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Trends in the Quick Service Restaurant Industry

H.G. Parso
Virginia Polytechnic Institute and State University, null@vt.edu

Mahmood A. Khan
Virginia Polytechnic Institute and State University, null@vt.edu

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Abstract

By 1990 the quick sevice restaurant industry(QSR) achieved 54 percent of commercial food service market share. QSR has a significant role to play in the rapidly-growing global hospitality industry and is expanding into institutional food service to increase its market share. It is expected to be the dominant player in the U.S. food service industry. The authors include an analysis of current and emerging trends in this industry.

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by
H.G. Parsa
and
Mahmood A. Khan

By 1990 the quick service restaurant industry (QSR) achieved 54 percent of commercial food service market share. QSR has a significant role to play in the rapidly-growing global hospitality industry and is expanding into institutional food service to increase its market share. It is expected to be the dominant player in the U.S. food service industry. The authors include an analysis of current and emergimg trends in this industry.

Historical accounts of food service date back to 1500 A.D. with the opening of a coffee shop in Constantinople. In the U.S., the Prohibition Act of 1919 resulted in the conversion of bars into full-service restaurants with soda dispensers. During the depression many self-service cafeterias mushroomed in Southern California, leading to the emergence of the limited service segment. During the past four decades the quick service restaurant segment enjoyed envious growth, achieving 54 percent of the commercial food service market share in 1990.[1] The estimated growth for the quick service industry in 1990 is 4.3 percent compared to 2.3 percent for the full-service segment. This healthy growth is expected to continue into the 1990s.

The QSR is also referred to as fast food segment or fast service segment in the popular and/or trade journals. During the late 1940s the quick frozen industry developed many convenient foods. Some of the advantages included faster cooking, labor, cost, and energy savings, consistency in presentation, storage convenience, product reliability, and eventual higher profits. These convenient foods are often touted as "fast foods" and some of the earlier products included French fries, meats, and battered vegetables. Restaurants that depended on these fast food products as the core menu were referred to as fast food restaurants.

By the mid-1970s, because of their over dependence on fast foods and apparent lack of regard for customer preference for healthy menus, many fast food firms were labelled as junk food places. To meet the increasing demand for healthy and nutritious meals and overcome the criticism of serving junk foods, many QSR firms reduced their dependence on fast foods and introduced health-oriented products such as salad bars, baked potatoes, and light menus.

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Interestingly, at the same time, to offset decreasing government support and lower operating costs, various institutional food service (commercial and non-commercial) organizations incorporated convenient food products into their operating systems. While adopting convenient foods, the institutional food service firms made an extra effort not to compromise the nutritional value of their menus. This crossover of convenient foods from the fast foods to the institutional menus continued through the 1980s, making the phrase "fast food" less than meaningful and obsolete. Therefore, the description of the QSR industry as a fast food industry is not only less than accurate, but also technically incorrect.

It is commonly believed that the word "fast" in fast foods refers to the speed of service. However, it originally described speed in the food production process, not any service attributes. Since an increasing number of non-QSR type firms are emphasizing speed of service, e.g., Red Lobster's 15-minute lunch guarantee and drive-thru at family restaurants, the phrase "fast food" does not describe the QSR industry appropriately any more.

To overcome many of these limitations, a quick service restaurant may be appropriately described as a "firm with a mission to provide quicker service and core technology geared towards this mission, and commonly more attractive for the customers that demand convenience, and speed and simplicity of service at an affordable price."

Based on this description, *Nation's Restaurant News'* (NRN) Top 100 restaurant chains were analyzed. Among NRN's top 100 chains 38 restaurant chains, were classified as QSR chains: McDonald's, Burger King, Pizza Hut, Hardee's, Kentucky Fried Chicken, Wendy's, Domino's, Taco Bell, Dairy Queen, Little Caesars Pizza, Arby's, Subway Sandwich Shops, Jack-in-the-Box, Dunkin Donuts, Long John Silver's, Carl's Jr., Friendly Restaurants, Church's Fried Chicken, Popeye's Chicken, Baskin Robbins, Roy Rogers, Captain D's, Sonic Drive-ins, TCBY, Rax Restaurants, Whataburger, Round Table Pizza, White Castle, Chick Fil- A, Waffle House, Sbarro, Godfather's, El Pollo Loco, Shakey's, Rally's, Del Taco, and Krystal's. These chains were used for the identification and analysis of current and emerging trends.

Articles relevant to the QSR industry from selected academic and trade hospitality journals were coded to develop the database from 1986 to 1990. Selection of journals was made based on the earlier research findings.[2] Each article is given a specific weight depending on its size. Coded articles were analyzed with the help of ASKSAM[3] software for average weight. Based on Weber's[4] content analysis guidelines, coded articles were analyzed for industry specific trends. Both qualitative and quantitative analytical methods were used wherever appropriate.

The major trends in functional areas as well as in the relevant environment of the QSR industry were studied from 1986 to 1990. Analysis includes the potential impact of the major trends and the emerging trends.

Marketing Trends Escalate

The marketing area has experienced a downward trend from 1986 to 1989 and a significant upward move in the 1990 to nearly the 1986 levels. The drop in 1989 is more dramatic than expected. The qualitative data indicate that QSR firms are placing less emphasis on marketing compared to the earlier years. During the early '80s QSR firms considered marketing as the solution for all economic problems. This attitude seems to be changing.

In marketing, "jump on the bandwagon" was the norm of the industry during the '80s. QSR marketing strategies were reactive in nature and dictated by market leaders. Marketing promotions were often imitated by other firms in reaction, irrespective of their individual strategies and fit. Such a trend of trying to outdo the competition is not very apparent in the 1990s. For example, to counter "super value menus" of Taco Bell, Wendy's, and McDonalds, many QSR firms preferred to offer price discounts on selected menu items than to imitate the concept as they did in the past.

Every firm has to develop its own long-term marketing strategies after considering all possible strategic alternatives. Current analysis indicates that, at least in marketing, QSR firms are thinking more strategically and independently than before.

Trends in the finance environment are similar to marketing. Average article weight steadily decreased from 1986 to 1989 and made a significant upward move in 1990. Qualitative analysis indicates that QSR firms are placing greater emphasis on finance in 1990. One of the areas of interest in QSR finance is risk analysis. More articles compared to the earlier years discussed the importance of risk, yield management, asset flexibility, and capital appropriations. One of the interesting trends in finance is the recognition of risk in capital decisions, indicating that more firms are evaluating the impact of risk in making strategic financial decisions than before.

The other major trend in finance is emphasis on asset flexibility. More firms are requiring greater flexibility in asset utilization. More QSR firms are searching for assets with greater flexibility. This is a very positive trend, and as it becomes more prevalent, suppliers may be forced to change product designs and develop more flexible, multi-use products. A typical QSR unit is renovated every five to 10 years to adapt to changing needs. Often such renovations include changes in menus and kitchen equipment. Therefore, an increasing number of QSR firms will be demanding assets with greater flexibility to meet the demands of periodic upgrading. Acquisition and merger activities have increased significantly through the mid-'80s, reaching a peak in 1989. There is a significant reduction in articles on acquisition and merger activities in 1990 in the QSR segment, returning to levels close to 1988.

Ecology Concerns Are Rising

In contrast to the earlier major trends in finance and marketing, in ecology the trend is definitely positive and significant from 1988 to 1990. Prior to 1988 there were no significant records on ecology. Qualitative data indicates that though ecological concerns of consumers were very strong through the '80s, QSR industry did not respond till the late part of the decade. Currently, many QSR firms are sharing ecological responsibilities and switching from styrofoam containers to paper packaging. QSR firms are also using recyclable papers, avoiding lead-based ink on paper and napkins, and lowering plastic usage. For example, Wendy's is switching from plastic to recyclable packaging for pickles, salad dressings, and ketchup; McDonalds is cooperating with solid waste firms in developing recycling technology for QSR waste. QSR firms such as Burger King, Rally's, and Fast Lane are improvising drive-thru technology to reduce automobile idling and resulting emissions.

It is well established that solid waste from QSR is less than 3 percent of the total nation's solid waste. But, unfortunately, the QSR industry is receiving unfair publicity from environmentalists mostly because of its easily identifiable packaging material. Ecological responsibility is the trend of the 1990s in the QSR industry.

Operations Receive Greater Emphasis

Unit operations are the bread and butter of a QSR firm. Therefore, it is no surprise that operations received greater emphasis compared to other functional areas. Analysis indicates that there is a slight drop in operations in 1987 and 1988, but a movement upward again in 1990. This trend is likely to continue through the 1990s. Some of the major trends in operations include upgrading of drive-thru technology in response to increasing demand for faster service (Burger King and Rally's), reduction in menu sizes (Wendy's, Rax), more nutritious products in the menus (McDonalds, Hardees and many others). Restaurant operations are very dynamic and constantly updated. Since many firms guard operations with greater secrecy, very little information is published about changes in operations.

Another important major trend in operations is segment expansion into the non-traditional sectors. Many QSR firms are expanding their segment borders by entering into the institutional food service segment. For example, Pizza Hut now has an institutional food service division to serve pizza in high schools; McDonalds is cooperating with institutional contractors to open units in hospitals; Burger King and Wendy's are opening units on military bases; Hardees, TCBY, ICBY, Burger King and others are contracting with colleges and universities to open restaurants on campuses. This segment expansion trend is likely to continue through the 1990s.

Analysis of the qualitative data indicates that although QSR firms are always concerned about the customers, the area of emphasis varies from year to year. In 1990, emphasis is on customer service, convenience, and nutrition. Some of the QSR firms are introducing more nutritious products, such as low calorie and high fiber products by McDonalds. Some of the firms are emphasizing convenience by changing their service technology and employee training practices.

Lack of speed in QSR service was one of the major customer concerns. To meet the increasing demand for faster service many QSR firms are rediscovering drive-thru as a major focus. Through the 1980s QSR firms have been using drive-thru systems as "cash cows." The time has probably come to upgrade the drive-thru technology. To make it effective for the '90s, QSR has to make drive-thru's faster, simpler, more convenient, and land efficient. Often drive-thru units require larger lots for cars to drive around. With improved high tech equipment QSR firms will be able to reduce land requirements for these systems, simplify service process, and improve convenience.

Contrary to other trends, competition has increased from 1986 to 1988 and decreased from 1988 to 1990, giving a bell-shaped curve. Analysis of the qualitative data indicates that many QSR firms through most of the '80s considered competition as the major factor in developing long term strategic plans. Their strategy was reactive in nature, driven by the competition. It is refreshing to note that this trend is changing toward less competition-driven strategies. It also means that firms are not reacting, and imitating every move made by the competition or the market leaders. Hence, QSR firms are developing strategic plans that fit individual firm objectives, probably based on the analysis of firm-specific strengths and weaknesses. This trend indicates increasing strategic orientation.

Franchise Relationships Have Changed

Franchise and franchisor relations have strained during the late '80s. This was very apparent in 1990. For example, some of the franchise problems in the QSR industry include Kentucky Fried Chicken (KFC) and its franchisees, and Pizza Hut and one of its largest franchisees, PMI Inc. of San Antonio. The U.S. Congressional Committee on Small Business[5] has reviewed franchisee-franchisor relationships and recommended the following changes which may have a significant effect on QSR franchise systems:

*establishment of appropriate balance in franchise regulation between the interests of franchisors and franchisees

*establishment of national standards to provide minimum protection for the legal rights and financial interests of franchisees

*creation of federal right of action for franchisees who sustain loss or injury as a result of violation of conduct of franchise relationships

*restriction of the use of procedural devices in franchise agreements that seek to shield franchisors from legal liability or inhibit the exercise of legal rights by franchisees *development of federal standards relating to terminations and transfers of franchises

*establishment of federal guidelines defining the circumstances and financial criteria under which a franchisee may be entitled to renumeration by a franchisor for a portion of the value of a franchise upon termination or cancellation

These proposed recommendations will have significant impact on the QSR industry and future growth opportunities. By the year 2000, according to *Time* magazine, franchising will be the "primary method of doing business" in America.[6]

Emerging Trends Impact the 1990s

One of the most important emerging trends that could impact QSR industry is the segment border diffusion. The QSR industry is quickly expanding its borders into institutional food service. To foster this segment expansion, many QSR firms are repositioning their menus with more nutritious products to meet the rather stringent nutritional expectations of institutional food service customers.

Institutional food service organizations, often subsidized by the government, strive to provide the highest nutritional quality product at a subsidized price. During the '80s many government programs lost their traditional level of funding, for example, high school breakfast subsidies dropped from 17 cents a meal to 12 cents a meal. To compensate for the loss of government support, many institutional food service firms have introduced convenient foods in menus and tried to reduce their labor costs.

Often QSR industry strategy is described as providing the best product at the lowest possible price. Being the leaders in low cost strategies, QSR firms found great opportunities in struggling institutional feeding sector. Firms with greater resources, menu compatibility, and recognition for serving nutritious products, e.g., Pizza Hut, Dominos, entered the market earlier, paving the way for others. In the process of helping the institutional food service sector, QSR firms have realized their own image enhancement. It is a synergistic relation with great future for both, for example, universities such as Washington State, the University of Wisconsin-Stout, and Virginia Tech have QSR units like Burger King, Hardees and TCBY on their campuses.

Some of the university food services are repositioning themselves as food retailers in contrast to food service operations, a positive change. This attitude definitely increases the possibility of continued strategic alliances between institutional food services and the QSR firms.

Another important factor to affect the QSR industry is the proposed franchise legislation. It is a well known fact that franchise contracts are written to give greater control to franchisors. In increasingly uncertain environments, many firms prefer to adapt more

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organic structures to enable them to plan proactively to emerging trends. From a franchisee point of view, very often franchise contracts are too restrictive to realize desired structural changes. In QSR franchise contracts, often, the franchisee is less than effective in ensuring the franchisor's performance, as stated in the contract. Legal recourse is often lengthy and costly. Therefore, there is an outcry from the QSR franchisees to regulate franchise contracts.

Earlier in the '70s franchise legislation of automobile dealers has resulted in increased flexibility for the automobile dealers, thus resulting in healthier dealerships and auto mall concepts. Similar, if not to the same extent, progressive changes can be expected in the QSR industry from proposed legislation.

Another major trend of the 1990s is innovation in drive-thru technology. QSR customers are demanding increased speed and simplification. Some of the QSR firms are responding to this emerging trend by upgrading their drive-thru systems with such improvements as touch screen menus, video screens, double drive-thru systems and improved sound systems. This trend can be expected to continue.

Another trend is decentralized menus; for example, McDonalds, Wendy's, and Pizza Hut are offering regional menus wherever appropriate. This trend has its roots in the increased need for customer orientation in an increasingly uncertain environment. This is also reflected in marketing environment. This process of decentralized decision making is unavoidable, considering the mature nature of the industry.

Finally, upscale restaurants are experiencing increased pressure to lower their prices and become less formal. This may be termed as casualization. and as this trend continues, the QSR industry will face pressure from the top resulting in redefining of its mission and realigning of its strategies by the mid-1990s.

1990 Has Been a Significant Year

1990 proved to be a significant year for the quick service industry which has experienced four stages of life cycle, pre-introductory, introductory, growth and maturity, in a span of five decades from the 1940s through the 1980s. In the process its name has changed from fast foods to quick service restaurants.
Currently U.S. QSR units can be seen in over 50 countries.

Some of the major trends include increased emphasis on risk in financial analysis, decreased merger and acquisition activities, increased segment expansion into institutional food service, increased emphasis on consumer, dramatic increase in ecological concerns; strained franchisee-franchisor relations, more proactive strategic orientations away from reactive strategies driven by the competition, and increased emphasis on drive-thru systems.

With increasing globalization of the hospitality industry, QSR has a significant role to play. More and more countries are discovering QSR as a very effective way to expand business opportunities. Franchising has been the major vehicle of growth of the QSR industry for the past four decades and it will continue to be into the 1990s. Market share of QSR may be expected to grow as it expands into institutional food service and beyond. From the synergistic relationship of QSR and institutional food service, emergence of new concepts may be expected. In 1990 QSR has recovered economically and is positioned better for the future by expanding its segment borders, operational innovations, customer focus, and, above all, strategic thinking in marketing of products.

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H. G. Parsa is a doctoral student and **Mahmood A. Khan** is an assistant professor and assistant head of the Department of Hotel, Restaurant and Institutional Management, Virginia Polytechnic Institute and State University

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