

# *Fast Food Store Location Factors: A Comparison with Grocery Store Location Factors*

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*The author discusses trends in fast food development and compares site location factors for fast food outlets with those for Supermarkets.*

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During the 1960's, fast foods developed into a major new growth industry. Expansion in the number of franchising systems illustrated this in a most dramatic fashion. Fast food franchise systems increased from about 85 in 1950 to 200 systems in 1960. The number grew to 350 in 1965 and reached a total of 749 systems in 1970. [3, 3-8] There is no indication the growth rate in the number of systems is subsiding in the early 1970's. In fact, many firms engaged in other segments of the food distribution industry are indicating an interest in expanding into fast foods.

Moreover, the increase in stores and sales also has been phenomenal. There were 16,400 fast food units with gross sales of \$1,660 million in the United States in 1960, but in 1971 there were an estimated 46,200 units with sales amounting to \$7,600 million. More company operated stores have been another important trend in the industry. In 1960, company operated units comprised one percent of the units and accounted for two percent of gross sales, but the fast food share had increased to 11 percent of the units and 17 percent of the sales in 1971. [3, 3-11]

## *Increase in Away-From-Home Eating*

In 1970, about one-fourth of all food expenditures were for hot prepared foods purchased and consumed in away-from-home eating situations. This included the carry-out prepared foods ready to eat and not consumed at the point-of-sale. By 1980, the hotel-institution-restaurant group is expected to constitute 30 percent of food sales. This estimate may be conservative.

Fast food sales have grown much faster than the hotel-institution-restaurant food sales. In 1971, fast food units comprised about 15 percent of restaurant and specialty food units, but accounted for one-fourth of all pre-

pared food sales and approximately seven percent of the nation's total food sales.

Fast foods have enjoyed a larger market share for meats than for other food products. One large fast food firm specializing in fried chicken, markets nearly one-tenth of all broilers produced in the U.S. Approximately one-fourth of all broilers are marketed by fast food units. Many knowledgeable people in the industry estimate that the hotel-institution-restaurant group accounts for approximately 40 percent of consumer expenditures for red meats. Undoubtedly, hamburger sales in fast food units make up a very significant share of the red meat market.

## *The Future of the Fast Food Industry*

The rapidly increasing per capita consumption of away-from-home meals is expected to continue in the foreseeable future. Two factors in our present society will reinforce and accelerate this trend—rising income levels and changing lifestyles. Increased per capita income, especially among the lower income groups, makes it possible for people to purchase additional services along with food products. Moreover, rapidly changing lifestyles are shifting consumer demand toward the type of services provided by the fast food industry. High mobility of people, shorter work days, longer weekends, the movement to liberate women from their traditional roles in the home which includes or included meal preparation, smaller families, more activities outside of the home, and more women working, are factors affecting the demand for foods and food services. These changes in lifestyles, coupled with increased purchasing power, suggest that fast food sales will continue to grow in terms of sales and share of the food market during the 1970's. The industry is based on a strong foundation—a strong and growing consumer demand.

## *New Entrants Into Fast Foods*

A rapid industry growth rate and attractive net margins in fast foods have attracted other food distributors, notably food processors and retail grocers. New entrants, especially grocers, have mixed success. The method of entry employed by grocers has taken two forms, (1) establishing fast food departments in existing supermarkets, and (2) building separate fast food units, usually adjacent to supermarkets, or in free standing buildings near the supermarkets. Apparently, many grocers have assumed that good supermarket locations would also be equally desirable as sites for fast food units.

## Success Formula For Fast Food Stores

The elements in successful fast food operations can be categorized in three broad groups—product, management and location. Obviously, any successful retail business must have a quality product that is in demand and is acceptable to the public. Once established, it is very important that the product be consistent over time. Franchised fast food stores in systems with strong quality control programs have been more profitable than those stores in systems that have not had tight control over product quality within franchised units. This factor is strongly associated with profitable operations.

Management is important to any viable business operation, and almost invariably, management is accredited by businessmen as being the most important element in successful business ventures. However, in an interview, Warren Rosenthal, President of the International Franchise Association and President of Jerrico, Inc., a firm which operates four fast food systems with 300 units, was asked if he had to choose between a good fast food unit manager or a good store location, which would he prefer. Mr. Rosenthal cited cases in his firm where well located stores with poor managers had been profitable. (But profits always increased substantially when better managers were assigned to these units.) At poor store locations, however, the firm's best store managers could not obtain profits.

Location is the key factor in successful fast food operations. Without a good location, expert management and quality products are for naught. Moreover, site location becomes more critical as markets become more saturated. It is impossible to over-stress the importance of location in fast food operations.

### Important Location Factors

It is necessary to consider more variables in the selection of fast food store sites than is usually the case in picking an optimal location for supermarkets. The weighting of the various location factors will vary between products, product mixes and marketing programs. Some of the more important locational factors associated with fast food store and supermarket sales are listed and compared.

### Site Accessibility

*Grocery stores.* A supermarket should be "fairly" accessible to its customers. The need for accessibility is not as exacting because supermarkets have large advertising budgets and this expenditure, to some extent, substitutes for a more nearly optimum location. Customers live fairly close to the supermarket and plan their shopping trips for groceries. Consequently, they soon become very familiar with the store location and shopping trips tend to become habitual. Because customers plan trips from their home to the supermarket, the location does not have to be as accessible as in businesses where the volume of sales is heavily dependent on customer interception business.

*Fast food stores.* The fast food industry is an interceptive business, i.e., stores intercept people who are on their way to some other place. This type of customer accounts for a large share of the fast food business. Consequently, fast food stores should be extremely accessible to potential customers. There is an exceptionally strong relationship between accessibility and product sales.

Fast food stores are convenience type establishments with a high volume of impulse sales. It is very important to locate stores on heavily traveled roads or streets

where customers can be intercepted on their way to other stores and/or on their way home from work. However, a high traffic count can be deceptive. On divided streets or highways, only the traffic in the lane on the side of the street adjacent to the store can be counted as effective traffic. Up to a point, sales increase as the traffic count increases. After a certain count is reached, sales decline as the traffic increases. Sales also decrease as traffic speeds increase. Moreover, the time the traffic passes the store is most important. For example, traffic between 4:00 and 6:30 p.m. is very productive in terms of sales.

Free standing buildings on corner sites are preferred locations. The site must have adequate frontage and be highly visible to approaching traffic. Entrances and exits to the location must be convenient to the traffic.

Consideration should also be given to the general accessibility of the location to neighborhood or community residents. Adequate parking facilities are equally important to grocery and fast food stores.

### Size of Market

*Grocery stores.* The majority—about two-thirds—of the customers of urban grocery stores usually reside within a one-mile radius of the store, and the vast bulk of the customers—95 percent or more—are contained within a one and one-half mile radius of the store. These rules hold for most situations. The Super Market Institute's report on new stores constructed in 1969 indicated the typical new supermarket drew on a population of 12,000 within a one-mile radius. When allowance was made for competing food stores, all new supermarkets and their nearby competition combined, averaged 3,000 people per store in the one-mile zone. [1, 10&11]

Smaller stores and superettes tend to have less market area. Stores located in small neighborhood type shopping centers have much smaller market areas than stores in major shopping districts and large shopping centers. A large population within the market area of the store is a most important consideration in grocery store location.

*Fast food stores.* There is a tremendous variation in the physical size of fast food store markets in terms of area and population. This point can best be illustrated by some examples. For several years, Kentucky Fried Chicken divided franchise territories into geographic units containing 30,000 urban or suburban people. Generally, markets of this size produced satisfactory levels of sales and profits. The firm later found that as many KFC products could be sold in 15,000 persons markets in selected southern states, as in the conventional 30,000 people markets in certain other areas of the U.S. Properly managed fast food stores selling a multiple line of products such as hamburgers, fish and chicken dinners require less territory and fewer people than the single product store. Moreover, requirements differ between stores catering primarily to a carryout trade and those attracting a high percent of walk-in, sit-down customers. A franchised coffee shop type store may grant exclusive territorial protection in two city blocks to a downtown franchisee, but ten miles along a busy highway, including all the suburban residential areas near the highway, may be the exclusive territory granted to another franchised store in the system.

Whereas, supermarkets primarily serve the customers in the neighborhood of the store, fast food stores may serve several types of customers. Fast food stores cater to residents of the neighborhoods in which the store is located and to people who pass by the store. Therefore,

one measure of the market is the resident population in the area. (The effective resident market area for fast food stores is larger than for supermarkets.) The market is also measured in terms of the number of people passing the store. The characteristics of the people, the time of passing, and the traveling speed of the transits are among the important factors determining the quantity of sales that can be obtained at particular locations.

The size of the market for fast food departments in supermarkets appears to be the customers who shop the store for groceries. A recent survey of 99 supermarkets showed that fast food departments contributed three percent to gross store sales. Advertising programs did not significantly increase sales or change the contribution to gross sales. [2, 44ff] This finding suggests that people do not shop supermarkets for fast foods *per se* but that fast food departments intercept people shopping in the supermarkets.

### Competition

*Grocery stores.* The prime competition consideration in supermarket location is the number and size of supermarkets operating within a two-mile radius of the proposed store site. The larger and nearer the competitors, the greater the business hazard and the lower the expected sales. However, if two large supermarkets are located adjacent to each other, the market area will be enlarged.

Also, a strongly favorable image of a competitive store reduces the sales that can be realized at a location.

*Fast food stores.* Most retail businesses classify competitors as other firms selling similar products in the same market. Many fast food managers only classify store selling the same kind of product as a competitor. To illustrate this, fast food stores specializing in fish and chips, or pizza, or hamburgers, or roast beef sandwiches, or fried chicken or tacos usually do not consider each other as competitors. But, two fish and chip stores, for example, would consider each other as competitors. The degree of competition between various types of fast food firms has not been researched. However, there is some degree of cross elasticity—or competition—between food products, albeit minor in some cases. Undoubtedly, there is much more competition between fast food firms than is commonly recognized.

### Complementarity

*Grocery stores.* On the whole, supermarkets tend to be reasonably complementary with most types of retail businesses when both are located in close proximity, i.e., sales in both stores will increase to some extent if the stores are located near each other. This has been one of the prime reasons for the success of supermarkets (and other stores) in shopping center locations.

*Fast food stores.* Many people in the industry believe that fast food stores are complementary to each other. This premise may be valid to a point, but all logic suggests and empirical evidence indicates that individual store sales will decrease after a given number of stores are located in a specific area. Most people only consume three meals per day. It is likely that this declining point will be reached with a rather small number of stores, perhaps three or four in most locations. Small markets may only support one store.

Fast food stores are especially complementary with office buildings, entertainment and recreation-type businesses. Filling stations also are considered good neighbors.

### Customer Income

*Grocery stores.* Customer income is an important consideration, but usually not of the same significance as population density and competition. The demand for food is relatively inelastic. The percent of increase in food purchases does not rise as rapidly as the percent of increase in income. Moreover, as incomes increase, there is a rise in the number of meals eaten away-from-home. Low income family food expenditures now are closer to the purchase levels of other socio-economic groups because the Food Stamp Program has augmented the purchasing power of the lowest income groups.

*Vast food stores.* The middle income groups are the heart of the fast food market. Fortunately for the industry, the large majority of the American population falls in this classification. Low income groups have less ability to purchase services with their food and high income groups have the means to purchase large quantities of service with their food. People with high incomes consume more meals in full service restaurants.

If a large share of the store sales are dependent on the residents in the locale of the store, it is wise to carefully assess family income and purchasing habits in the area.

### Population Characteristics

*Grocery stores.* It may be necessary to adjust the market mix to the tastes of particular markets. This does not present a large problem to supermarkets. Modern stores stock several hundreds or thousands of items and can easily add specialty items and offer the market mix demanded by particular ethnic groups. This factor does not significantly affect supermarket location.

However, family size and age levels do affect sales, and consequently, store location choices.

*Fast food stores.* Young people and households with children are major customers of fast food stores. Many fast food systems direct their marketing and promotion programs at these groups. This may account, to some extent, for the fantastic success many stores have enjoyed at locations adjacent to high school and university campuses.

Since fast food stores have limited menus, ethnic considerations are especially important. Some items, such as hamburgers, are consumed in large quantities all over the country, but regional consumption patterns differ for many foods. Southerners consume much more fried chicken and chipped barbeque than do other Americans. Most of the very profitable taco stores are located in southwest states with large numbers of Mexican-Americans; easterners consume more spaghetti and Italian foods. Local and regional consumption patterns should be investigated before any limited menu fast food venture is started.

### Economic Climate

*Grocery stores.* New stores should be located in communities that are experiencing economic growth or, at least, are stable. Declining communities are not preferred locations.

*Fast food stores.* The general economic condition of the country affects fast food sales more than grocery sales inasmuch as the demand for groceries is less elastic than the demand for fast food store prepared foods and services, i.e., as incomes increase or decrease the percent of change in fast food sales is greater than the percent of change in grocery sales. Consequently, fast food stores should be especially cautious about locating in declining economic areas.

### **Concluding Remarks**

Selecting optimum sites for fast food units is a very complicated process, more complicated than the selection process for supermarket sites. Moreover, a good site location is an absolutely essential factor for a profitable fast food operation. Therefore, no compromises should be made in the selection of a fast food store location. All

selections should be based on sound locational considerations.

The decision to install fast food departments in supermarkets primarily should be based on the gross sales of the store and the breakeven cost for operating the department in the store. Other considerations include regional and ethnic preferences and the number of fast food products to be marketed.

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### **LITERATURE CITED**

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