FOOD SERVICE

• Food service:
  – Dispensing prepared meals and snacks for on-premise immediate consumption

FOOD SERVICE

Value added by the food and fiber system, 2001

<table>
<thead>
<tr>
<th></th>
<th>Value added to GDP ($ billion)</th>
<th>Share of GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming</td>
<td>73.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Input industries</td>
<td>422.8</td>
<td>4.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food processing</td>
<td>168.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Nonfoods</td>
<td>47.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Distribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>41.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Wholesaling and retailing</td>
<td>334.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Food service</td>
<td>196.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Total food and fiber system</td>
<td>1,244.6</td>
<td>12.3</td>
</tr>
</tbody>
</table>

FOOD SERVICE

• Food service
  – Commercial establishments
    • For-profit establishments that prepare, serve, and sell meals and snacks to the public
  – Noncommercial establishments
    • Meals and snacks prepared and served as support of the primary purpose of the establishment
FOOD SERVICE
U.S. Foodservice Sales, 2000

- Noncommercial 18%
  $64 billion
- Commercial 82%
  $294 billion

FOOD SERVICE

- Commercial establishments
  - Eating places
    - Restaurants, lunchrooms, fast-food outlets, cafeterias
  - Drinking places
    - Bars, beer gardens, taverns, night clubs, saloons
  - Lodging places
    - Foodservice operations in hotels, motels, etc.
  - Recreation/entertainment
    - Foodservice operations in theaters, bowling alleys, race tracks and stadiums, amusement parks, etc.
  - Retail hosts
    - Foodservice operations in retail stores, drugstores, etc.

FOOD SERVICE
U.S. Commercial Foodservice Sales, 2000

- Fast-food outlets 43%
- Restaurants and lunchrooms 39%
- Lodging places 4%
- Recreation and entertainment 3%
- Other 4%
- Retail hosts 7%

Total Commercial Foodservice Sales: $294 billion
FOOD SERVICE

• Noncommercial establishments
  – Schools
  – Colleges
  – Hospitals
  – Extended care facilities
  – Plants and offices
  – Correctional facilities
  – Military installations
  – Transportation
    • Airplanes, cruise ships, trains

FOOD SERVICE

U.S. Non-Commercial Foodservice Sales, 2000

Total Commercial Foodservice Sales: $64 billion

FOOD SERVICE

• Trends:
  – Increased share of consumer food expenditures away from home vs. at home

Share of U.S. food expenditures for food at home and away from home

- At home
- Away from home
FOOD SERVICE

• Trends:
  – Increased share of consumer food expenditures away from home vs. at home
  – Workforce composition
  – Higher income
     – Smaller share of income spent on food

Food expenditures as a share of disposable money income

FOOD SERVICE

• Trends:
  – Increased share of consumer food expenditures away from home vs. at home
  – Stable share of full-service restaurants, increasing share of fast-food outlets, decreasing share of all other foodservice outlets

Share of away-from-home food expenditures by type of outlet
FOOD SERVICE

- Trends:
  - Increased share of consumer food expenditures away from home vs. at home
  - Stable share of full-service restaurants, increasing share of fast-food outlets, decreasing share of all other foodservice outlets
  - Increasing competition from non-traditional outlets
  - Mergers and acquisitions
    - 452 mergers and acquisitions between 1998 and 2002
FOOD SERVICE

• Trends:
  – Increased share of consumer food expenditures away from home vs. at home
  – Stable share of full-service restaurants, increasing share of fast-food outlets, decreasing share of all other foodservice outlets
  – Increasing competition from non-traditional outlets
  – Mergers and acquisitions
  – Concentration
FOOD SERVICE

The 25 Largest Chain Brands in the U.S., 2002

<table>
<thead>
<tr>
<th>Rank</th>
<th>Chain Name</th>
<th>Sales ($ billion)</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>McDonald's</td>
<td>20.31</td>
<td>13,491</td>
</tr>
<tr>
<td>2</td>
<td>Burger King</td>
<td>8.30</td>
<td>8,029</td>
</tr>
<tr>
<td>3</td>
<td>Wendy's</td>
<td>6.82</td>
<td>5,549</td>
</tr>
<tr>
<td>4</td>
<td>Subway</td>
<td>5.20</td>
<td>14,522</td>
</tr>
<tr>
<td>5</td>
<td>Taco Bell</td>
<td>5.18</td>
<td>6,165</td>
</tr>
<tr>
<td>6</td>
<td>Pizza Hut</td>
<td>5.10</td>
<td>7,599</td>
</tr>
<tr>
<td>7</td>
<td>KFC</td>
<td>4.86</td>
<td>5,472</td>
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<tr>
<td>8</td>
<td>Applebee's</td>
<td>3.18</td>
<td>1,451</td>
</tr>
<tr>
<td>9</td>
<td>Starbucks</td>
<td>2.94</td>
<td>4,464</td>
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<tr>
<td>10</td>
<td>Dominos Pizza</td>
<td>2.92</td>
<td>4,811</td>
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<tr>
<td>11</td>
<td>Dairy Queen</td>
<td>2.72</td>
<td>4,010</td>
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<tr>
<td>12</td>
<td>Arby's</td>
<td>2.69</td>
<td>3,250</td>
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<tr>
<td>13</td>
<td>Y.O.S. Pretzels</td>
<td>2.65</td>
<td>3,675</td>
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<tr>
<td>14</td>
<td>The Olive Garden</td>
<td>2.58</td>
<td>5,191</td>
</tr>
<tr>
<td>15</td>
<td>International House of Pancakes</td>
<td>2.50</td>
<td>5,000</td>
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<tr>
<td>16</td>
<td>Jack in the Box</td>
<td>2.52</td>
<td>5,148</td>
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<tr>
<td>17</td>
<td>Jack in the Box</td>
<td>2.48</td>
<td>4,777</td>
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<td>18</td>
<td>Jack in the Box</td>
<td>2.46</td>
<td>4,680</td>
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<td>19</td>
<td>Jack in the Box</td>
<td>2.42</td>
<td>4,523</td>
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<td>20</td>
<td>Jack in the Box</td>
<td>2.39</td>
<td>4,367</td>
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<td>21</td>
<td>Jack in the Box</td>
<td>2.37</td>
<td>4,212</td>
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<td>22</td>
<td>Jack in the Box</td>
<td>2.35</td>
<td>4,057</td>
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<td>23</td>
<td>Jack in the Box</td>
<td>2.33</td>
<td>3,902</td>
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<td>24</td>
<td>Jack in the Box</td>
<td>2.31</td>
<td>3,747</td>
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<tr>
<td>25</td>
<td>Jack in the Box</td>
<td>2.29</td>
<td>3,592</td>
</tr>
</tbody>
</table>

FOOD SERVICE

Trends:

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- Concentration
- Globalization
FOOD SERVICE

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- Globalization
- Contract management in non-commercial food service
FOOD SERVICE

• Contract management in non-commercial food service
  – Self-operated noncommercial outlets converting to contract management
  – Contract management is highly concentrated
    • 3 companies control 40% of the U.S. market:
      – Compass
      – Sodexo
      – Aramark

FOOD MARKETS

• Other trends in the food marketing channel:
  – Expansion of private labels

  ![Share of Private-Label Sales in the U.S.](chart)

• Expansion of private labels
  – Improving consumer perception of private label
  – Diminishing overall consumer brand loyalty
  – Focus on ‘value’ products avoiding marketing costs associated with national brands
  – Increasing market power of retailers vs. manufacturers
FOOD MARKETS

• Other trends in the food marketing channel:
  – Expansion of private labels
  – Products with “new” attributes

FOOD MARKETS

• Products with “new” attributes
  – Health, diet-oriented
  – Natural
    • Laura’s Lean http://www.laurasleanbeef.com/?source=goto
    • Coleman’s Natural Meats http://www.colemanmeats.com/
  – Organic
  – Welfare friendly
    • Niman Ranch http://www.nimanranch.com/
  – Farmer-friendly
    • Good Natured Family Farms http://www.goodnatured.net/
  – Environmentally-friendly
  – Ethical

FOOD MARKETS

• Other trends in the food marketing channel:
  – Expansion of private labels
  – Products with “new” attributes
  – Food safety
FOOD MARKETS

• Food safety
  – Food Processing's 2003 Manufacturing Survey of thousands of industry professionals:
    • Food safety far outweighs any other concern
      – Food safety was the most crucial issue for 50% of respondents
      – 64% of respondents said their company has either established new food safety and sanitation initiatives or is planning to do so