gulfstream, Cherry Creek Grill, Rutherford Grill, Palm Beach Grill, Los Altos Grill, and Café R&D.

Concepts for a new chain operation (whether casual upscale or otherwise) are developed through extensive market research, tested in one or more pilot operations and, once proven, rolled out to the regional or national market. Sometimes, rather than developing a concept themselves, multiple-concept chains purchase a promising independent operation, fine-tune the concept for a wider market, and then roll it out to regional and national markets. Either of these strategies can prove to be a risky proposition—most successful operators have a respectable portfolio of brands that have failed or that did not meet sales expectations and were discontinued.

In contrast to the QSR and midprice segments with their breakfast/lunch focus, casual upscale restaurants cater to a higher-check-average clientele for the lunch and dinner day parts. Naturally, this results in a higher dollar amount of sales. Some, such as

Houston's, a leading casual upscale dining chain, pays great attention to detail in the decor of its restaurants. (Courtesy of Houston's Restaurants.)



Outback Steakhouse, go so far as to limit their operations to a single meal period (dinner). Casual-upscale unit sales are also helped by the addition of alcoholic beverages, which usually add greater profit potential.

Noting the success of the casual upscale segment, many fine-dining operators have made changes. Because of the competitive market, many fine-dining restaurants have made the decision to move to meet the market demand for a more relaxed atmosphere and more reasonable prices. Other operators made the decision to balance their fine-dining outlet with a more casual option for their customers—Emeril Lagasse in New Orleans with his namesake restaurant, Emeril's, and the more casual NOLA is one example. (Lagasse also operates a second fine-dining restaurant, Delmonico, in the same city.)

Some operators closed their fine-dining outlets outright. Kevin Taylor, the operator of the Zenith American Grill in Denver, closed a very successful four-diamond restaurant and opened more casual restaurants, including jou jou and Nicois.

THE EATING MARKET AND ITS DYNAMICS

The eating market consists of those segments that cater primarily to biological needs as opposed to primarily social needs. Quick-service restaurants, which we will look at in more detail in a moment, constitute a sizable segment of the eating market—one that is patronized by nearly every household. A survey by *Restaurants & Institutions* magazine revealed some interesting insights into dining-out behavior. Forty-four percent of respondents reported eating in a quick-service restaurant at least once a week.

This compared with 35 percent of respondents who reported eating out at least once a week in casual-dining outlets. Two-thirds of households patronize QSRs frequently; that is, some member of those households buys fast food three or four times a week.⁶ In other words, these quick-service and midscale restaurant customers are the heart of the eating markets. The quick-service sector, as we noted earlier, is continuing its growth at a compound annual rate of 4 percent from 2008 to 2009. Off-premise dining is another segment of the restaurant business that continues to grow.

As discussed earlier, the three main components of off-premise dining are takeout, drive-through, and delivery. HMR can include any or all of these components. HMR (or the more current term, *meal solutions*) is usually meant to encompass a good portion of this market, specifically those prepared food products that are purchased away from the home but consumed at home. Each of these markets has maintained roughly the same share of off-premise sales for some years. Together they account for over 50 percent of the entire food service market. The largest part of off-premise sales is takeout, with nearly two-thirds of the traffic (visits) and volume. Drive-through is the second most frequent. Either way one views it, off-premise dining represents an important part of food service industry sales. Although off-premise sales began with fast food, they have spread across other segments to the point where there are now establishments designed strictly for customers to pick up fully prepared food to be brought home. Such examples include Foodies Kitchen (New Orleans), Tasteez (Denver), and Eatzi's (Dallas). Such operations are best described as a hybrid of restaurant and upscale supermarket. Each of the three primary areas identified above are discussed in turn.

TAKEOUT. Takeout is an old, established part of food service, but its continued growth has increased its prominence. Consumers have indicated their interest in takeout with their growing patronage. Not surprisingly, operators have responded to this consumer interest. Nearly all quick-service operations offer take-out meals, and quick-service operations account for the lion's share of takeout sales. The vast majority of mid-scale table-service restaurants also offer takeout, as do many upscale operations (and the number of restaurants offering takeout is only increasing). Thus, increased sales of takeout food are fueled not only by consumer preference but by the wide availability of takeout food service.

DRIVE-THROUGH. Initially, drive-through service was introduced as a part of an existing quick-service restaurant, and that is still an important use of the drive-through. Since its introduction, though, it has become an integral part of the QSR service strategy. Further, it should be mentioned that drive-through is no longer limited to the burger chains; it has also been adopted by such chains as Starbucks and is also being tested by 7-Eleven.

The drive-through came into its own, however, with the introduction of the double drive-through. These operations enjoyed the advantage of low capital costs because of the small building and relatively small size lot on which they could be fitted. Highly simplified menus gave them an operating cost advantage, too, and fast delivery times appealed to many customers.

It quickly became apparent to QSR operators that the double drive-through was a serious competitive threat, and the competitive response was not long in coming. Existing QSRs improved their drive-through facilities and used their powerful brands in a promotional push. Many QSRs that lacked drive-through facilities added them. In the shakeout that followed, a number of double drive-through chains that had been growing rapidly went out of business. Some survived, but these now serve a specialty niche. The dominant force in the drive-through market is the branded QSRs, such as McDonald's and Burger King. Certain companies, such as Checkers, Sonic, and Rally's, are defined by the double drive-through concept.

DELIVERY. Delivery is a slightly different segment of the industry. Delivery operations do not fit well in the same unit with table-service operations for a variety of reasons. Not only does demand peak just when the dining room is busiest (as is also true with takeout), but the parking lot is jammed with customers' cars just when delivery vehicle traffic in and out is at its peak. Moreover, the skills of the service staff are different. A person who is very effective as a server in face-to-face service will not automatically be effective in the telephone contact that is the typical start of a delivery transaction, at least not without specific training and an operating system designed to handle delivery. For these reasons, many companies have found it best to limit delivery operations to separate delivery units. This can result in cost advantages, too, in that they can be located on less expensive real estate.

For the reasons just identified, many of the chains that offer delivery specialize in it. In this way, their entire operation may be based on this single business model. For instance, many delivery chains use a single telephone number for all units. At the central answering facility, employees take calls at computer terminals. When a customer places an order, the operator asks for his or her phone number and address. Using this information, the order is passed to the nearest unit for dispatch. At the same time, the customer's name and order go into the computerized guest history system. Then, on subsequent calls, the operator is able to bring up the customer's record using his or her phone number. Thus, when John Doe calls, the operator can say, "Good to hear from you again, Mr. Doe. Would you like to have your usual pepperoni and mushroom? Shall we deliver it to the side door again?" The single-number system is spreading and is being used not only for pizza but also for a wide variety of other food service delivery products. The latest method, which offers tremendous savings for the operator,



Checkers is a major company in the drive-through segment. (Courtesy of © Checkers Drive-In Restaurants, Inc.)

is Web-based ordering. Pizza Hut, for example, has leveraged technology and reports lower labor cost, higher order accuracy, and higher customer satisfaction with its online ordering system. The company has even taken technology another step and now offers a free app for customers' iPhones.⁷

CONTEMPORARY POPULAR-PRICED RESTAURANTS

We have already discussed casual upscale restaurants and off-premise dining. In this section, we discuss the on-premise business of the three largest segments of today's popular-priced restaurant business: QSR, fast-casual, and midscale operations (such as family restaurants and commercial cafeterias).

To compare two of the more traditional restaurant formats (full-service and quick-service operations), QSRS account for slightly less than half of all restaurant sales (compared to 28 percent in 1970) and nearly three-quarters of customer traffic. Full-service restaurants, including both midscale and upscale, with a much lower share of traffic still achieve just over one-half of restaurant dollar sales because of their higher check average.

The newest segment, fast casual, underscores the continually changing nature of the restaurant business. Fast casual, sometimes considered an extension of QSR rather than a separate segment, is a hybrid that combines the efficiency of QSR but adds a service element from full-service operations. The customer orders at the counter, but the food

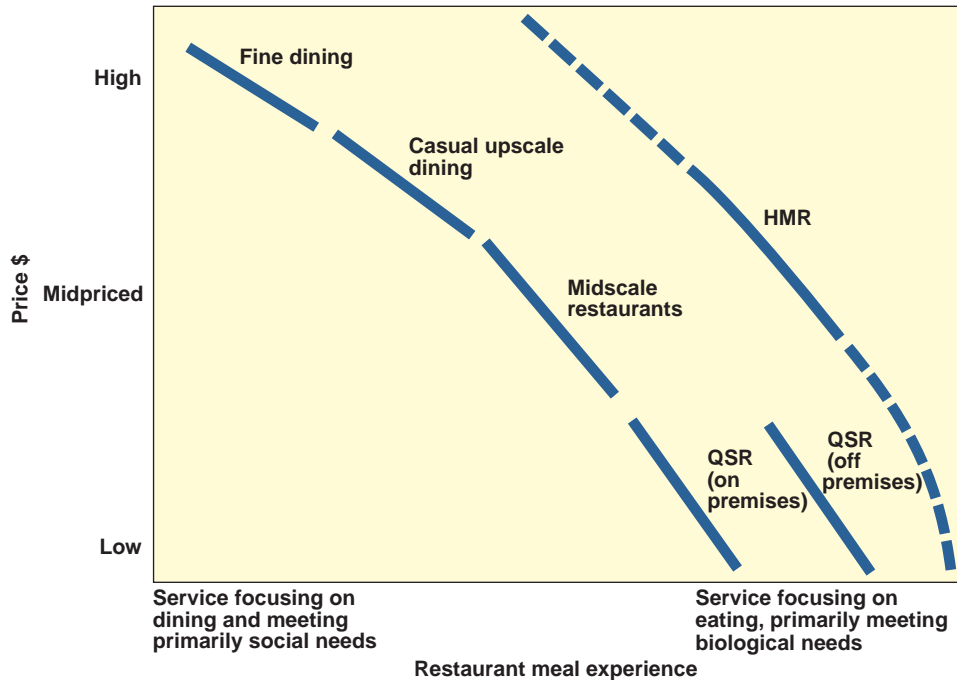


Figure 3.1

Factors bearing on meal experience include time available, importance of convenience, utilitarian as opposed to social event, and degree of subordination to other activities.

is later delivered to the customer at the table. The menu prices are slightly higher than QSR and the food usually has a greater emphasis on freshness.

In Figure 3.1, the various types of restaurants are compared in terms of their price level and the meal experience that is provided. The meal experience includes the services and amenities provided as well as such factors as the time available, the importance of convenience (as in location), the degree to which the meal is utilitarian (i.e., a biological event), and the degree to which it is tied to other activities. Utilitarian meals (a hurried lunch during the working day) where convenience and speed are essential would be at one end of the dining experience scale. A special occasion, perhaps a wedding anniversary celebration, where a couple might drive 50 miles to visit a unique restaurant and spend two or three hours dining, would be at the other end.

The full-service segment includes an important subsegment: midscale restaurants. These operations have somewhat higher prices (about \$8.00 to \$12.00, compared to \$5.00 to \$8.00 for QSRs).

With this overview in mind, let us now turn our attention to a more detailed consideration of the basic restaurant groups identified.

QUICK-SERVICE RESTAURANTS

One managerial concern that helps to distinguish between the various segments is their individual levels of productivity. Table 3.2 reflects productivity levels across several food service segments. An understanding of productivity is important from a management perspective. For instance, note that QSR operations lead the way in productivity—such operations tend to simplify their production processes and use self-service. The result is a drastic reduction in labor in both the front and the back of the house. Because QSRs require less labor, they can pass on their savings to the customer in the form of lower prices. Furthermore, these operations, even with their lower prices, have historically earned profits substantially higher than those of other operations.

THE QUICK-SERVICE CONCEPT. Some people do not realize how long quick-service (formerly fast food) has been with us—QSRs are the product of a long evolution dating back to the 1940s (e.g., Carl Karcher began with a hot dog cart in 1941 and In-N-Out, a California institution, began in 1948). Other companies also got their start around this same time. Despite the array of quick-service choices, any discussion of quick service must begin and end with McDonald's. McDonald's began as a drive-in, selling inexpensive hamburgers, french fries, and milk shakes to be consumed in the car or taken away. The original menu was very limited. The day that McDonald's decided to expand its menu to include apple pie is still very fresh in one author's mind. The company has obviously made other, and more significant, changes in the last 25 years.

From a small production unit, McDonald's expanded the food pickup area in the front of the store slightly to provide a limited amount of seating. This worked well enough that a larger seating area was added to one side—and then to both sides—of the production unit. Originally these units were still quite simple, with plain white walls for ease in housekeeping. The early units had a utilitarian air about them. Gradually, however, decoration was added to the seating area, very simply at first and then more extensively. Today, McDonald's restaurants are generally attractively decorated, and some units are quite elaborate. In 2002, McDonald's announced that it would reinvest a significant

TABLE 3.2

Productivity in Food Service Establishments

FOOD SERVICE TYPE	DIRECT LABOR HOURS PER 100 GUESTS
Quick-service	10.5
Cafeterias	18.3
Family restaurants	20.7
Luxury restaurants	72.3

amount of capital into its older restaurants, focusing on physical improvements and, in some cases, total remodeling. More recently, the international company optimized much of the food-production equipment, allowing for an increased array of menu offerings customized for the respective region of the world. McDonald's is but one example of some well-established quick-service companies that are undergoing remodeling/renovation plans to their restaurants. Other companies following a similar strategy include Burger King, Carl's Junior, Wendy's, and Taco Bell.

The decor and physical plant were certainly not the only things that evolved. The early, very simple menu was gradually expanded. To attract people who wanted something other than a variety of hamburgers, chicken and fish were added. To attract an increasingly health-conscious public, salad and decaffeinated coffee were added. To meet demand for service earlier in the day, breakfast was added. Although the menu still remains quite simple, the hamburger-only menu of the early days has been replaced by much wider variety.

McDonald's has periodically faced difficult internal and external challenges, including crowded markets, well-heeled competitors set on taking away its customers, and disgruntled franchisees. For a short time, its stock prices suffered as a result of these challenges, there was a change of chief executives, and the company closed some restaurant locations. It has since refocused, upgraded some restaurants, and slowed its growth rates. McDonald's began to turn things around after the turn of the century, evidenced by an increase in same-store sales, a measure of performance. Now with over \$55 billion in annual worldwide sales and even more new menu items including specialty coffees and smoothies, McDonald's is the best-selling food service brand in the world, with over three times the sales of the next largest brand.⁸ (The second largest is Subway—see Industry Note 3.1.) We can, therefore, safely proclaim the original concept and subsequent evolution of McDonald's to be a resounding success.

An example of a new
Subway unit.
(Courtesy of Franchise
World Headquarters LLC.)



Subway and Entrepreneurship

Entrepreneur Magazine named Subway the top franchise in 2006. With more than 31,500 locations in 91 countries today, the Subway brand is the world's largest submarine sandwich franchise and equals or surpasses McDonald's in terms of global penetration (based on number of units), depending on the year. Not surprisingly, it has become a highly desired franchise vehicle for entrepreneurs seeking success in the foodservice industry.

Larry Swanger is a prime example of one of these franchisees. Larry developed a passion for sub sandwiches as a kid. He recalls that one of his favorite childhood activities was eating a sub sandwich at the Kmart deli in Spokane, Washington. Over the past 20 years, Larry has owned eight Subway restaurants in eastern Washington and northern Idaho.

Larry explored a variety of markets and considered many different opportunities before launching his successful enterprise. He opted for a franchise as opposed to launching a new concept because of the proven systems the franchise provides. Finally, he selected the Subway brand because he saw—quite accurately—the potential for Subway's growth potential. He also identified the concept's strong franchise infrastructure, brand recognition, and considerable purchasing power.

Those who know Larry, either through his businesses or as a friend, note that he is a hard worker with impressive ethics. Indeed, Larry cites his business philosophy of hard work and honesty as a benchmark in everything he does. His employees respect this, and it seems to permeate the atmosphere of his restaurants. According to Larry, this sense of honesty also is part of his restaurants' value proposition.

Larry has been named Franchisee of the Year twice, standing impressively apart from the 110 other units in his district. The metrics for the award include all the components of value that we discussed earlier in this chapter. Furthermore, the strong sales that all of Larry's restaurants enjoy are a function of his thoughtful understanding of the marketplaces in which he operates. Without question, Larry Swanger is an entrepreneur who understands the importance of knowing the restaurant business and delivering value to his customers.

This evolution of the QSR concept at McDonald's was matched in a general way by other quick-service giants. Over time, quick-service menus came to offer a wider selection, until they were offering enough choice to make them a serious threat to family restaurants because of their lower prices.

The key to the success of quick service, nevertheless, is its simplicity. A key simplification remains quick service's limited menu. Each item on the menu has been engineered to simplify and standardize its purchasing, production, and service. Simplification of the production process permits the use of unskilled labor. The quick-service operation is, in many ways, more like a manufacturing enterprise than a traditional restaurant. Even a cursory tour of the back of the house of any quick-service restaurant will support this statement.

UNIQUE CHARACTERISTICS. The presence of quick-service operations in every market of any size is a key characteristic of quick service and one of the main factors supporting its growth over the past 50 years. Because of their many locations, they make eating out convenient. That convenience reinforces patronage. Further, quick-service food seems to cut effectively across a variety of demographic groups. It truly has become an integral part of living in North America and, increasingly, in other parts of the world.

We have already noted that simplified menus and operations that use unskilled labor result in a price that is very attractive to the consumer. This simple operating format results in fast service and has earned quick service its name. Self-service is built into the operating format, reinforcing both speed of service and lower cost, especially in the absence of any tipping.

The quick-service segment is dominated by chains, which introduces an interesting note of complexity into what appears to be a fairly simple operation. Although the operation of any single QSR unit is relatively straightforward compared with other, more service-intensive restaurants, the operation of the restaurant chain as a whole—that is, as a system of interactive parts—is highly complex. With over 30,000 systemwide restaurants (over one-half are outside of the United States), McDonald's requires a huge management structure to make all the parts of the system function together in a consistent fashion that the consumer can depend on.

An interesting illustration of this complexity can be found in the area of purchasing. When the corner restaurant adds baked potatoes or chicken to the menu, the whole process can be accomplished by instructing the cook, ordering the necessary ingredients, and changing the day's menu. In a complex system, however, much more is involved. When Wendy's first added baked potatoes to its menu, for instance, the entire U.S. potato market was disrupted by the huge increase in demand. Similarly, when Burger King introduced the bacon cheeseburger, those three strips of bacon (multiplied by millions of customers) so increased the demand for bacon that it disrupted the national commodities market in hog bellies.

Although we have asserted that a fast-food unit is a relatively simple operation, it is not true that managing one is in any way a simple task. Managing the very tight quality and cost controls on which QSR operations depend is, indeed, demanding. Very high sales volumes and extreme peaks and valleys of demand throughout the day require managers to hire numerous part-time employees whose schedules vary from day to day and week to week. Keeping this crew properly trained and motivated is a major task, particularly in the turbulent economy. The costs associated with turnover, such as lost training time, as well as the management time required to hire and train new employees must also be managed. Finally, maintaining staff morale is also a major concern. These issues mean real leadership skills are needed.

Quick service, as you will have noticed, is dominated by chain organizations (many of which are franchises). This is true probably because there are real economies of scale available to operations that are—within a given chain—virtually clones of one another. These economies are achieved not only in purchasing raw product but also in advertising and marketing and in the development of operating skills. A person new to the business must necessarily follow a learning curve in which he or she begins with ignorance of food service and only gradually develops sufficient know-how to operate successfully. The concept of the learning curve is simply that, over time, with acquisition of knowledge and experience, a person develops greater abilities. A management trainee or franchisee of a successful chain can use the systems developed by the organization to begin well ahead on the management learning curve and to move more quickly along that curve.

Another reason for chain dominance is the highly standardized product. How much difference is there, really, between one hamburger and another, or between fried chicken products? With such a simple and narrow product line, it is difficult for an independent in this segment to achieve a viable basis for product differentiation. Whatever differentiation the independent may achieve, it must then withstand the blast of advertising deployed by its chain competitors. For all these difficulties, smaller regional chains, however, can and do compete successfully against the market leaders—in their own regional markets.

As we have suggested, quick service is a vital North American social institution and one that has been adopted by many countries around the globe. In Table 3.3, we summarize its most significant distinguishing characteristics.

TABLE 3.3

What Makes Quick-Service Food Different?

Location strategy (they are everywhere)

Relatively limited menus

Sales volume (very high and highly variable)

Fast service (high degree of self-service)

Numerous part-time employees with various schedules

Use of unskilled labor and highly skilled management

Key role for unit managers

Highly competitive prices

Chain domination

Simple unit, complex system

QUICK SERVICE'S CONTINUING EVOLUTION. We noted at the beginning of this section that the quick-service industry of today is the product of over 50 years of evolution, and this process continues. Profit-oriented companies sometimes make mistakes, but they quickly correct them if they want to survive.

One of the positive aspects of quick service's evolution was the upgraded unit's physical plant and decor. Because of the high capital costs (such as depreciation and interest on borrowed capital), however, the cost of building a unit has a major impact on its cost structure. As investment costs began to mount in the 1980s, they drove costs out of line. New, smaller prototype units, however, have now been developed that reduce this investment.

New product development has also been a vital force in rejuvenating quick-service concepts. Whenever a Wendy's concept has become dated in consumers' minds—and sales have begun to fall—the company has redefined its business with new products. Beginning with salad bars and baked potatoes, food bars, the Fresh Stuffed Pita, and, more recently, boneless wings and deluxe salads, the company has regained its earlier popularity—and done so repeatedly.

The quick-service business is concentrated in the breakfast and lunch day parts and, to a lesser degree, in snack periods. All of these day parts have in common a relatively smaller check average than dinner, and most firms are continually seeking to enter the higher-check-average dinner day part.

DISTRIBUTION: EXPANDING POINTS OF DISTRIBUTION. **Distribution** refers to the marketing problem of gaining a presence in many markets. Quick-service chains and other food service operators began several years ago to expand the number of markets they could serve by developing not just downsized units but special limited versions of their concepts. These newer prototypes were developed to offer some of the company's product line in locations such as colleges and universities, shopping malls, retail outlets, hospitals, and the like. These smaller **points of distribution** (or *PODs*) can be located almost anywhere where there is consumer traffic. The large unit in which a POD is located is called a host. Hosts provide venues for PODs. Venues are analogous to a restaurant location, but they denote not only a place but also a particular category of guests that the host's premises provide: students at colleges, shoppers in a department store, workers in an office complex. Hosts and food service operators benefit each other. Food service enhances the host's operation by providing additional service to its customers, another revenue stream in the form of rent, and, ideally, keeping employees, shoppers, or visitors on-site longer than they might have been otherwise. The host's venue provides a profitable location to the food service company. The theory behind PODs has been dubbed "intercept marketing," in that the idea is to offer product wherever consumers are, intercepting them in work or play. The other side of a firm's successful distribution

is consumer convenience.⁹ Points of distribution are proving to be a major vehicle for the continuing growth of quick service and are discussed further in Chapter 6.

THE FUTURE OF QUICK SERVICE. Perhaps the most difficult challenge that QSRs collectively face is the shift in the composition of the population, that is, the aging of the baby boomers. (Individually, the greatest challenge is more likely the ever-increasing competition.) Baby boomers played a major role in creating demand for quick service when they were children and for its gradual upscaling as they entered their teens and 20s in the years just before and after 1970. As they leave middle age, baby boomers' tastes are naturally changing. They are able to afford a more expensive restaurant and prefer a more upscale environment and more extensive service. This translates into increased demand for full-service restaurants and "newer" segments, such as the fast-casual segment.

Although quick-service operators have made every effort to adapt to changing tastes, the traditional QSR footprint may no longer fit their needs as well as it did when they were younger. For this reason alone, newer niche segments such as fast casual seem to be an appropriate response.

Yet a large group of younger customers have come along—and will continue to do so—to replace the boomers. Moreover, quick service, as we noted earlier, is a part of the harried American lifestyle. Whatever age customers may be, when speed or cost is especially important, quick service is the easiest choice. As a result, quick-service management opportunities continue to be promising.

Indeed, with so many units in operation and with healthy growth, there is a need for large numbers of new managers to replace those who are promoted or leave the business. There is, moreover, a persistent shortage of qualified managers. QSRs are likely to continue to offer attractive opportunities. They give significant responsibility to new managers and generous compensation to those who can deliver results. Their many units mean numerous opportunities for advancement.



FAST-CASUAL RESTAURANTS

As noted earlier, fast casual is sometimes considered QSR because of the relatively close menu-item prices. However, the differences in product offerings is now more pronounced making this segment unique. It has been described as offering "full service quality food in a quick-service format."¹⁰ Hudson Riehle of the National Restaurant Association states that it is "a hybrid concept that offers the convenience of a typical quick-service establishment while combining food offerings and ingredients historically associated with more 'casual' table service operations."¹¹ Examples would include Panera Bread, Baja Fresh, Wingstop, Au Bon Pain, and Qdoba Mexican Grill. Some of the



Panera is one of the leaders in the fast-casual segment. (Courtesy of Panera LLC.)

more “mainstream” quick-service companies are also investing in this new segment, including McDonald’s (with 3’n1) and Wendy’s (with Café Express). According to Restaurant Research, this “new” segment accounts for \$3.6 billion.¹²

The origins of fast casual date back to the 1950s in the United Kingdom when bakeries offered some sort of self-service restaurants. Customers became accustomed to seeing food preparation and dining in a more richly decorated dining area than we normally see in quick-service restaurants. Similarly, fast-casual outlets became popular in France in the 1980s as counter service was paired with open kitchen preparation.

In the United States, fast casual has evolved to include made-to-order food items, often with more fresh ingredients and more food preparation performed at the individual unit than is seen in quick service. The decor is more similar to casual dining, and other attributes of casual dining, such as conveniences like nonplastic utensils and plates, are commonplace.

The future of fast casual is enticing. Americans’ increased interest in healthy eating, locally produced ingredients, and nontypical ethnic cuisines suggest this segment will continue to grow. With customers willing to spend more for food that features these attributes, the opportunity for growth is also promising. Finally, fast-casual restaurants have the ability to add or change menus more readily than their QSR brethren due to the QSR’s emphasis on speed. Thus, fast-casual operators can add new items, even nontraditional items such as beer and wine, to increase revenue and draw customers from QSRs and casual-dining restaurants.

MIDSCALE RESTAURANTS

Although midscale restaurants may not look like quick-service or fast-casual operations, the heart of all their operating systems closely resembles the QSR format. Their production systems have been simplified through the development of specialized menus that serve to reduce the skill level required of employees. This, in turn, holds down wage costs and increases speed of service. Midscale restaurants might, therefore, be called “moderately quick service.” Although the customers in these operations are prepared to wait a bit longer for their food, they will not have to wait that much longer than in a QSR. We discuss three of the more common restaurant types within this category: family restaurants, cafeterias and buffets, and pizza operations. We also discuss home meal replacement later in this section.

FAMILY RESTAURANTS: A STEP UP. Family restaurants, such as Denny’s, Shoney’s, or Cracker Barrel, are table-service restaurants that compete principally with QSR and fast-casual operations and have more in common with these lower-priced operations than with units that are more upscale. Although they provide table service, they typically offer self-service in the form of salad bars, breakfast bars, and dessert bars. Another distinguishing feature is that family restaurants usually offer breakfast, lunch, and dinner.



Family restaurants such as Piccadilly offer a different alternative to quick service. (Courtesy of Piccadilly Cafeterias, Inc.)

Menus at family restaurants offer a wider selection than QSRs, and in this they resemble their upscale cousins more than QSRs. This resemblance to full service is, however, deceiving. First, the production staff is limited to one or more short-order cooks. Almost everything is prepared to order, sometimes from scratch (as with the sandwiches and breakfast items that give the menu much of its variety) and sometimes from frozen or chilled prepared foods that are reheated to order. The production process is really almost as straightforward as the quick-service process.

Furthermore, the service the customers receive is anything but elaborate. Place settings usually consist of paper place mats and a minimum of china and flatware. Most meals consist of a choice of soup or salad, an entrée with rolls and butter, and perhaps a dessert. This reduction in courses simplifies service. Platters, sandwiches, and salads are the mainstay of the menu, all attractively but simply served. Breakfast is the largest meal for some operators and a significant one for most others. Snacks and coffee breaks are also an important source of business, particularly for family restaurants that combine a bakery with their unit. Table 3.4 shows the ten leading family chains. In this segment, chains dominate, with over three-quarters of the market.

The relatively straightforward operating format of family restaurants helps keep the cost of training new service employees manageable. In addition, the flexible menu permits operations to drop menu items when their food costs advance too rapidly and to substitute less costly items.

The guests who visit a family restaurant want to be waited on, and in choosing a family restaurant, they are opting for an informal, simple, relatively inexpensive style

TABLE 3.4
Ten Largest Family Restaurant Chains

Denny's	www.dennys.com
Cracker Barrel	www.crackerbarrelocs.com
IHOP (International House of Pancakes)	www.ihop.com
Bob Evans Farms	www.bobevans.com
Waffle House	www.wafflehouse.com
Perkins Family Restaurants	www.perkinsrestaurants.com
Steak 'n Shake	www.steaknshake.com
Friendly's Restaurants	www.friendlys.com
Shoney's	www.shoneys.com
Marie Callender's	www.mcpies.com

of service. These operations generally offer a pleasant, modern restaurant located near high pedestrian or vehicular traffic and convenient to shoppers and suburban family diners.

Family restaurants, with their more varied menus, table service, and modest price level, offer considerable appeal to the aging baby boomer. For families, children's menus are available that often cost less than feeding the same child at a QSR. In addition, many chains offer kids' programs that may include a free meal on a particular night of the week. Many family restaurants offer budget menus or special selections for seniors. To appeal to all these market segments, family restaurants are offering expanded menus featuring selections that are lighter and healthier.

On the downside, the food service "pie" is only so big. That is to say, customers are willing to spend only a certain amount of their disposable income on food outside of the home. Family restaurants have been losing market share to their competitors: primarily casual restaurants and QSR operations. Customers can choose a QSR that offers fewer menu choice and less service but lower prices and an ambience and food quality often equal to that offered by a family restaurant, or customers may choose a fast-casual restaurant due to the perceived freshness or healthiness of the menu items. At the other extreme, family restaurants face competition from casual, full-service restaurants, some of which offer prices that are not much higher. Like any operation in the middle, family restaurants have to watch out for price competition from those below and value competition from those on the next rung up. In the past, customers have shown substantially greater satisfaction with the value received in moderately priced restaurants than in QSRs or higher-priced restaurants. This finding suggests that customers recognize the quality of the midprice operations, but perhaps their real preference is for something more upscale—or else they are pressed financially and must choose the lower-cost alternative. They recognize value in the midprice segment, but the greater growth goes to that segment's up- and downscale competitors. Whatever is going on in the guests' minds, family restaurants seem to be caught in a competitive middle ground.

COMMERCIAL CAFETERIAS AND BUFFETS. Commercial cafeterias and buffets primarily are limited to certain regions of the United States, but between them, they represent a sizable portion of the restaurant industry. There are some slight but rather important differences between cafeterias and buffet restaurants and the category of family-oriented restaurants that we just discussed. Cafeterias are popular in the southern United States, whereas buffet-style restaurants seem to be most popular in the American Midwest, Northeast, and Mid-Atlantic regions. Both styles of restaurants cater to consumer markets similar to those for restaurants in the family category—that is, young families and seniors. Cafeterias became known for serving value-laden home-style meals throughout the southern states. Customers are able to choose from a wide variety of

food as they proceed down the cafeteria line. Piccadilly Cafeterias, for instance, offers customers over 130 items daily, with different core items offered each day. Other large cafeteria companies include Luby's and Furr's. Most of the activity that has occurred in this segment of late has been the result of mergers and acquisitions as opposed to expansion.

Cafeterias offer value, selection, a comfortable atmosphere, and a family environment—characteristics that appeal to several different demographic groups. The segment faces many of the same challenges that we discussed with respect to family restaurants, however.

A segment that is closer to cafeterias than it is to family restaurants is buffet-style restaurants. Buffet restaurants are similar to commercial cafeterias operationally but differ from the customers' perspective. Their main differentiating quality is the scatter buffet concept, where restaurant guests go to different "stations" in the dining room to retrieve their food. Each station offers different types of foods. The scatter system, among other things, eliminates some of the bottlenecks that can occur as a result of customer lineups along traditional cafeteria lines. Some of the larger buffet companies include Golden Corral, Ryan's Grill, and Shoney's. One of the largest operators of this style of restaurants is Buffets, Inc., which operates the Old Country Buffet, Hometown Buffet, and Country Buffet brands, among other concepts. According to Glenn Drasher, the executive vice president of marketing for Buffets, Inc., the company's different concepts tend to attract a broad customer base that includes families with kids, baby boomers, and seniors. Many of the company's special programs are developed with this customer base in mind. For instance, it offers special pricing for kids based on how old they are (50 cents per year for lunch). It also changes its menu at 3:30 in the afternoon for those who are interested in eating an early dinner.¹³

Cafeterias and buffets, together, account for approximately \$5 billion in sales each year.

OTHER MIDSCALE RESTAURANTS. There are numerous other types of restaurants that we could include in the midscale category—for instance, pizza, seafood, Mexican food, and Asian food. They generally fit the pattern already described: limited menus, highly efficient productivity, limited service, and a product characterized by a relatively low-food cost. Pizza restaurants will be described here briefly.

PIZZA RESTAURANTS. Pizza is big business. Among the major chain concepts studied by *Restaurants & Institutions* in its annual chain restaurant study, "The Top 400 Restaurant Concepts" (hereafter *R&I 400*), several are pizza chains—in fact, four pizza companies are billion-dollar-a-year companies.¹⁴

Pizza restaurants once depended almost exclusively on a single item. In recent years, however, pizza restaurants have extended their product line to appeal to more

customers. New items include deep-dish, Chicago-style pizza; pizza with thick or thin crust; specialty two-crust pizza, as well as non-traditional toppings; and, at lunch, individual-size pizzas. All have added variety and choice to the pizza menu. Newer items that have appeared on the menus of national pizza chains in recent years include breads, salads, chicken wings, pastas, and sandwiches. Some chains, such as California Pizza Kitchen, have totally reconceptualized the traditional pizza offerings with toppings such as barbecue chicken, Peking duck, and goat cheese. Despite all their menu and service expansion, however, these operations are still principally pizza restaurants. The cost of their food product itself is relatively low, and these operations also have low labor costs, making them attractive investment opportunities. Another chain, Papa Murphy's, has blurred the lines even more. This chain offers food that customers cook at home. Thus, these units need no cooking equipment, which makes the investment in opening each one relatively low.

HOME MEAL REPLACEMENT. The final category of food service that we will discuss in the midscale category is home meal replacement, which has been mentioned earlier. Unlike the previous examples discussed, HMR is not a restaurant type but rather a delivery method. The reason it is included in this section is that much of HMR occurs in the midscale segment. Pizza is perhaps the original North American HMR product. However, several nonpizza chains, as discussed next, have capitalized on the popularity of HMR.

Operations such as Kenny Rogers Roasters and Boston Market have helped to pioneer a new kind of takeout/eat-in operation, featuring a kind of food different from the burger, sandwich, and pizza that have dominated the take-out market for years. HMR features (but is not limited to) American “comfort foods” such as chicken, turkey, and ham prepared in a way that consumers might make at home. HMR food not only tastes good but also fits the image of family food and is often referred to as “home cooked.” (The concept of “truth in menu” suggests it should be called “home-style cooking,” and in some jurisdictions advertising “home cooking” in a restaurant could lead to criminal charges under the laws covering fraud.)

At one time, Boston Market was a real growth phenomenon, expanding from a single unit to 1,200 units in six years. The chain was purchased by McDonald's but was sold again to an investment group in 2007. The menu continues to emphasize such “comfort” foods as chicken, turkey, ham, meatloaf, and pot pies.

Grocery store and delicatessen chains have long featured variants of the HMR concept, and they, too, are expanding their take-out offerings aggressively. We should recognize as well that take-out operations of all kinds are competitors with HMR operators. A number of new HMR concepts have entered the field, some featuring colocation with an existing brand.

CASUAL RESTAURANTS

Casual restaurants have been an important component of the restaurant industry in recent years. Casual restaurants provide a relaxed atmosphere and reasonably priced menus that appeal to baby boomers and multiple other demographic segments. The types of restaurants, and affiliated chains, that are a part of this segment are becoming almost as recognizable as certain quick-service chains; Chili's, Red Lobster, Applebee's, T.G.I. Friday's, and California Pizza Kitchen have all become a familiar part of the dining landscape. Several of these companies have active franchising programs that allow them to continue to expand domestically and internationally. Some are part of companies that operate multiple concepts, such as Brinker (Romano's Macaroni Grill, On the Border Mexican Grill and Cantina, Chili's Grill, Bar and Maggiano's Little Italy) and Darden Restaurants (which include Red Lobster, Bahama Breeze, Olive Garden, Longhorn Steakhouse, Seasons 52).

SPECIALTY RESTAURANTS. **Specialty restaurants** featuring a specific kind of food constitute a significant component of the casual restaurant segment. Most of these offer a theme related to the food specialty, such as steaks, seafood, or pasta. With a slightly more relaxed view of diet than the one that prevailed just a few years ago, customers are flocking to steakhouses, for instance. To give an indication of just how popular steak restaurants have become, some of the *R&I 400* top concepts are steakhouse chains (Outback Steakhouse, Longhorn Steakhouse, and Ruth's Chris Steak House, just to name a few). Many steakhouses feature a western decor that adds a themed element to the dining experience.

Seafood restaurants are another specialty segment that is demanding of attention (witness the popularity of Red Lobster). Seafood restaurants provide a combination of

Seafood restaurants represent a popular specialty segment. (Courtesy of Las Vegas News Bureau.)



a healthy, low-fat image with a popular food product. The sea offers plenty of nautical themes for an ambience to enhance the diners' experience. Diners have become much more knowledgeable about seafood in recent years, and seafood-oriented restaurants such as Landry's (based in Houston) have been able to capitalize on this. It should also be noted that the seafood segment continues to include many independent restaurant operators, some of which are among the busiest independent restaurants in the United States, including Joe's Stone Crab (Miami), Bob Chinn's Crab House (Wheeling, Illinois), Atlanta Fish Market (Atlanta), and Anthony's Pier 4 (Boston).

Pasta is also proving its continuing popularity, offering not only a healthy, low-fat product but also one that has a relatively low cost. Pasta restaurants, which are not necessarily Italian, have begun to spring up around North America. One such example is Semolina's, a chain of pasta-themed restaurants clustered in the southern United States whose menu focuses on international pasta dishes.

Another type of restaurant that we can include in the specialty category are brewpubs, which feature a combination of food and beer made in the operation's own facility. Beer continues to be a popular beverage and accounts for much of the alcoholic beverages that accompany meals. According to the Association of Brewers, the number of brewpubs almost reached 1,000 (979) in the United States in 2009 while dollar growth from craft brews was around 9 percent. In total, there are some 1,500 breweries (including brewpubs, microbreweries, regional craft breweries, and large breweries) in the United States. There are now even several brewpub chains, including Rock Bottom (Louisville, Colorado), Gordon Biersch Brewery Restaurant (Chattanooga, Tennessee), and Hops Grill and Bar (Tampa, Florida). The segment is still dominated by smaller independently owned operations, though, such as Goose Island in Chicago, Crescent City Brewhouse in New Orleans, and Copper Tank Brewing Company in Austin, Texas.

ETHNIC RESTAURANTS. **Ethnic restaurants** offer a cuisine and theme that combine to provide a "getaway" experience. Ethnic restaurants are a mainstay in the U.S. restaurant industry, and Americans continue to explore new types of foods from around the world. Although the most popular ethnic cuisines continue to be Italian, Chinese, and Mexican, some of the ethnic restaurants that have been gaining ground in recent years include Thai, Ethiopian, and Indian. Ethnic restaurants have long been dominated by independents but are now seeing the proliferation of chains as well.

"EATERTAINMENT." For the specialty restaurants discussed earlier, the focus of the guests' experience is the food, often enhanced by a related ambience. Ethnic restaurants, too, feature a specialized food, with a matching ambience playing a somewhat larger role. There are, however, **eatertainment**, or theme, restaurants, in which the diner's experience is centered on the entertainment provided by the restaurants' stage-set-like decor. Here, the food is an important but secondary consideration. One of the best known of these operations

A restaurant's theme serves to augment diners' surroundings and creates an exciting experience. (Courtesy of Rainforest Cafe.)



Food, service, theme, and entertainment all contribute to the overall experience of the guest. (Courtesy of Rainforest Cafe.)



Quark's Restaurant Serves Earthlings Too

To walk into the *Star Trek*-themed restaurant, originally at the Las Vegas Hilton and now planned for a dedicated location—is to be transported to another time and dimension. The theme is different from that of many other themed restaurants: It is based exclusively on the *Star Trek* television series (and movies). The restaurant is one part of a larger complex within the hotel that also features a museum, a simulated ride, and an extensive gift shop. In this way it is different from many “stand-alone” theme restaurants.

The restaurant entrance is located off of the Promenade on Deep Space Nine (a *Star Trek* space station); features futuristic tables, lighting, and ambience; and offers menu items named after intergalactic specialties, such as “The Wrap of Khan” and “Glop on a Stick.” Specialty drinks include “Romulan Ale” and “Klingon Warnog Ale,” both named after famous *Star Trek* villainous alien races. As with many theme restaurants, the menu plays an integral part of the dining experience.

Diners are greeted by *Star Trek* characters who roam the dining room, including Klingons and Ferengi. The characters freely interact with diners and humorously insult the guests. This feature alone distinguishes the restaurant from theme restaurant chains.

In short, the restaurant provides the total experience for *Star Trek* fans. Like other theme restaurants, it is also unique in another way: Fans must go to Las Vegas to enjoy it, since it is the only restaurant (and attraction) of its kind. The restaurant is part of a \$70 million complex operated by Paramount Parks.

is the Hard Rock Cafe, which in 1971 first introduced this concept. The Hard Rock Cafe, and its competitors in this segment, offers a combination of the typical restaurant experience with the addition of the atmosphere and ambience (which may include entertainment, props, etc.) appropriate for the theme that is being conveyed. These operations offer movie-quality special effects, professional actors, and audio-animatronic creatures to create their atmosphere. And the atmosphere, or theme, ranges from undersea submarines (DIVE!) to race cars (NASCAR) to movies and television shows (*Star Trek*). For additional information about Quark's Restaurant at Star Trek: The Experience, see Case History 3.1.

The economics of theme restaurants call for big investors. The operators of Dave and Buster's typically spend \$10 million on each unit, which includes not only multiple food and beverage operations but also computer and virtual-reality games. In addition to food sales, these units offer alcoholic beverages and sometimes charge an entrance fee. Sales of branded merchandise, such as T-shirts, caps, and sweaters, are also a major source of revenue for most theme operations. Some chains derive as much as 60 percent of their revenues from merchandise. Rainforest Cafe's president notes that a large staff as well as heavy investment combine to make a 200-seat restaurant the minimum size feasible. Many are much larger.

The experience offered by the restaurant is the center of the concept. At Rainforest Cafe, thunderstorms regularly pass through the restaurant, but operators agree that the “wow” factor is good for only the first visit—or perhaps one or two more. After that, the quality of food and service becomes critical. The danger of obsolescence is a real problem for these high-investment operations unless food and service are excellent—and perhaps even if they are. Accordingly, these operations are located in high-population areas and near major tourist attractions, where there is a high audience turnover. Not every concept will make it, but the idea of a popular restaurant featuring entertainment and food—as well as liquor—has been validated by Hard Rock Cafe’s four decades of successful growth. It should be noted that at the time of this writing, several chains within this category are experiencing financial difficulties and the segment, as a whole, is reevaluating how it is viewed by customers.

HIGH-CHECK-AVERAGE RESTAURANTS

Now, let’s go back to the other end of the dining spectrum and revisit high-check-average operations. As we indicated earlier, fine dining, if it is defined as an elaborate ritual of service combined with a European-style kitchen, appears to be in decline. If, however, it is defined simply as restaurants with a check average over \$30 (per person), fine dining in a new “casualized” version is still very much with us. These high-check-average restaurants, however, account for only a small percentage of restaurant sales.

High-check-average operations are primarily found in large U.S. cities, such as New York, Chicago, and Los Angeles (and other large cities worldwide). These operations are also associated with areas that have a high per capita income. Certain cities, such as West Palm Beach and Boca Raton, Florida, for instance, are relatively small markets but may in fact have more high-end restaurants than such large cities as Chicago. A third factor that supports demand for this kind of operation is tourism. In tourism centers, visitors can create a demand local people might not be able to sustain. For example, New Orleans, a tourism center, had almost 70 restaurants (prior to Hurricane Katrina) with a check average over \$30, despite Louisiana’s relatively low per capita income. Las Vegas is a classic example of a tourism-dependent city that has successfully added several new high-check-average restaurants in recent years. Several high-profile chefs, such as Emeril Lagasse, Wolfgang Puck, Todd English, and Mark Miller, have all opened restaurants in Las Vegas. Others are sure to follow.

One substantial reason for the growth in high-check-average restaurants—but one that doesn’t show up in the statistics—is the great expansion in programs preparing skilled culinarians. Programs such as these are supplying a native-born cadre to an industry that a generation ago relied mostly on Europe for skilled cooks. Now North America is able to prepare its fair share of professional culinarians. (See Global Hospitality Note 3.1.)

Culinary Preparation

As reported in *Restaurants & Institutions* magazine, there are more than 500 culinary schools globally, many of which are in North America. Some of the better-known ones hardly need mentioning: the Culinary Institute of America, the California Culinary Academy, and Johnson & Wales. Numerous programs exist outside of North America as well. Le Cordon Bleu, which began in Europe, operates campuses around the world, including in Australia. Le Cordon Bleu actually has two campuses in Australia—in Adelaide and at Ryde TAFE in Sydney. Other culinary programs in Australia include the Academy Sofitel in Melbourne and the Inter-Continental Hotel School in Sydney. Institut Paul Bocuse, located in Lyon, France, offers a diploma in culinary arts and a bachelor's degree in culinary arts and restaurant management. The institute, housed in a nineteenth-century chateau on the outskirts of Lyon, has state-of-the-art facilities including Saisons, a teaching restaurant. Famed chef Paul Bocuse is the founder and honorary president.

Aside from stand-alone programs, there are also many other culinary schools located at community and technical colleges—far too many to mention here. Many are regional or local in scope, serving the surrounding areas, while others draw internationally. The growth in culinary programs is a result of the (renewed) interest in careers as a chef. Many students quickly recognize that attending culinary school is an effective way to accelerate a career. Also, more and more employers are recognizing the importance of some sort of formalized education.

Perhaps the most recent trend in culinary education is the movement toward layering management education on top of the culinary component, since the management side is becoming ever more important at every culinary level from supervisor on up. Mike Zema, coordinator of the Culinary Management Program at Elgin Community College in Elgin, Illinois, puts it succinctly when he says: “The chef’s role has dramatically changed in the last 20 years. . . . Most executive chefs in large hotels don’t cook anymore. Their focus is on managing food costs, labor costs and other operational expenses.”

Aside from providing students with applicable skills, culinary programs are also able to offer the opportunity for networking, on-the-job work experience, and placement opportunities. Further, the jobs seem to be there for students upon graduation, at least for the foreseeable future. The Bureau of Labor Statistics is predicting double-digit growth in back-of-the-house positions through the decade. This bodes well for culinarians and culinary programs alike.

Source: The information in this note was gathered from Allison Perlik, *Restaurants & Institutions*, October 1, 2001.

RESTAURANTS AS PART OF A LARGER BUSINESS

Thus far, this chapter has examined primarily freestanding restaurants—separate and distinct operations. A substantial part of the food service industry, however, is made up of operations that are the food service units of larger centers. A major area that we should consider briefly are restaurants in retailing. Some of these are located in

department stores and shopping malls. It is interesting to see how trends in these catering establishments match those in the restaurant business elsewhere.

RESTAURANTS IN RETAIL STORES

Restaurants in retail stores (usually department stores and drugstores) were originally built as a service to shoppers. After all, a shopper who had to leave the store for lunch might resume shopping in some other store. The restaurants, therefore, helped keep the shoppers in the store and often helped attract them there in the first place. Over time, some stores downsized their food service operations, contracted the restaurants to food service companies, or eliminated them entirely, instead choosing to focus on their core business. It seems that restaurants in retail stores have come full cycle again—more companies are rethinking their role in the retail shopping experience. Increasingly, in-store restaurants are themselves becoming worthwhile businesses in that they often generate higher profit margins than do the store's other retail sales. In fact, if properly merchandised, restaurants can bring shoppers into the store, not just keep them there. To give some examples of retail restaurant operations, first consider those retail stores that provide space to large restaurant companies, as with Wal-Mart and McDonald's. A similar example is the partnership that exists between Starbucks and Barnes & Noble. IKEA, Old Navy, and Golfsmith are other examples of chains that entice shoppers with dining options.

Restaurants exist in other types of stores as well, including upscale department stores. Two such examples include RL, the restaurant at Ralph Lauren in Chicago, and Café Bistro, the restaurant at Nordstrom. RL is currently the only restaurant of its kind at a Ralph Lauren location. Located just off the "Magnificent Mile" in Chicago, RL serves lunch, dinner, and Sunday brunch—and features an impressive wine list—in an upscale environment. Nordstrom is another retail company that offers its customers a dining option. It currently has five dining concepts (along with specialty coffee bars) in several locations. It is interesting, too, that Nordstrom restaurants and specialty coffee bars have integrated a variety of environmentally friendly practices that include composting and recycling; 100% compostable, biodegradable hot paper cups; and napkins made of 100% postconsumer waste, free from bleach and dyes.

It appears that "upscale" dining in these types of shopping environments is experiencing a renewal as shopping becomes an increasingly important part of the American lifestyle. Research indicates that Americans spend \$4 trillion each year on goods and services. In short, the future looks promising for retail dining operations as long as consumers keep spending.

RESTAURANTS IN SHOPPING MALLS

A generation ago, Americans did 5 percent of their shopping in malls. Today, malls account for well over half of nonautomotive retail sales. Malls have become a place

to relax as well as shop. Insulated from the weather, with excellent security, they are a clean and comfortable place to stroll. Malls have been thought of as places to buy, but they are also places to be. Consumers visit malls, in large part, to browse. And as food service retailers know, when people browse, they also eat. As a result, one of the major attractions of the larger malls is their food service establishments. The food court idea, first developed in malls, offers the consumer significant choices yet gives each operator a chance to specialize and achieve high productivity because of the large volume of customers provided. In fact, the food court concept has been adopted in a number of other settings, such as hotels, casinos, hospitals, airports, and expressway food service.

The composition of mall food service is quite similar to the restaurant industry as a whole, where QSRs account for the majority of customer traffic and midscale restaurants for a lesser amount. The balance is accounted for by the more upscale table service concepts (which are recognizing the business opportunities in malls). Mall locations have been growing faster than the rest of food service for several years. Less traditional units and ethnic units have fared the best in malls. Chains such as A&W have targeted malls as their primary growth vehicle. This is probably because the mall provides a basic volume of visitors, and the smaller operator does not have to support major advertising expenditures. There is also the added benefit of being able to service mall employees, who can account for a large amount of the volume. Based on the success that some chains have had with their mall locations, other restaurant chains are following suit. Ruby Tuesday's, California Pizza Kitchen, and Cheesecake Factory have targeted malls for new-restaurant development.

SUMMARY

Food service is an integral and vital part of the North American way of life. Table 3.1 summarizes the major components of the food service business. Gains in restaurant traffic have outpaced population growth in recent years, and experts are forecasting continuing growth. Food service can be divided into the dining market and the eating market. Fine-dining restaurants require a large market, skilled workers, and devoted management. Fine-dining restaurant sales have been falling since the late 1980s, probably as a result of some combination of changing tastes, price sensitivity, and health concerns about rich foods. Casual upscale restaurants, however, have become very popular.

The most dynamic part of the eating market is the off-premise segment, made up of takeout, drive-through, and delivery. Other contemporary popular-priced restaurants are quick-service restaurants, fast-casual restaurants, and midscale restaurants such as family restaurants, cafeterias, and buffets. QSRs are characterized by wide distribution, limited menus, and the use of unskilled labor. Other characteristics are summarized in Table 3.3. Even wider distribution is made possible by the development of PODs, downsized units

that can provide food service in a host's venue, following a strategy of intercept marketing and a philosophy of maximum convenience for the customer. Fast-casual restaurants are a hybrid of QSR and midscale; they promise higher-quality food, often considered fresher and healthier, than QSRs, and include partial table service with enhanced atmosphere in the dining room. Midscale restaurants use a simplified menu and production system that resembles quick service, but these operations offer table service. (Cafeterias and buffets fill a similar niche but differ in their operations.) Family restaurants are in a difficult competitive position, caught in the middle between quick-service and casual restaurants.

Fine dining, which has redefined itself to fit contemporary customers' preferences for casual restaurants, takes a variety of forms. "Eatertainment" operations, which combine food with various kinds of entertainment, are relatively new on the scene, and their long-term viability is questionable.

Some restaurants are part of a larger enterprise, such as a department store or a mall. Their success usually is dependent on the success of the larger unit.

Key Words and Concepts

Food dollar

Food away from home

Full-service restaurants

**Quick-service restaurant
(QSR)**

Fast-casual restaurant

Takeout

Drive-through

Delivery

Off-premise

Casual dining

Fine dining

Home meal replacement (HMR)

Family restaurants

Dining market

Eating market

Distribution

Points of distribution (PODs)

Specialty restaurants

Ethnic restaurants

"Eatertainment"

Restaurants in retail stores

Review Questions

1. How do the dining market and the eating market differ?
2. What kinds of restaurants are included in the dining market and the eating market?
3. What are the growth concepts in the dining market and the eating market?
4. Do you agree or disagree that quick service is a part of the American lifestyle?
5. What is the outlook for fast-casual restaurants?
6. How are midscale restaurants different from QSRs? How are they similar?
7. What are the risks inherent in "eatertainment"?

8. What are the prospects for fine dining?
9. What larger businesses do restaurants serve?

Internet Exercises

1. **Site name:** Mimi's Cafe

URL: www.mimiscafe.com

Background information: Mimi's Cafe serves classic American dishes, made from scratch, in a colorful, French New Orleans–inspired atmosphere with locations in ten states.

Site name: Hillstone Restaurant Group

URL: www.hillstone.com

Background information: **Hillstone** is a private restaurant organization operating in various cities throughout the United States. While it is a nationwide organization, it does not consider itself a “chain” in the traditional sense—rather, it is a collection of restaurants. Its restaurants have one of the highest per unit sales averages of any restaurant company in America.

Site name: P.F. Chang's China Bistro

URL: www.pfchangs.com

Background information: P.F. Chang's serves fresh, contemporary Chinese cuisine. Founded in 1993, the P.F. Chang's experience is a unique combination of Chinese cuisine, attentive service, wine, and tempting desserts all served in a stylish, high-energy bistro.

Exercises:

- a. Most casual restaurants have a unifying theme that is pervasive in the design of their menu, decor, and Web site. Identify the theme for each of the restaurants listed above. How do the menu, interior decor, and building exterior support their theme?
- b. Which of the above companies provides a means for applying for jobs via its Web site?
- c. Which of the above companies provides information regarding its menus and plans for new menu items?
- d. After viewing all three Web sites, choose the site that has the most useful information and discuss why you chose that Web site.

2. **Site name:** Fuddruckers

URL: www.fuddruckers.com

Background information: Fuddruckers operates and franchises restaurants that specialize in upscale hamburgers cooked to order. It encourages guests to garnish their own entrées by providing an array of fresh produce and condiments. Some restaurants have a butcher shop where beef is ground fresh every day, and some have on-premise bakeries where bread and dessert items are baked fresh daily. Fuddruckers operates more than 200 restaurants throughout the United States and around the world.

Site name: Wendy's

URL: www.wendys.com

Background information: When Dave Thomas opened the first “Wendy’s Old Fashioned Hamburgers” restaurant, he had created something new and different in the restaurant industry. He offered high-quality food made with the freshest ingredients and served the way the customer wanted it. Wendy’s is a quick-service restaurant that has over 5,000 stores.

Site name: McDonald’s

URL: www.mcdonalds.com

Background information: McDonald’s is the world’s leading food service retailer, with more than 31,000 restaurants in 119 countries serving 47 million customers each day. It is one of the world’s most well-known brands and holds a leading share in the globally branded quick-service restaurant segment of the informal eating-out market in virtually every country in which it does business.

Exercise: All three of the above restaurants are “burger joints,” but they differ in many ways. Discuss how each restaurant tries to differentiate itself from the other two, especially with respect to target market, menu, interior/exterior decor, and corporate goals.

Notes

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