

Case Studies on
Fast Food Retailing Industry – Vol. I

Edited by

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OVERVIEW

The origin of the modern day fast food industry can be attributed to Raymond Albert Kroc (Kroc) – the person who made McDonald's a household name. As an exclusive distributor of multimixers (a milk-shake maker) Kroc came across the business of Dick and Mac McDonald, who had a small hamburger stand in California, US. Impressed by the popularity of the burgers and fries, Kroc offered to expand the store across the country as the owners did not have the personal desire to do so. In 1955, Kroc opened the first franchise outlet of McDonald's in California. By 1960, there were 228 franchise restaurants with \$37.6 million worth sales.

In 1961, Kroc bought the chain from the original owners to control the growing system. In 1965, McDonald's became a public company. Throughout the 1960s, the company was marked by expansions internationally. McDonald's first restaurant outside the US was opened in 1967 in Canada. By 1970, McDonald's had presence in all the 50 states in the US with sales of \$587 million.¹ In 1971, the company opened its first restaurant in Asia in Japan. The company customised its offerings according to local tastes and preferences. Hamburgers and sandwiches were tweaked to fulfill local taste buds which became the main drivers for growth.

Through its exemplary volume of sales of hamburgers and presence of restaurants throughout the US, McDonald's became the embodiment of standards of quality, service, cleanliness and value in the fast food industry. Its success inspired the opening of several other chains like Burger King, Taco Bell, Kentucky Fried Chicken, Wendy's, Pizza Hut and Dunkin' Donuts. These chains not only offered burgers and fries, but also served pizzas, doughnuts and sandwiches. Similar to McDonald's, these chains adopted the franchisee model as well and expanded their operations across the US and the world.

Fast food chains adopted a business model wherein the items in the menu were limited and low-priced. The limited menu, therefore, did not require too many ingredients or processes or equipment. It was also neither labour-intensive nor required any special culinary skills. This enabled fast food restaurants to hire teenagers to keep labour costs low. The service was quick and the seating arrangement was designed for people who ate food on the go.

With more women entering the workforce, fast food restaurants brought in a take out culture wherein away-from-home food became popular. Food preparation at home became less prominent. The fast food companies also adopted many strategies to lure consumers. Value menus, dollar menus, combo menus – all provided value for the consumers' money. Drive-thrus enabled them to pick up food on their way home while home delivery provided food at their doorstep. The reasonably priced great tasting food encouraged people to consume fast food at least three to four times a week.

It was not until the late 1990s that the repercussion of the fast food culture became evident. Owing to busy schedules, more number of people increasingly consumed away-from-home

¹ "McDonald's", http://www.innovationquotient.com/index.php?option=com_magazine&task=show_magazine_article&magazine_id=39&Itemid=28&cat_id=46, July–August 2006

food, piling on excess calories than actually needed which led to a gross weight gain. Sedentary lifestyle coupled with the regular intake of fast food containing saturated fats, sodium and trans-fat led to obesity. Research had revealed that fast food was more calorie-dense than food prepared at home. It seemed like the US was going through an obesity epidemic with nearly 3,65,000 obesity-related deaths in 2000.² Away-from-home food had become so common that expenditure on dining out by Americans increased from 28% in 1962 to 47% in 2003.³ Obesity ultimately increased the incidence of heart attacks, diabetes and few types of cancers. Obesity levels, in fact, had reached an all time high in the late 1990s and early 2000s across the US and more so among children.

Data from two NHANES surveys (1976–1980 and 2003–2004) revealed that obesity among adults aged 24-70 had increased from 15% to 32.9%. Similar results were revealed about the prevalence of overweight among children. According to a survey on children aged 2–5 years, prevalence of overweight increased from 5.0% to 13.9% during the period of the survey; for those aged 6–11 years, prevalence increased from 6.5% to 18.8% and for those aged 12–19 years, prevalence increased from 5.0% to 17.4%.⁴ The increase in obesity levels led nutritionists and consumers to target fast food companies as the culprits. Although sedentary lifestyles and consumers' addiction to fast food also resulted in the rise in obesity levels, fast food companies were ultimately held responsible since research had linked obesity with fast food.

Morgan Spurlock (Spurlock), an independent documentary filmmaker, in fact produced a movie called *Super Size Me* to document the harmful affects of eating fast food. Spurlock himself acted as the main protagonist in the movie wherein he attempted to live on nothing but fast food, especially McDonald's, for 30 days. During those 30 days, Spurlock was under medical supervision and was monitored on a daily basis to determine the impact of the diet on his health. Within a few weeks, his doctors were shocked to find that he was gaining weight (at the end of the 30 days he had gained 25 pounds (11 Kgs)), his cholesterol levels increased and his liver became toxic. He even ended up suffering from headaches and depression. Thus, the movie further damaged the reputation of fast food restaurants, which had been already facing a lot of criticism.

Criticism towards fast food companies was more from parents as childhood obesity was giving rise to health disorders, which were normally seen in adults. Parents were of the opinion that fast food companies were attracting children to their stores by using marketing strategies like giving toys as gifts. Once children were habituated at an early age, they were likely to continue eating fast food on a regular basis in their adolescence as well. Not just children but adults also were habituated to fast food as breakfast and lunch substitutes. The impact of the obesity epidemic resulted in declining sales and losses for most of the fast food companies, more so as

² Sutherland Tucker, "CDC Corrects Obesity Death Number Downward Obesity helped kill 365,000, rather than 400,000 per year in 2000", January 19th 2005

³ Variyam Jayachandran N., "The Price is Right: Economics and the Rise in Obesity", <http://www.ers.usda.gov/AmberWaves/February05/pdf/FeaturePriceIsRightFeb05.pdf>, February 2005

⁴ "Prevalence of Overweight Among Children and Adolescents: United States, 2003-2004", http://www.cdc.gov/nchs/products/pubs/pubd/hestats/overweight/overwght_child_03.htm, April 2006

it increased the low-carb craze among consumers. Diets like Atkins (a low carbohydrate, high protein diet) and South Beach professed that carbohydrates (contained in most fast food) cause weight gain. As a result, consumers started avoiding carbohydrate-rich food like burgers, pastas and pizzas, the key items of fast food companies.

Thus, the once flourishing industry succumbed to not just competition but also to widespread criticism from all quarters. To redeem themselves and reinvigorate their sales, fast food companies shifted their focus towards healthier offerings. The menu was revamped to include items which contained fewer amounts of fat and calories. Nutrition information like the number of calories, fat content present in various items on the menu was also provided to the customers to enable them to make an informed choice. Store design and layout were also changed to attract customers. The companies adopted several advertising and marketing strategies to promote these changes. They even lured customers by offering Wi-Fi access.

The away-from-home food scenario, once dominated by fast food restaurants, however, is changing. These restaurants are facing competition from new restaurant concepts like fast casual and also from other retail formats like supermarkets and grocery stores. Fast casual restaurants include Mexican style restaurants, which provide healthy and good tasting food like gourmet sandwiches, salads etc. Grocery and department stores are promoting the away-from-home food culture by providing ready-to-eat meals, which can be heated in the microwave. All these factors are eating into the revenues of fast food restaurants.

Although fast food companies are reacting to the various challenges, the demand for healthy food with great taste and at low prices is not being met. Several healthier versions of fast food companies' products have failed to make a mark in the market. Moreover, as food prices are increasing, retailers are passing on the cost to the consumers, thereby leading to a rise in the retail prices. In 2007, away-from-home food prices increased by 3.6%.⁵ Fast food companies are under great pressure not only to outperform each other but also to offer innovative menus and ambience, all at low prices. Fast food, therefore, remains to be a moving target wherein companies are required to constantly change their strategies and alter their offerings to suit customers' palate.

⁵ "Food Price Outlook, 2008", <http://www.ers.usda.gov/Briefing/cpi/foodandexpenditures/consumerpriceindex.htm>, November 25th 2008