

Can The Produce Industry Rely On Fast Casual To Boost Consumption?

The fast casual phenomenon is, to some extent, a matter of creating a new category so that one can lead it. So Five Guys is not an infinitesimal burger chain behind McDonald's, Wendy's, Burger King and a dozen others but, instead, is a leader in "fast casual." Equally, the growth of fast casual is impressive, but only because it starts from such a low base.

One reason fast casual is the focus of so much attention is because its emphasis on fresh, varied ingredients, more upscale décor and higher price points than fast food corresponds perfectly with the aspirations of journalists, professors and other knowledge-class workers anxious to differentiate themselves from the *hoi polloi* buying lunch at Subway or McDonald's.

This is not to say that there isn't a market here and, of course, produce vendors should pay attention and competitors should look at what these chains are offering. Still, we would see the development of these chains as akin to the growth of alternative retail formats. Just as a supermarket's competition today is not just another supermarket but dozens of new formats and old formats featuring food that takes a slice of the business, so McDonald's doesn't just have to compete with a Burger King but has to deal with chains hitting it both on the premium and discount point.

At just 4.5 percent of the market, even if these chains over-index on produce usage by, say, 20 percent, they still would account for only just over 5 percent of produce usage in the restaurant business.

We did find Darren Tristano's comments on Five Guy's potato program intriguing, as they pointed to the way authenticity — the notion that these potatoes came from the right place — could outweigh any demand for local. Indeed, even the fact that Panera and others were adding strawberries to a summer salad menu struck us less as about consumer demand for local than about the desire to type

the salads as seasonal and fresh.

The ubiquity of a product — note the rapidly expanding sweet potato category — strikes us as less likely to reduce demand than the product's potential quality problems. Krispy Kreme donuts developed a cult following because each store had a neon sign advertising that the hot donuts were "hot now." So Krispy Kreme offered a product — hot donuts just out of the oven — that other donut chains did not. So when the chain expanded, we doubt that the problem would have been excessive availability of delicious hot donuts. What happened was that they started selling donuts in supermarkets and they no longer had any competitive advantage.

Though fast casual will grow, it can't grow too much. This is because other competitors would look to seize market share if that price point grows to a much bigger share of the market. If fast casual continues to grow, the best bet would be that chains both more economical and more expensive would edge into this middle category. Look at McDonald's efforts to seize the gourmet coffee business with its McCafé line as a clue to what might happen here.

The point that new laws may lead restaurants to offer and highlight more produce-rich items is undoubtedly true, but whether it will lead consumers to order these items is another thing entirely. Having McDonald's offer salads is a win for the produce industry, and helps McDonald's divert criticism that it is a casual link in the growing girth of Americans. Still, it is a sobering thought to remind ourselves that if the highest selling salad was a burger, it would be discontinued for inadequate sales.

Although doubtlessly true, we might qualify the notion that consumers classify fast casual as a good value. We might say that those consumers *who choose to eat at fast casual restaurants* see them as offering good value. The vast majority of consumers who shop at limited service restaurants seem to think the value meal at

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the fast food places is a good value.

Although consumers report — and Technomic confirms — that consumers value fresh produce, we hear a different story from most operators. We continue to hear from mainstream restaurateurs who track consumer comments and purchasing that scarcely any of those comments refer to side dishes. It is the quality and quantity of the protein component of the meal that attracts lots of compliments, criticism and purchasing.

This leads to the two-spears-of-asparagus and-a-cherry-tomato phenomenon. Basically, because protein is the focus for Americans, this is where the food cost budget is typically placed. Then, although produce is less expensive than protein, starches are less expensive than produce. So, with the food budget busted on protein, menu planners turn to starches to fill up the plate. This relegates produce to an accent and provider of color. Thus, one often receives a large steak, a mountain of mashed potatoes and two asparagus spears with a cherry tomato.

There are exceptions, of course, and some chains seize that niche that values fresh produce. The question now is how the industry can grow that market. In all likelihood, that growth will come through more produce usage in larger market segments not counting on niche concepts to seize the mass market.