COMPETITIVE FORCES IN FOOD SERVICE

Courtesy of Domino’s Pizza, Inc.
In this chapter, we look at the all-important subject of competition from three points of view. We are concerned first with how competitive conditions in food service have evolved over the recent past, as consumer tastes and industry conditions changed. Then, using the marketing mix of product, price, place, and promotion as a framework, we examine current competitive practices. Finally, we look at competitors outside the industry, such as convenience stores, supermarkets, and the home, which also compete for the food service customer.

This chapter should help you

1. Describe current competitive conditions in the food service industry.
2. Describe the four Ps that make up the food service marketing mix, and define the food service product, describing the role of new products in food service competition.
3. Identify the two industries with which food service companies compete, and list their strengths and weaknesses.

Competitive conditions in food service

Competition in food service has always been intense. There are many buyers and many sellers, a condition that makes it hard for any company to achieve control over the market—that is, over prices and other competitive practices. The nature of the competition, however, has changed from the heady days of the growth of new chain concepts in a rapidly expanding market—roughly from the mid-1950s to the early 1980s—to a
time today when established food service giants struggle with each other over a much more slowly growing market.

During that 40-year period, the industry grew rapidly. As more women went to work, more families could afford to eat out—and were pressed by time to do so. In spite of intense competition, firms had lots of opportunities in an expanding market.

Moreover, the competition among new chain concepts was largely to fill unmet demand. The challenge was to grow rapidly enough to snap up the available locations in existing territories and expand into new territories ahead of the competition.

Although there was competition between new concepts for both customers and locations, newer operations were competing, to a large extent, principally against outmoded, independent operations for customers’ attention and patronage. It was relatively easy for new, well-advertised, low-priced operations to take business from old, tired units that had high labor costs and usually indifferent, expensive service.

In the 1980s, however, conditions began to change for the chains that had been enjoying success. During the 1970s, finding good locations had already become harder. Moreover, the marketplace changed from one that was eager to try a new concept to one already saturated with restaurants constructed during the prior 10 to 15 years. Competition now was more and more between established operations with sophisticated marketing and a proven, accepted operating format. In the hamburger segment, for instance, competition had gone from Joe’s Diner versus McDonald’s to McDonald’s versus Burger King versus Wendy’s versus Hardee’s—all struggling aggressively for market share. Nevertheless, the industry continued to expand in numbers of units. Between 1985 and 1987, an incredible 40,000 new restaurants opened in the United States.

Since those turbulent times, much has changed. Now, one can argue, most of the prime (traditional) locations have indeed been claimed, at least for the quick-service sector. As a result, much of the expansion is targeting international locations and/or
“nontraditional” locations—a concept that is discussed later. Because of these changing conditions, some companies have left the field, become lesser players, or changed their strategies. Marriott, for instance, sold off most of its restaurants and quick-service divisions. Interestingly, at one time Marriott was known exclusively as a food service company. Basically, the reason for these decisions appears to have been limited food service profits in a crowded industry and competitive pressures that were likely only to get worse. The established players had a dominance that even a company as large and accomplished as Marriott could not challenge. Other companies that have come and gone include Howard Johnson’s, which was once a major player in food service with 1,000-odd restaurants. Its last few remaining restaurants in North America have closed recently. The general consensus is that the company was unable to keep up with the times. Further, consider the number of takeovers, mergers, and acquisitions that have occurred over the last ten years, and one can quickly see that the food service landscape has changed dramatically.

Although our discussion above (and throughout this chapter) has focused on chain operations, we should note, too, that many independent operations have withdrawn from the market and many of the remaining independents are either very large operations or operators that dominate a small or very specialized market. The independents’ role in food service remains a vital one, but their share of the market has fallen steadily for some years. Success appears to come mainly to those that have a very distinct way of differentiating themselves from their competitors. As well, in the end, many of these same successful independents become successful chain operations.

Heightened competition and food service firms’ reactions to it have created a situation sufficiently different from earlier times. Fundamentally new competitive strategies
are emerging or have emerged that are changing the face of food service on a global level. This leads us to our discussion of something known as marketing. Marketing is not just advertising. **Marketing** is defined as “communicating to and giving . . . customers what they want, when they want it, where they want it, at a price they are willing to pay.”¹ One of the ways that restaurants accomplish this is by a variety of activities known as the **marketing mix**.

**THE MARKETING MIX**

A good frame of reference for examining these strategic changes is to review what is happening in food service marketing. Marketing is a mix of activities that deals with the four Ps: the **product** itself, the product’s **price**, the **place** (or places) in which it is offered, and **promotion** of the product.² The four Ps are referred to as the marketing mix, and among them, they cover the major areas of competitive activity. The marketing mix is a fundamental tool of analysis, widely used in the hospitality industry. It is important to realize that marketing is a mix of activities. Marketing activities, in the examples that follow, may emphasize one element of the mix, but two or three others are usually involved, either explicitly or implicitly. Case History 6.1 illustrates how one company combines different elements of the marketing mix.

**PRODUCT**

A useful way of looking at the hospitality product is that it is actually the guest’s experience. In a restaurant, the experience involves not only the food served but the way the server and guest interact and the atmosphere of the place. This is not to argue that the physical product (food) is unimportant, but it needs to be seen in the context of the overall concept of the operation that determines the guest’s total experience. Our discussion of product, therefore, covers food products and restaurant concepts.

The importance of good food hardly needs to be discussed. Guests simply assume the food is acceptable. What is acceptable, of course, varies from operation to operation. Wendy’s creates a different product expectation in guests than does the Waldorf-Astoria or the Four Seasons. Product acceptability requires that guest expectations be met or exceeded. It is clear that all elements of this service product are essential. A grouchy server or a dirty dining room can spoil the best experience.
NEW PRODUCTS. New products are often a key part of a campaign to revitalize sales in a well-established chain. New products add a note of excitement for customers. Menu enhancement can be a very important tool available to restaurateurs. It shouldn’t come as any surprise that menu analysis and engineering is taught regularly in hospitality management programs.

New products are also used to target new market segments. Some years ago, for instance, Wendy’s noted that it had a mainly male customer base. To target women, Wendy’s introduced the baked potato as a main meal dish and installed salad bars. Both products—salads and baked potatoes—had the effect of increasing Wendy’s market share among women. Later, the chain eliminated the salad bars and introduced designer salads.
Interestingly, Taco Bell later introduced its large-portion tacos and burritos to increase its market share among men. Similarly, larger-portion hamburgers have been introduced by numerous chains in recent years (most recently, Carl’s Jr. in the United States and Harvey’s in Canada). McDonald’s began offering Angus Third Pounders to compete in this arena but also now offers $3 meals that include smaller portions of the included items.

The evidence suggests that a majority of quick-service restaurant (QSR) guests are very interested in new products, and this is even truer of guests selecting a full-service restaurant. Although not all products need to be new, it is clear that to achieve and maintain good menu variety, the excitement of new products is required from time to time—and on a regular basis.

The term **new product** can mean a product that is a genuine innovation—that is, a product that has not been served before commercially. These are sometimes referred to as “new-to-world.” Examples are the Egg McMuffin and Chicken McNuggets, products that set off major sales growth for McDonald’s when they were introduced. Other new products, often introduced defensively, are referred to as “new-to-chain” and are essentially an imitation of a successful new product offered by another operator. KFC’s chicken nugget product is an example of this category. KFC introduced it as a defensive measure when McNuggets had made McDonald’s the biggest “chicken chain” in North America.

Many successful new products appear to follow a **life cycle** similar to that for products in fashion-dominated industries. Figure 6.1 (which depicts the product life cycle) shows new-product sales increasing rapidly during the introduction and growth stages. At the peak of the cycle, total sales of the product are at their highest, largely because everybody is competing to sell it. Many new products can’t maintain consumers’ interest when everybody else is offering the same or similar products. Consumers tire of them as the novelty wears off.

![Figure 6.1](image_url)

**Figure 6.1**
The product life cycle.
Figure 6.2 emphasizes that maturity doesn’t necessarily mean the death of a concept. In fact, most products we all use are at the mature stage of the life cycle, but marketers have learned to spice up an existing product with changes in its marketing mix. This is true not just of individual products but also of entire concepts. Products can be reinvented or repackaged, or their appearance otherwise can be changed.

When a concept goes unchanged too long, it does become dated. The Howard Johnson’s chain was mentioned earlier in the chapter. The Chi Chi’s chain presents another study. Chi Chi’s was one of the first chains to offer casual dining as the heart of its concept. That concept, however, remained essentially unchanged for 21 years. As a result, Chi Chi’s had several years of declining sales, but in 1997, the chain began working to bring restaurant decor and menu design up to date—and supported these product changes with a new advertising campaign. Eventually, Chi Chi’s went on to win awards for its food quality and menu variety, including *Restaurant & Institutions’ Choice in Chains* for the Mexican category. In short, it was able to make the necessary changes to turn the company around. The chain has since closed, its units having been purchased by Outback in 2004—the closing being caused by an outbreak of foodborne illness in one of its restaurants that led to bankruptcy. Another casual chain, Chili’s, responded to decreasing sales by changing 60 percent of its menu items and adding 24 new products to its menu. By the end of 1997, Chili’s sales had gone from a decline...
to nearly a 6 percent increase. By 1998, the same chain was experiencing double-digit growth. Although much of the improvement came from stronger pricing, customer traffic increased 1.5 percent in spite of higher prices. Since 2000, Brinker International (the parent company of Chili’s) has grown revenues every year. Most recently, the chain has introduced creative product and pricing strategies that include bundled deals (three courses for two people for $20).

Addition of services and changes in decor can also be crucial in the competitive struggle. Drive-through restaurants found themselves trapped in price-oriented, 99-cent “sandwich wars.” Two of the leaders in that segment decided to sidestep this no-win strategic trap by changing the concept (i.e., product) and adding indoor seating. Although conversion costs were as high as $200,000 per store, increased traffic counts, sales, and profits justified this move. Others have focused on improving drive-through services. With some basic changes in delivery, McDonald’s reduced the drive-through time for customers by 40 seconds.3

Typically, new menu items are introduced to improve sales and/or help to differentiate the restaurant and its menu. Two West Coast chains, Jack in the Box and Carl’s Jr., saw an opportunity to increase sales where both of them had a weak day part, at breakfast. Jack in the Box introduced “combo meals,” which bundled several products in an attractively priced package. Jack in the Box has since reformulated some of its burger items and also reintroduced some Mexican and Asian items. Carl’s Jr. introduced a proven breakfast menu from Hardee’s, a chain owned by CKE, Carl’s Jr’s parent. In each of these cases, the company sought to rejuvenate its concept to achieve the rebound depicted in Figure 6.2. Wendy’s recent introduction of a new salad line, mentioned earlier, was immediately successful and contributed greatly to increased profitability that continues today.

**EXTENSION OF CONCEPT.** In some ways, food service companies are changing the nature of their product by seeking to serve entirely new markets through concept extension. This method ultimately may change the way the public perceives them, but thus far, it has resulted in increased sales. Quick-service food products, for instance, are increasingly turning up in in-flight meals. Quick-service chains are partnering with gasoline companies, offering food service along the highway in gas stations. Cafeteria chains, such as Piccadilly, are partnering with supermarkets. In addition, many food service companies are packaging their product for distribution through retail stores. Taco Bell, for instance, has sold the rights to its brand name and entered into partnership with food manufacturers that handle development of the product and its distribution (including sauces and salsas). Growing customer demand for Chef Paul Prudhomme’s spices finally led him to develop a line of packaged seasonings, which are now available nationally.
Other famous food service names associated with retail products are as varied as White Castle, Wolfgang Puck, UNO Chicago Grill, and Starbucks.

A development that is in the forefront of concept extension is the introduction of downsized units with limited versions of a franchise brand’s menu. These seem to be popping up everywhere, in carts or other portable units. We will return to this topic when we discuss place later in this chapter.

**BRANDING.** Branding is considered a product characteristic because the brand is used to heighten awareness of the product in the consumer's mind. The uses of branding in food service are on the increase today and industry practice is highly varied. It can involve branding of individual menu items, as with the Big Mac, to give them greater prominence, or it can involve using a manufacturer’s name on an operation’s menu, such as Coke in a QSR. In short, it can occur in a variety of ways but with the ultimate objective of promoting the product by leveraging the brand name.
Sometimes it is not just one product but an entire concept that is adopted in a joint location. Miami Subs needed a way to strengthen its weak day parts. Rather than invent and promote a new product of its own, the company added Baskin-Robbins ice cream and frozen yogurt, which sold well in the otherwise slow late-afternoon and late-evening day parts. Other companies have reached similar arrangements, including Baskin-Robbins and Subway.

Finally, product improvements can center around more tightly controlled operations. Quick-service leader McDonald’s sought to fight falling sales volume with improvements to existing products, resolving to stop microwaving sandwiches and reintroducing toasted buns for its sandwiches. It continues to add new products and revamp existing ones. New products were also being planned to liven McDonald’s familiar menu. At the same time, another familiar name, Pizza Hut, continues to roll out new items, including pasta dishes and different types of pizzas such as Chicago-style deep dish and oversized New York pizza.

PRICE

The restaurant industry was reminded of the power of price competition by Taco Bell in the mid-1980s when experiments with lower prices proved so successful that they were
adopted as a major strategy of the company. **Value pricing**, as it came to be called, drove sales increases of 60 percent over a three-year period. Some of the hazards of leading with price came home to roost roughly ten years later. After a ten-year run of value pricing, John Martin, widely recognized as one of the most talented restaurant executives of a generation, was replaced as president of Taco Bell. Not long thereafter, Taco Bell was reported to be shifting away from low prices and upgrading to higher quality with higher prices in a move code-named “Project Gold.”

The problem with value pricing proved to be that eventually competitors adopted new pricing strategies to counter it. Then what was left was a lower profit margin for everyone.

One way of effectively reducing prices temporarily is by offering coupons that entitle the bearer to a special discount, a practice called **couponing**. Although this does affect price, it is generally treated as a promotional tactic, and so we treat it under that topic later in the chapter. We should note here, however, that couponing and other price-cutting tactics are sometimes likened to an addiction. It is easy, even pleasant, to start. Sales go up; customers are happy with a bargain; with rising sales, things look brighter for the operation. At the end of a prolonged period of discounting, however, the favorable impact on sales is usually eroded. Moreover, profit margins decrease immediately unless the increase in customer traffic offsets the price reduction. Direct, noticeable competition on price in food service occurs, but it is the exception rather than the rule just because its result is generally to depress everyone’s margins. Price competition is most common in the off months (usually January through March), when market leaders seek to maintain volume at or above break-even levels at the expense of their smaller competitors.

There is a risk in price reductions: namely, that the lower price will denote a cheapened product to the customer. In the late 1980s and early 1990s, however, many fine-dining establishments rewrote their menus when customers rebelled against upscale operations with very high menu prices. The new menus featured foods that had a lower food cost and, hence, could be offered at an attractive price. This repricing led to a turnaround for many of these fine-dining operations. The same approach was used during the economic downturn beginning in 2008 when upscale restaurants had to lower prices or alter concepts to remain in business. As with virtually all marketing activities, the key is to keep prices in line with customer expectations and to offer products that customers perceive to be a good value.

**PRICING: STRATEGIC IMPLICATIONS.** Pressure on prices, we should note, has implications for other elements of the marketing mix. A period of rising prices can mean a favorable climate for competition through innovation. The cost of upgraded decor, new product development, more extensive preparation equipment, and more preparation...
labor all could be passed on to the consumer in higher prices. In the future, however, the test for innovation may be stiffer. Changes will have to create savings or major increases in sales volume. If innovations don’t pass these stricter tests, they may have to be dropped, because their cost cannot be passed on in ever-higher prices.

**PLACE–AND PLACES**

In marketing, the term place refers to the location, the place where the good or service is offered. The great hotelier Ellsworth Statler said of hotels that the three most important factors in success are “location, location, and location.” This phrase has often been repeated regarding many other retailers and is certainly true of food service.

Food service chains are now concerned, however, not just with place but with places. They are seeking to achieve wide distribution of their product and so are developing tactics to multiply the number of places in which their product—or some version of it—can be offered.

Indeed, one of the most dramatic changes since the introduction of quick service is now under way as multiunit companies continue to change their strategy regarding location. Companies now try to “capture” customers wherever they might be.

Today’s customers live harried and hurried lives. Whether members of a two-working-spouse family or a single-parent family, adults (and, increasingly, children) today see themselves as being constantly rushed. The tendency is to fit meals in wherever they happen to be, to “grab a bite,” as the phrase has it, “on the run.” Effective
distribution, then, is achieved by locating an outlet wherever consumers might go in any numbers.

Restaurant companies have developed downsized units for places where a traditional unit won’t fit. These units often take the form of a kiosk or mobile cart requiring minimal investment. The name given these new units is **points of distribution** (PODs).

As an example, the Little Caesars pizza chain, in its partnership with Kmart, has downsized Pizza Express units in many Kmart stores. Other companies that have adopted similar strategies include Piccadilly Cafeterias, with their Piccadilly Express lines. Even companies such as the Cheesecake Factory, Applebee’s, and California Pizza Kitchen have developed smaller prototypes for purposes of meeting space restrictions in mall settings and the like.\(^4\)

In the language marketers have developed to talk about PODs, a *host* is any establishment, such as Walmart, where high traffic is likely to offer potential high-volume sales. Examples include retail operations, malls, colleges, airports, manufacturing plants, or theme parks. The host offers a food service operator access to the host’s traffic. The advantage to the host is that its establishment is enhanced by the additional service; the food service company, for its part, gets increased access to customers and sales. Host locations are referred to as venues. A venue includes not only a place but assurance of a particular kind of traffic associated with the location, such as shoppers, students, or office workers. Chains such as A&W and Chick-fil-A have capitalized on locating units in shopping malls and have been quite successful in doing so.

The expansion of food service chains via PODs has stirred considerable controversy. Other franchisees are concerned that the downsized units will dilute brand image, threaten quality, and create competition for existing franchisees. Some franchisees are against it, believing that sales from POD operations cannibalize sales from existing, full-size stores. Other companies have ventured into introducing express units at the behest of its franchisees, such as with Tony Roma’s. This is one of the issues that franchisors and franchisees continue to discuss.

The expansion of downsized units is not just limited to QSRs. Casual restaurants, including independents, have jumped on the bandwagon of multiplying the places where their food service is offered, often in downsized units with restricted menus. What PODs of all kinds offer the consumer is an advantage highly valued in this fast-paced, hurried age: the convenience of a handy location.

Managed services companies have become franchisees of restaurant companies and have also developed their own proprietary brands, such as ARAMARK’s Itza Pizza. Restaurant companies now find that they face competition from contract companies that have begun to operate units in retail stores and malls. Contract companies, for their part, face competition from restaurant companies in the on-site market. Restaurant companies are franchising “hosts” to operate units as part of their own food service
operation. For instance, Subway Express units are springing up on campuses; Baskin-Robbins kiosks and carts are found not only on campuses but also in hospitals, factories, airports, and tollway plazas. Pizza Hut, too, delivers its product for resale in institutions such as hospitals and schools.

**PROMOTION**

Two major forms of paid promotional activities (or marketing communication, as it is often called) are advertising and sales promotion. We discuss each briefly. Full-service restaurants (with check averages of $15 to $24.99 per person) spend 1.8 percent of sales on marketing whereas QSRs spend 2.0 percent.

**ADVERTISING.** Advertising is used as part of a long-term communications strategy and is often intended to create or burnish an image. The food service industry is one of the largest advertisers in the United States; McDonald’s alone spent over $823 million on total global advertising in 2008 with about 60 percent of that spent in local advertising. Advertising campaigns are generally made up of many different ads and commercials tied together by some common theme. In late 2003, McDonald’s announced a campaign whose platform for ads used the slogan “I’m lovin’ it.” The campaign was designed to send a single message to consumers of all ages and geographic locations—it was aired in 12 different languages. All the commercials in this campaign followed a theme depicting different lifestyles and cultures.

As media become more crowded, themes come and go and are adapted depending on consumer reaction. However, one thing that stands out clearly is the very generous spending on advertising by the larger companies. For instance, in introducing a new dual-patty product, the Big King, Burger King budgeted $30 million. It is important to remember that advertising takes many forms—not just television advertising. In fact, many successful restaurant chains do no television advertising at all—including Mimi’s and Houston’s. Advertising may also be conducted through radio, billboards, newspapers, magazines, Web sites, and the like.

**RESPONDING TO A DIVERSE MARKET.** To reach a diverse market, specialized advertising directed at particular ethnic markets is becoming common practice. Both advertising agencies and specialized media have evolved to reach culture-specific consumer groups. This is important given the spending power of various groups. For example, with a population exceeding 38 million and with buying power projected to exceed $1.1 trillion in 2012, African Americans remain a crucial part of the American consumer economy. Consumer markets can also be segmented by income and wealth. Industry Practice Note 6.1 discusses some characteristics of the wealthiest consumers.
The term *wealthy* can be defined in many different ways—by annual income, by amount of discretionary income, or by highest net worth (total wealth). In a report by *American Demographics* magazine, this group is defined by those households that have a total net worth of $2 million or more. This group represents just 2 percent of all U.S. households. No matter which way that wealth is defined, this group behaves differently, engages in different recreational activities, and makes different purchases from the rest of the country. It also attracts the attention of the media and other groups that track spending habits. Among other things, *American Demographics* concludes that:

- The highest percentage of wealthy households are in the northeastern United States and the West Coast.
- Almost three-fourths of wealthy households include at least one person with a university degree or higher.
- Most heads of these households are still working.
- Many consumers within this group shy away from media-based advertising.

According to the U.S. Census Bureau’s Consumer Expenditure survey, the wealthiest consumers spend 50 percent more on food away from home than the next category of consumers (categorized by annual income). For this reason and others, marketers segment and target this select group of consumers. As a result of recent difficulties in the stock market, research indicates that affluent Americans, as a group, report that they expect to spend record-low levels in both casual and upscale restaurants in the near term.


The most common media for mass communication in food service are the electronic and print media, billboards, and direct mail. Figure 6.3 shows the breakdown of the major components of each medium and characteristics frequently associated with each.

**THE INTERNET IN FOOD SERVICE PROMOTION.** A newer medium for restaurant advertising is the Internet. Today, virtually every QSR chain has a site where you can find the location of the nearest restaurant, get nutritional information, and in many cases get
coupons. The competition to attract customers through the Web is just as fierce as it is with other media. Each company is embracing innovation in the design and functionality of its site. One QSR, Famous Dave’s Bar-B-Que (www.famousdaves.com), was voted Best Restaurant Web site by the Web Marketing Association in 2009. The award was based on the combination of art and usability. It should be noted that the industry, as a whole, has not been as progressive historically in its use of the Internet as some would like. The magazine *Hospitality Technology* tracks Internet usage in the industry. According to its editor, Reid Paul, “While nearly every industry in the United States has recognized the power and importance of the Internet and developed online strategies, restaurants lag well behind, largely because there were few recognized opportunities for e-commerce.” The magazine supports an annual study of Internet usage in the industry, led by University of Delaware professor Cihan Cobanoglu. The study evaluates restaurant Web sites on a variety of criteria, including technical specifications, technology used, ease of navigation, ease of contact, marketing effectiveness, e-commerce solutions, and legal compliance. The 2006 study found many restaurant Web sites to be lacking, although some, including those of Bahama Breeze, Subway, and Legal Sea Foods, scored at the top of the study. Cobanoglu suggests that restaurants make a greater effort

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<tr>
<th>MEDIUM BROADCAST MEDIA</th>
<th>MARKETING MIX CHARACTERISTICS</th>
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<tr>
<td>Television</td>
<td>Large audience, low cost per viewer but high total cost. Combines sight, motion, and sound.</td>
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<td>Radio</td>
<td>Highly targetable, lower cost than TV.</td>
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<tr>
<td>Cable TV</td>
<td>Highly targetable, fragmented market.</td>
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<tr>
<td>Web-based</td>
<td>Readily customized, interactive, can include couponing.</td>
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<th>ROADSIDE</th>
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<td>Excellent for directions. Message limited to about eight words.</td>
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<th>DIRECT MEDIA</th>
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<td>Excellent targeting but costly per prospect reached. Good coupon distribution vehicle.</td>
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**Figure 6.3**
Advertising media and their characteristics.
to reduce errors in the content, update Web sites more regularly, and, most important, improve ease of navigation.\textsuperscript{12}

**SALES PROMOTION.** Sales promotion consists of activities other than advertising that are directed at gaining immediate patronage. The most common forms of sales promotion are “deals,” which include coupons, games, and promotional merchandise. Deals are intended to enhance the value of the product offered—and to stimulate immediate purchase. Deals have become an increasingly common inducement to customers. The use of deals by customers peaked in the late 1990s and has been fluctuating since then, representing as much as one-quarter of all meal occasions in some years. A study by Adjoined Consulting found that over 40 percent of survey respondents said that coupons influence their choice of where to dine. However, *Restaurants & Institutions* magazine contends that there is little relationship between coupons and loyalty.\textsuperscript{13}

**Coupons.** Coupons are often offered in connection with very-low-product-cost fountain drinks (a product cost as low as 2 or 3 percent). As a result of their low cost, couponing these items has a limited impact on the operation’s profit margin. During the off season, however, coupons discounting main meal items are more common.

**Games.** Games cost considerably less than couponing main meal items. They enhance value by offering a little excitement—the possibility of an all-expenses-paid vacation in some exotic locale, for instance. Moreover, lots of small prizes (french fries, coffee, etc.) make the possibility of winning fairly likely—and winning anything is usually a pleasant experience. McDonald’s has realized great success in this area with its Monopoly game, typically offered in the fall.

**Promotional merchandise.** Promotional merchandise such as toys or glassware is often called a “self-liquidator” because the merchandise is usually sold at cost, limiting the impact of the deal on the promotional budget. Typically, merchandise comes in sets of three or four to encourage repeat patronage: “Collect all four!” Such items may also be distributed as part of a meal package for children. In more upscale operations, special events are a common form of promotion. Special ethnic menus or celebrations of holiday events, such as Valentine’s Day or Mother’s Day, fit this category.

An increasingly common form of highly targeted sales promotion involves frequent-guest programs. These programs offer rewards to good customers and encourage repeat patronage. Frequent-guest programs increase guest loyalty and yield valuable information on customers, which can be used in future marketing programs.
COMPETITION WITH OTHER INDUSTRIES

It is an axiom of economics that people’s wants will expand indefinitely but that their resources are limited. Most people would like a new car and a vacation in Europe or the Caribbean as well as the latest in audio, video, and computer equipment. They would also like to dine in the finest restaurants. The problem is, however, that most people must choose, as few can afford all of that. Give up dining out in the best the local restaurant scene has to offer for the next year or so and you may have the cost of that vacation. Forgo lunch at your favorite restaurant and brown-bag it for a few weeks and you can probably save the price of a new DVD player and two or three rentals. Thus, food service is, in a very real way, in generic competition with all other industries, especially those providing leisure services and conveniences.

Some industries, however, challenge food service on its own turf, offering directly competitive products. We concentrate our attention on these retailers here. Convenience stores offer their own variety of quick service from locations that are so numerous that they seem to be just around the corner from wherever you may be. Supermarkets are not as numerous as convenience stores, but they are conveniently located, and virtually everyone visits them in the course of a week. Both are formidable competitors for food service.

CONVENIENCE STORES

Although their most frequent customers are males under age 35, convenience stores—or C-stores, as they are often called—are visited once or twice a month by most of the adult population. A significant part of C-store sales are directly competitive with food service sales, especially beverages (fountain drinks and coffee) and sandwiches. Because nearly all C-stores have microwave equipment and offer prepared foods, these retail units can compete for more than the snack market. Many offer a service deli and a variety of QSR foods. Some C-stores have a point of distribution from one of the major QSR chains located in the store. Although food service is relatively more labor-intensive than other C-store products, it offers a higher contribution to overhead and profits—roughly 60 percent as compared with 30 percent for other products. According to the National Association of Convenience Stores:

- Over 50 percent of convenience stores offer some kind of prepared food.
- Average sales for food service in convenience stores in 2005 exceeded $128,000.
- Industry food service sales exceeded $17.9 billion in 2005.
- Food service sales represent 13.3 percent of in-store sales for convenience stores.¹⁴
Food service now accounts for the third largest category of convenience store sales, after cigarettes and packaged beverages.

The Alimentation Couche-Tard and 7-Eleven companies are the largest of those that are solely in the business of convenience stores. Many of the other large convenience store operators are oil companies, including ExxonMobil and BP North America, although some oil companies are leaving the retail business and focusing on sales and distribution of gasoline instead. Oil companies that continue to operate convenience stores have four distinct advantages over many other C-store operators:

1. Because of their large gasoline sales, they can afford prime corner locations.
2. They have the backing of cash-rich corporations.
3. They are able to sell gas at lower prices.
4. Consumers can use their gasoline credit card to make their purchase, which is a major convenience.

SUPERMARKETS

Restaurateurs and retailers selling food for consumption at home have always been in competition. For some years, restaurants' share of that market has been increasing. That struggle is intensifying as a result of sharpened competitive practices in the grocery business and changing patterns in leisure-time usage. We discuss the grocery business in this section and look briefly at the changing patterns in leisure in the next section. Clearly, the two developments are interrelated.

Supermarkets have customers from 100 percent of households over a 52-week period—in effect, everybody. With this kind of exposure and market share, they are
formidable competitors for the food dollar. A state-of-the-art store today emphasizes food service, and many grocery stores are adding food courts and full-scale restaurants, including ethnic-themed operations as well as brand-name QSRs. McDonald’s, Burger King, Pizza Hut, and Taco Bell all operate units in supermarkets, and contract companies such as ARAMARK have developed branded programs for supermarkets. We discussed the proliferation of PODs earlier, and here we can see it as a part of the blurring of concepts. When is a restaurant “sort of not exactly” a restaurant? When it’s part of a grocery store offering food service. Or perhaps we should just say that grocery stores are a very significant part of the ever-increasing competition for the consumer’s food dollar.

Supermarkets are endangering restaurants’ home meal replacement market share. According to the Food Marketing Institute, a grocery trade industry organization, the percentage of supermarkets with takeout food sections rose by over 50 percent in a ten-year period to 94 percent in 2006. Furthermore, a study by the same association found that younger consumers were equally likely to buy takeout food in supermarkets as in QSRs. Supermarket takeout food is generally less costly to the consumer than restaurant takeout food, and grocery stores offer wider variety. The convenience of being able to get a few staples—milk or bread for breakfast—while picking up dinner is undeniable. According to the Food Marketing Institute, dinner is by far the most popular meal for takeout, and one-person households are most likely to purchase prepared meals from supermarkets.

Restaurants, however, have the advantage of a service culture and higher-quality food. Supermarket managers are often rooted in a retail mindset (although there is evidence that this is changing). This being said, some supermarkets that do offer prepared foods to go take it to a near art form. Stew Leonard’s (in Connecticut and New York) offers a variety of foods prepared to go, including marinated turkey, chicken prepared various ways, and filet mignon. The store has been described as one part amusement
park because of the mix of exceptional service, special activities, and quality products. Whole Foods is another “nontraditional” type of supermarket that offers a strong selection of prepared foods, fried rice, rotisserie items, and wood-fired pizza. By partnering with food service operators—or hiring managers and chefs away from restaurants—supermarkets are making efforts to improve their performance. Megastores, too, such as Costco, offer quick-service-style food and incredible prices as just another added value for customers. Clearly, the competition between food service and supermarkets promises to continue to be stiff especially as supermarkets continue to try harder for this piece of the business.

**THE HOME AS COMPETITION**

As the parents move into their middle years and greater family responsibilities, the attractions of staying at home increase. Recent generations continually indicate that home life is of the utmost importance to them. Thus, in a way, the home can be considered a form of competition.

The number of meals purchased at restaurants is growing, according to a leading market researcher, but an increasing proportion of these meals are takeout. Indeed, the home is emerging as an entertainment center. Television watching and Internet surfing are two of the top leisure activities. A substantial majority of people own DVD players and make significant use of them; in addition, the number of computer owners continues to increase. Americans spend a good portion of their free time watching television (30 percent by one account), and television options have exploded, as anyone with cable, satellite, or digital capabilities, as well as those who frequent DVD kiosks in convenience stores, can attest. Such media availability has only contributed to the ease with which Americans can spend their free time in their homes.

The home computer’s capabilities are being expanded almost daily. Search engines allow consumers to find products, plan travel, calculate driving routes, and network socially. Other programs allow users to manage their music files, play interactive games with other computer users, chat in real time—or order pizza delivery.

The home is, increasingly, becoming a control point for consumers—it is an environment that maximizes consumers’ control over factors that impact their lives. It is their territory. The pattern of activity that emerges suits itself well to staying home with somebody’s take-out meal. It is not surprising that plenty of competitors exist for that business. The growth in takeout and delivery is clearly the restaurant business’s response to this freezer case competition.

The future probably offers only more encouragement for “cocooning,” the term coined by Faith Popcorn to describe the practice of staying at home, as computers continue to play an even more important role in our lives than they did a mere few years ago.
SUMMARY

It should be clear at this point that the food service landscape is changing and that the competitive environment is as well. In competitive terms, food service chains are operating in a mature market characterized by established operations with sophisticated marketing and proven operating formats. Successful independents compete by differentiation or by dominating small specialized markets. In spite of increasing chain market share, the food service market remains a highly competitive one characterized by many buyers and many sellers.

We used the marketing mix to characterize competitive activity in food service. As product is essentially the guest's experience, all the elements of the operation are important. Food quality is absolutely essential, and new food products are a major way of stimulating guest interest and renewing an operation. The product life cycle concept means not that established products or concepts die out but rather that concepts need to be reinvigorated.

Price has been used as a lead variable in the marketing mix, but competitive prices develop eventually. Consequently, long-term competition is usually focused on nonprice variables. Temporary price cutting, as with coupons, can be effective in the short run, particularly in the off season. Although price reductions risk cheapening the product in the guests' eyes, sometimes market conditions dictate a long-term reduction in price levels, as in the case of fine dining at the end of the 1980s, when guests' perceptions of value changed.

Place denotes two somewhat different ideas. Place as location involves factors such as traffic, population density, and proximity to major attractions. The notion of places, however, refers to distribution and intercept marketing. This involves having operations, sometimes downscaled PODs, available wherever customers choose to go in large numbers.

Promotion is a critical element in the food service marketing mix. Food service is one of the largest advertisers in the world, and advertising is often built around themes that are used in several ads or commercials. We discussed the increasing role that the Internet is playing. Sales promotion is used to stimulate immediate purchase. Some of its principal tools, usually called deals, are coupons, games, and promotional merchandise. In upscale operations, sales promotion often takes the form of special events. A highly targeted form of sales promotion is aimed at a company's present customers in frequent-guest programs.

Food service must compete with all other consumer products and services but faces particular competitive challenges from C-stores, supermarkets, and the comforts and conveniences of home.
Key Words and Concepts

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Review Questions

1. How has the competitive climate in which the food service industry operates changed over the 20 years?

2. What is the role of new products in a competitive strategy?

3. What are the stages of the restaurant life cycle?

4. What are the benefits and risks of value pricing?

5. How is the concept of distribution being used in food service competition?

6. How is the Internet being used in food service competition? What is common today that didn’t exist just a few years ago? What new developments do you anticipate in the use of the Internet in food service competition?

7. When is sales promotion used? What are its principal elements?

8. Discuss the significance of each element of the marketing mix in food service competition in your city. What recent developments strike you as significant in the local competitive scene?

9. What competitive practices have grocery chains in your area engaged in that will affect food service? How do you rate local C-store competition against quick-service restaurants?

Internet Exercises

1. **Site name:** Buca di Beppo
   **URL:** www.bucadibeppo.com
   **Background information:** Buca di Beppo is a neighborhood restaurant where guests feast on family platters of real, immigrant, southern Italian specialties in a boisterous, celebratory environment that recalls the Italian American supper clubs
of the 1940s and 1950s. In immigrant fashion, the restaurant serves food family-style, in portions meant for sharing.

**Site name:** Chili’s  
**URL:** www.chilis.com

**Background information:** Chili’s offers a distinct, fresh, healthy mix of grilled American favorites prepared in a way that keeps guests coming back. Chili’s is part of a family of restaurants operated by Brinker International.

**Site name:** Bahama Breeze  
**URL:** www.bahamabreeze.com

**Background information:** Bahama Breeze combines Caribbean-inspired food, hand-crafted tropical drinks, vibrant atmosphere, and fun service. Founded in 1996, Bahama Breeze is part of a family of restaurants operated by Darden Restaurants.

**Site name:** Outback Steakhouse  
**URL:** www.outback.com

**Background information:** Outback offers high-quality food and service, generous portions at moderate prices, and a casual atmosphere suggestive of the Australian Outback. Although beef and steak items make up a portion of the menu, Outback also offers a variety of chicken, ribs, seafood, and pasta dishes.

**Exercises:**

a. What characterizes a good restaurant Web site from a marketing standpoint?  
What elements should be present on a Web site to make it an effective marketing tool?

b. Which of the above Web sites do you believe presents the best marketing effort? Why?

c. Which of the above restaurants advertises promotional merchandise on its Web site? How effective do you believe promotional merchandise is in attracting customers?

d. Overall, discuss how effective you believe Internet Web sites are in marketing a restaurant concept. Why?

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**2. Site name:** Convenience Store Decisions  
**URL:** www.csdecisions.com

**Background information:** Convenience Store Decisions is the online and in-print “Idea Factory” for the convenience store industry. Written for and read by the industry’s decision makers, the monthly magazine has a qualified circulation of more than 40,000 subscribers and offers award-winning, compelling editorials and consistent coverage of current issues of real concern to convenience store operators.

**Site name:** The National Association of Convenience Stores  
**URL:** www.nacsonline.com

**Background information:** The National Association of Convenience Stores (NACS) is an international trade association representing more than 2,200 retail and 1,800
supplier company members. NACS member companies do business in nearly 50 countries around the world.

**Site name:** Convenience Store News—Food Service Section

**URL:** www.csnews.com/csn/foodservice/index.jsp

**Background information:** Convenience Store News’ mission is to deliver the insight, analysis, market research, and business intelligence that helps C-store retailers stay ahead of what’s next. The e-publication provides critical information to grow sales and profits.

**Exercises:**

a. Review the above Web sites to determine the food service products and services provided by convenience stores. What type of food service products are typically sold in convenience stores? What are the emerging products that convenience stores are migrating toward in the future?

b. Who is the target market for convenience store food services?

c. Which restaurant sectors do the convenience stores compete against, and what strategies should that restaurant sector utilize to maintain their customer base?

d. What potential job opportunities might be available for hospitality management students in the convenience store industry?

**Notes**

2. The marketing mix is a convenient frame of reference for discussing current competitive practices. Some would argue, however, for other, different definitions. In fact, the definition we employ evolves from a simple four-Ps approach to something a bit more complicated.
5. Another form of marketing communication, which is not discussed here, is public relations.