Fast-Food Industry Notes

Rapidly Growing Demand for Beef

To familiarize cattlemen with the challenges and opportunities inherent to the fast-food business, Conti-Commodity Services, Inc., (a futures broker for cattlemen) sponsored a seminar at the NCA convention last January. Speakers were executives of three leading fast-food and limited-menu restaurant firms. The following is a summary of that seminar.

The growth of the fast-food and family restaurant business has—and probably will have—a profound effect on the cattle business.

The eating-out trend, along with the restaurant industry, has continued to grow regardless of the fluctuating economy. During the past few years, restaurant business has shown sales increases of 2.5-5.5% per year. The fast-food industry (particularly beef-oriented firms) has grown even faster.

Some estimates are that at least 45% of all U.S. beef supplies go to the away-from-home market. With the food service industry continuing to grow while total beef supplies continue to decline, it is clear to see why the demand for beef from all types of restaurants has contributed to strengthening the cattle market. It is also an important fact that people are less price conscious when they buy from restaurants than when they shop at the supermarket.

Sales Increases

The fast-food industry had more than $20 billion in sales for 1978. Since 1969 sales have increased six times, while the number of restaurants has more than doubled, reaching a total of nearly 59,000 units.

Beef-oriented companies account for 72.3% of all fast-food sales. Steak company revenues totaled $3.37 billion, while hamburger-roast beef chain revenues exceeded $11.3 billion in 1978.

Terry Galloway, director of meat programs for Wendy's, says the firm used 200 million lb. of beef last year and will use 220 million lb. in 1979 to supply its 1,439 stores. This translates into meat from 736,000 cows and 316,000 heifers at present production mix.

McDonald's has 5,000 outlets and Burger King 2,500. These two firms and Wendy's accounted for more than 1 billion lb. of hamburger in 1979. (On a retail weight basis, 1 billion lb. was more than 5.5% of the nation's beef output in 1978.)

Cow Beef

Most of Wendy's hamburger is cow beef. The firm uses lean canner-cutter cows to make up 70% of the mix, then adds 50-50 choice trimmings, producing a product of 80% lean and 20% fat. Galloway notes that, with fewer cows, they may have to alter the product mix to include a higher percentage of steer and heifer meat. Wendy's also uses 100% domestic beef, with no fillers. They buy fresh bulk beef, then patty the meat fresh daily.

Director of purchasing for Arby's, Thomas McKinnon, notes that Arby's produces its roast beef product by taking lean cow beef, adding 50-50 trimmings, forming the meat into a roast, cooking it, then slicing it for sandwiches. McKinnon adds that they, too, use no substitutes or fillers.

An inherent problem, McKinnon feels, is that an entire sector of the restaurant business has been built on the availability of a by-product—cows. The supply of worn-out dairy and beef cows is not responsive to changes in demand for this type of meat. McKinnon says it may be necessary to develop a "hamburger steer" in order to supply lean beef to the fast-food sector.

More Growth

There are about 15,000 fast-food outlets based on lean beef—and this estimate is just a fraction of all restaurants. The fast-food industry is still projecting growth of 15% a year, which is about 2,500 units, with more than 40% of all beef going into hamburgers.

Louis P. Neeb, president of Steak & Ale Restaurants of America, reports their sales escalating to $145 million in 1977. They serve 2 million meals a month and employ close to 10,000 people.

"Most of our meals involve beef," states Neeb, "but some of our operations are changing because of the declining beef volume."

The company is not a fast-food operation; rather, it is basically a limited-menu restaurant focusing on steaks cut mostly from the loin and rib, totaling a near 10 million lb. of beef a year.

Faster Price Rise

"Reduced numbers of cows mean hamburger prices will rise faster than steak prices, and hamburger firms will be bidding for the same meat from the same grain-fed cattle as Steak & Ale," Neeb says. The company presently buys its meat from fabricators, who cut to Steak & Ale specifications.

Neeb expresses hope that government will not take ill-advised action on price controls. He feels that all segments of the food business must work together on issues of mutual concern—the diet-health issue as well as the price issue.

Nutritional ideas also can affect demand somewhat. Asked if bad publicity concerning beef would hurt sales, Neeb reacts by saying that people in the U.S. are beef eaters, and the trend to eating away from home will probably continue to grow because of the quality and convenience involved.

As for higher food prices, Neeb feels that the public will continue to adjust. "There seems to be resistance to prices on more expensive cuts of beef. Steak & Ale's steak sales drop ½% for every 1% increase in price. But eventually, it has been found, most customers return and pay higher prices."

Half the items on Steak & Ale's menu today were not there 5 years ago, thus demonstating a change in tastes and preferences. "There is a trend to smaller portions," Neeb says, "because people do not want to eat as much as they used to, not just for health reasons but because they do not want to waste food."

All three companies represented on the program expect their beef requirement to grow by 10-20% a year, and they expect this kind of trend to continue through the next decade.

No Meat Substitutes

The speakers also indicated no plans for meat substitutes, extenders or any imported products. As domestic output decreases during the next few years, supply as well as price will be a major problem for this growing industry. This can eventually bring about a "revolution" in cattle marketing, one speaker said.

All three companies represented on the program appeared reluctant to enter into contract feeding arrangements, but some might encourage the development of "middlemen" who would assume the risk of such ventures. If no such entity evolves, one speaker said, "we may have to do contract feeding to assure supply."

At any rate, it appeared that these firms' needs for specific quantities, qualities and types of beef eventually would lead to more coordination or integration of production and marketing.