The food service sector comprises all outlets involved in the “provision of meals out of the home” (IGD 2005), including restaurants, pubs and office canteens. With some 1.5 million employees, it is the largest employer in the food chain, making a substantial contribution to economic activity (£21.1 bn in 2004), only slightly less than food and drink manufacturing and more than food retailing.

Food service accounts for broadly one-third of consumer expenditure on food and non-alcoholic drinks. Its share of the nation’s food consumption, estimated at roughly 1 in 6 of all meals consumed (around 15%), is less significant, and its contribution to meeting nutritional requirements is lower still.

The sector features a diversity of outlet types, business models, formats and operators. Such diversity helps insulate it from rapid shifts in consumer preferences, but its complexity has implications for policy when addressing cross-cutting issues, such as its environmental performance.

Food service has performed strongly over recent years, with real growth in sales and rising employment. Supported by favourable consumer trends, future growth is expected to be robust, although distinctions between food retail and food service are beginning to blur.

Links with the rest of, and beyond, the food chain are strong. Competition with food retail is growing. Food service is becoming an increasingly important outlet for suppliers.

Evidence on the sector's environmental performance could be improved. Further research could facilitate benchmarking of performance, comparison between retail and food service, and a better understanding of the overall impacts of the current food supply system. Health concerns are increasingly understood and are being addressed.
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2. DEFINITIONS OF FOOD SERVICE

3. OVERVIEW OF THE FOOD SERVICE SECTOR IN THE UK

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5. THE STRUCTURE OF FOOD SERVICE OUTLETS IN THE UK

6. LINKS WITH THE REST OF THE FOOD CHAIN

7. ENVIRONMENT

8. HEALTH ISSUES

9. SUSTAINABLE PROCUREMENT

10. THE IMPACT OF LEGISLATION

11. CONCLUSIONS AND OUTLOOK

REFERENCES
1. INTRODUCTION

1. The purpose of this paper is to provide an economic and statistical overview of the food service sector. Drawing upon national statistics, industry data and specialist literature, it:

- considers different definitions of food service
- provides a brief economic overview of the sector and examines its share of total food consumption
- outlines some key trends and reviews the structure of the sector
- discusses its links with the rest of the food chain
- considers environment and health issues
- investigates sustainable procurement and the impact of legislation
- explores some future challenges and drivers

2. Definitions for certain technical terms are given in footnotes when they first appear in the text.
2. DEFINITIONS OF FOOD SERVICE

3. “Food service” is the term typically used to refer to that part of the economy engaged in the provision of meals outside the home. The food service sector incorporates both commercial establishments (i.e. restaurants and pubs) and institutional caterers (e.g. hospitals and schools). Its highly diverse nature gives rise to different ways of measuring and analysing the sector. There are two broad definitional approaches – by business type, and by product type.

Food Service Businesses

4. Food service is activity in the food chain that includes a service activity over and above normal shopping in delivering food to the customer. This might be providing it in a place more convenient for the customer than a major shopping outlet or providing it in a form that is ready to easily eat.

5. The ‘food service sector’ only covers businesses that have a customer interface with the final consumer. For example, businesses that specialise in manufacturing food for food service companies are treated as food manufacturing.

6. The ‘non-residential catering sector’ is the Government’s official definition of the food service sector. It covers the activities of Restaurants (SIC 55.3), Bars (SIC 55.4), and Canteens and Catering (SIC 55.5). It captures all food and drink that is served, including, for example, alcoholic beverages that are not consumed as part of a meal.

7. For practical data collection reasons official statistics define food service on a sector basis. This means that a business is classified either entirely into food service or entirely outside food service. It is a blurred definition that includes some non-food service activity and excludes some genuine food service activity.

Food Service Products

8. Food service products can be distinguished by the way they are provided to the customer. For example a sandwich sold in a work canteen includes the service aspect of providing the product close to the customer. The sandwich sold in a supermarket does not count as a food service product.

9. This definition depends on the way the product is sold to the consumer but not on the consumer’s actions after making the purchase. For example fish and chips may be purchased and either eaten in a park or taken home. The product is the same. The definition depends only on the circumstances at point of sale.
10. Food service products are defined according to COICOP\(^1\) group 11.1 as products of catering services. The COICOP definition includes:

a. consumer expenditure on catering services (meals, snacks, drinks, and refreshments) provided by catering outlets (restaurants, cafes, pubs, etc), including catering outlets located in places providing other services (e.g. cinemas and transport) and catering outlets operated by contract caterers;

b. expenditure on “cooked dishes” for consumption elsewhere (i.e. ‘takeaways’).

c. expenditure on food and drink for immediate consumption from kiosks, street vendors and vending machines; and

d. expenditure on catering services provided by works canteens, office restaurants and educational establishments.

11. Products sold in supermarkets are excluded from this definition apart from those sold in their café facilities. This is because it is not food service if there is no service element over and above normal shopping facilities. Similarly confectionery and crisps sold in kiosks are treated as food service whereas items sold in local shops are not. This definition avoids using the term ‘meal’ which is difficult to define.

12. This paper also makes use of other data sources, although these employ different definitions of food service and vary in their product and outlet coverage (Figure 1 and Table 1). They also use various definitions of a meal. This makes comparisons between different sources hazardous, but they do provide valuable insights into the food service sector.

Figure 1  Definitions of food service by market researchers

*Horizons for Success*, a market researcher, defines food service as Restaurants, Quick Service Restaurants (QSR)\(^1\), Pubs, Hotels, Leisure, Staff Catering, Health Care, Education and other (Public) Services. (*HfS 2004*). Their statistics exclude (a) drinks that are not served as part of a meal and (b) packaged snacks that are not served with another item of food.\(^1\) This paper makes significant use of this data source.

*Datamonitor*, another market researcher, segments the sector into Cafes & Restaurants, Fastfood, Cost and Other. Their statistics record all “food and drinks [purchases] for immediate consumption on the premises … or in the case of takeaway transactions, freshly prepared food for immediate consumption”.\(^1\)

Other market researchers, such as *TNS* and *Key Note*, utilise different definitions again, making comparison of food service sub-sectors extremely difficult.

\(^1\) COICOP stands for Classification of Individual Consumption by Purpose. It is reported in ONS *Consumer Trends*.
<table>
<thead>
<tr>
<th>Source</th>
<th>Catering Services</th>
<th>Non-Residential Catering</th>
<th>Food service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td>ONS (COICOP)</td>
<td>ONS</td>
<td>Horizons for Success</td>
</tr>
<tr>
<td>Methodology</td>
<td>Statistics are based on the Expenditure and Food Survey</td>
<td>Statistics are derived from the ONS Annual Business Enquiry</td>
<td>Market Research</td>
</tr>
<tr>
<td>Product Coverage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All food &amp; drink</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Most food &amp; drink</td>
<td>x</td>
<td>x</td>
<td>✓</td>
</tr>
<tr>
<td>Outlet Type</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restaurants</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>QSR (inc. Takeaways^{3})</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Takeaways^{3}</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pubs</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Leisure</td>
<td>✓</td>
<td>#</td>
<td>✓</td>
</tr>
<tr>
<td>Hotels</td>
<td>✓</td>
<td>#</td>
<td>✓</td>
</tr>
<tr>
<td>Staff Catering</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Education</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Health Care</td>
<td>✓^{4}</td>
<td>#</td>
<td>✓</td>
</tr>
<tr>
<td>Services</td>
<td>✓</td>
<td>#</td>
<td>✓</td>
</tr>
<tr>
<td>Other outlets (e.g. street vending)</td>
<td>✓</td>
<td>#</td>
<td>✓</td>
</tr>
<tr>
<td>Vending machines</td>
<td>✓</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

# Only the activities of contract caterers are covered.

^{2} See for the list of exclusions.

^{3} Takeaways are defined by *Horizons for Success* to include all outlets that only operate as a takeaway, as well as sandwich bars and other quick service outlets (excluding fast food outlets and cafés as defined by *Horizons for Success*). However, certain ethnic restaurants, which also offer takeaway facilities, are counted as Restaurants. HfS (2004).

^{4} Excludes food and drink provided to hospital in-patients.
3. OVERVIEW OF THE FOOD SERVICE SECTOR IN THE UK

13. The ONS Annual Business Inquiry (ABI) valued the turnover of UK non-residential catering outlets at £46.4 bn in 2004, up £4.8 bn on 2003.\(^5\)

14. The Expenditure and Food Survey (EFS)\(^6\) for 2004-05 valued total consumer expenditure on food and drink eaten out at £31.10 per household per week in 2004-05. More details are given in Table 2.

| Table 2: Consumer expenditure on food and drink eaten out from the Expenditure and Food Survey, 2004-05 |
|-------------------------------------------------|-----------------|
| Total expenditure on food and drink eaten out | £ 31.10         | £ 39.5 bn |
| (of which alcoholic drinks)                    | £ 8.50          | £ 10.7 bn |
| Food and non-alcoholic drinks                  | £ 22.60         | £ 28.7 bn |
| (of which snacks)                              | £ 4.30          | -         |

15. EFS, however, is known to underestimate spend on alcoholic drinks. An alternative official estimate by the ONS (Consumer Trends\(^7\)) is that expenditure on catering services was £76.7 billion in 2005, of which £28.3 billion was on alcoholic drinks, £48.4 bn being on food and non-alcoholic drinks.\(^8\)

16. Horizons for Success valued food service sales at £34.5 bn in 2004 (approximately £4 per meal), an increase of 3.7% on 2003. Sales of food alone were valued at £25.7 bn in 2004, up 4.1% on 2003. (Table 4).\(^9\)

17. Gross value added (GVA) of the UK non-residential catering sector was estimated at £21.1 bn in 2004 at basic prices. This exceeded food retailing

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\(^5\) Turnover is the total sales of the sector. It excludes Value Added Tax (VAT).


\(^7\) The consumer trends estimate is part of the national accounts with and covers more than just household expenditure on food and drink in the UK. Although based partly on the EFS, the estimate of catering services from ONS Consumer Trends is significantly larger than the comparable estimate from the EFS, which would have come in at £28.7 bn in 2004/05, including £5.4 bn of snacks. Defra statisticians have established that it also includes expenditure abroad and expenditure on confectionery, whilst it has been revised further to ensure a fully consistent set of National Accounts.

\(^8\) This also includes packaged snacks and sales from outlets not included in other estimates.

\(^9\) Sales exclude Value Added Tax (VAT). (HfS 2005).
(£18.8 bn) and food wholesaling (£7.8 bn), making it the second most important sector in the food chain, just behind food manufacturing (£21.5 bn). Total food chain GVA was £69.3 bn in 2004. (ONS ABI).

18. **Employment** in the UK non-residential catering sector was **1.4 million** in March 2006, 5.3% of UK employment. 57% of employees were part-time and 58% were female, 37% were both. (ONS Labour Market Trends). It is likely that actual food service employment exceeds 1.5 million, although precise estimates are not possible.

19. Table 3 summarises the composition of the UK non-residential catering sector in 2004. Average turnover was £415,772 per firm, suggesting that the sector is dominated by small businesses. Labour productivity – the penultimate column – appears to be fairly uniform across the sector.\(^{10}\)

<table>
<thead>
<tr>
<th>Table 3</th>
<th>The UK Non-residential Catering Sector (2004).</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Firms</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Restaurants (55.3)</td>
<td>57,667</td>
</tr>
<tr>
<td>Bars (55.4)</td>
<td>48,146</td>
</tr>
<tr>
<td>Canteens and Catering (55.5)</td>
<td>5,765</td>
</tr>
<tr>
<td>Total</td>
<td>111,578</td>
</tr>
</tbody>
</table>

Source: ONS ABI 2004.

20. According to Table 3, there were **111,578 firms** in the UK non-residential catering sector in 2004. Horizons for Success estimate that there were **263,000 outlets** in the UK food service sector.\(^{11}\) Although the ABI and HfS definitions of the sector differ, these statistics provide a crude indication that the average firm operated between two and three outlets.

21. Statistics for entry and exit in the foodservice industry (under the Government’s official definition) show that the number of new VAT registrations exceeded the number of de-registrations by over 4,000 in 2005\(^{12}\). Moreover, the data indicates that new VAT registrations have

\(^{10}\) It is only about 20% higher in Bars (the highest) than Restaurants (the lowest). The importance of personal service probably accounts for the lower labour productivity in restaurants.

\(^{11}\) An outlet is “a single location… involved in food service”. HfS (2005).

consistently exceeded de-registrations over the last decade, and the rate at which this is occurring is increasing\textsuperscript{13}.

22. The ABI does not break the sector down into types of outlet but this can be done using commercially available statistics (Table 4).

Table 4 The UK Food service Sector (2004).

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Outlets (Million)</th>
<th>Meals (Million)</th>
<th>Food Purchases (£m)</th>
<th>Food &amp; Drink Purchases (£m)</th>
<th>Food Sales (£m)</th>
<th>Food &amp; Drink Sales (£m)</th>
<th>Food &amp; Drink Sales per Outlet (£ thousand)</th>
<th>Food &amp; Drink sales per Meal (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>34,630</td>
<td>1,271</td>
<td>640</td>
<td>788</td>
<td>856</td>
<td>1,110</td>
<td>32.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Health Care</td>
<td>31,048</td>
<td>1,040</td>
<td>630</td>
<td>682</td>
<td>737</td>
<td>800</td>
<td>25.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Hotels</td>
<td>47,389</td>
<td>642</td>
<td>1,290</td>
<td>1,714</td>
<td>4,869</td>
<td>6,363</td>
<td>134.3</td>
<td>9.9</td>
</tr>
<tr>
<td>Leisure</td>
<td>18,995</td>
<td>528</td>
<td>573</td>
<td>700</td>
<td>2,089</td>
<td>2,671</td>
<td>140.6</td>
<td>5.1</td>
</tr>
<tr>
<td>Pubs</td>
<td>51,267</td>
<td>1,095</td>
<td>1,204</td>
<td>1,737</td>
<td>3,474</td>
<td>5,263</td>
<td>102.7</td>
<td>4.8</td>
</tr>
<tr>
<td>QSR</td>
<td>29,496</td>
<td>1,981</td>
<td>2,072</td>
<td>2,559</td>
<td>6,556</td>
<td>8,499</td>
<td>288.1</td>
<td>4.3</td>
</tr>
<tr>
<td>Restaurants</td>
<td>26,208</td>
<td>721</td>
<td>1,470</td>
<td>2,024</td>
<td>5,039</td>
<td>7,276</td>
<td>277.6</td>
<td>10.1</td>
</tr>
<tr>
<td>Services</td>
<td>3,076</td>
<td>240</td>
<td>166</td>
<td>186</td>
<td>200</td>
<td>199</td>
<td>64.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Staff</td>
<td>20,839</td>
<td>1,065</td>
<td>960</td>
<td>1,144</td>
<td>1,896</td>
<td>2,369</td>
<td>113.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Total</td>
<td>262,948</td>
<td>8,583</td>
<td>9,004</td>
<td>11,533</td>
<td>25,687</td>
<td>34,549</td>
<td>131.4</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Source: Horizons for Success (2005). Sales exclude VAT.

23. Horizons for Success estimate that about 8.6 bn meals were served in UK food service outlets in 2004. Using its wider definition (which also includes snacks), Datamonitor estimate that there were 11.8 bn transactions in total.\textsuperscript{15}

24. In 2004, average sales per outlet differed substantially between sub-sectors (penultimate column of Table 4), peaking in QSR and Restaurants. Education, Health Care and Services had the lowest average, possibly because of “the requirement for … operators to deliver a set number of meals to an agreed budget, with price per meal being the key issue”. (IGD 2005).

25. Average cost per meal also varied across sub-sectors (final column of Table 4). Education, Health Care and Services had the lowest, supporting the above analysis. Restaurants and Hotels had the highest, suggesting a prevalence towards higher price–quality offers. QSR were closest to the average, indicating that maintaining volumes is crucial to its business model.

\textsuperscript{13} Government Small Business Service (2006)

\textsuperscript{14} Pub restaurants are included under Restaurants rather than Pubs.

\textsuperscript{15} A meal “consists of at least two items – at least one of which is unwrapped”. HfS (2004); HfS (2005); Datamonitor (2006).
26. More than 50% of food and drink sales, by value, occurred in QSR, Restaurants and Hotels – commercial sub-sectors, firmly in the 'profit' sector. (Figure 2).

**Figure 2** Food and Drink Sales in UK Food service Outlets (2004) (percent, by value).

![Pie chart showing food and drink sales by category: QSR 25%, Restaurants 21%, Hotels 18%, Pubs 15%, Leisure 8%, Staff Catering 7%, Services 1%, Health Care 2%, Education 3%, with other categories at 1% or less.]

*Source: Horizons for Success (2005).*

27. *Horizons for Success* estimate that the UK food service sector purchased **£11.5 bn** worth of **food and drink** in 2004 (including **£9.0 bn** of food), implying that the cost of food and drink purchases accounted for around one-third of the price charged to consumers (excl. VAT). This indicates a significant degree of value-added provided by food service activities. Comparisons of the purchases and sales columns in Table 4 demonstrate that relatively greater value is added to food inputs in the leisured sub-sectors.
(such as hotels and restaurants) compared to the institutional sub-sectors (health and education).\textsuperscript{16}

Food service’s Share of Total Food Consumption

(i) share of expenditure

28. According to the EFS\textsuperscript{17}, expenditure on food and drink eaten out in 2004/5 was estimated at £31.10 per household per week or 38\% of total household expenditure on food and drink. Exclusive of alcoholic drinks, this fell to £22.60 per household per week or 34\% of total household expenditure on food and drink (excluding alcohol).

29. Similarly, \textit{Horizons for Success} report that “of every £ that is spent on food (both retail and food service), [only] 34p is spent on food service”. (\textit{HfS 2004}). Based on consumer panel data, \textit{Taylor Nelson Sofres (TNS)}, estimate that consumers spent £27.2 bn on food, drink and alcohol for ‘out of home’ consumption and £59.4 bn for ‘in home’ consumption in Great Britain in 2005. Expenditure ‘out of home’ thus accounted for 31.4\% of combined total. Since ‘out of home’ can be taken as a proxy for food service, \textit{TNS} appear to support the ratio reported by \textit{Horizons for Success} and EFS, although there are substantial differences in their estimates of the size of the market.\textsuperscript{18}

30. Figure 3 shows the trend in the \textit{TNS} shares of consumer expenditure for ‘out of home’ and ‘in home’ consumption of food, drink and alcohol. It provides little support for the notion that ‘out of home’ consumption will come to equal ‘in home’ consumption in the future; whilst its share increased marginally between 1999 and 2003, it actually fell slightly in both 2004 and 2005.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.png}
\caption{Consumer expenditure on food, drink and alcohol in GB (% shares).}
\end{figure}

\textsuperscript{16} HfS (2005). In contrast, \textit{Datamonitor} estimated that food and drink purchases by the UK food service sector were £23.6 bn in 2004. This will also include snacks and drinks not purchased as part of a meal.\textit{Datamonitor} (2006).


\textsuperscript{18} Longbottom (2006).
31. Taken together, these various data sources suggest that expenditure on food service and eating out accounts for one-third of total expenditure on food and drink, the other two-thirds being through retail channels.

32. *Horizons for Success* expect that food service’s share will grow.\(^\text{19}\) This is not necessarily inconsistent with the TNS data. It is likely, for instance, that food service providers will become increasingly significant in the provision of food for ‘in home’ consumption (i.e. takeaways and home deliveries).

(ii) share of physical consumption

33. Regarding share of *physical* consumption, TNS estimate that ‘out of home’ consumption accounted for 15.6% of meal occasions in 2005.\(^\text{20}\) The difference between volume and value shares reflects the higher gross margins of food service operators relative to retailers. Based on the number of meals reported by *Horizons for Success*, this translates into the average person having between 2.5 to 3 meals a day, which seems plausible. Alternatively, assuming a population of 60m people eat between 2.5 and 3 meals per day, this translates into 55 – 66 bn meals per year. The 8.6 bn meals total of Table 4 would then represent between 13 and 16% of total food consumption. This is broadly equivalent to saying around 1 in 6 - 7 meals is consumed through food service, which is a significant but not substantial share of the total.

34. The 2004-05 *EFS*\(^\text{21}\) also appears to confirm the *Horizons for Success* and TNS value shares. Expenditure on food and drink eaten out was estimated at £31.10 per household per week or 38% of total household expenditure on

---

\(^{19}\) HfS (2004).

\(^{20}\) Longbottom (2006).

food and drink. Exclusive of alcoholic drinks, this fell to £22.61 per household per week or 34% of total household expenditure on food and drink (excluding alcohol).

35. Defra’s analysis of the EFS converted this into energy and nutrient intakes. The analysis found that on average, “people derived an average of 7.6 per cent of their energy intake (excluding energy from alcohol) from food and drink purchased for consumption outside the home” in 2004-05. Thus from a nutritional perspective, ‘in-home’ food consumption is likely to continue to dominate food service well into the future. These figures also suggest that food eaten out tends to be higher in added sugars but only slightly higher in fat content.

**Regional breakdown**

36. Taking the non-residential catering sector as a proxy, there are significant regional differences in the distribution of both food service output and employment. (Table 5). At a regional level, food service is particularly significant in London. In 2003, it accounted for 23% of the total GVA and 18% of the total employment of the entire UK food service sector.

<table>
<thead>
<tr>
<th>Table 5</th>
<th>Regional Distribution of the UK Non-Residential Catering Sector. (2003).</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GVA at basic prices (£m)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>North East</td>
<td>508,765</td>
</tr>
<tr>
<td>North West</td>
<td>1,934,429</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>1,180,429</td>
</tr>
<tr>
<td>East Midlands</td>
<td>1,029,875</td>
</tr>
<tr>
<td>West Midlands</td>
<td>1,742,305</td>
</tr>
<tr>
<td>East of England</td>
<td>1,511,801</td>
</tr>
<tr>
<td>London</td>
<td>4,329,854</td>
</tr>
<tr>
<td>South East</td>
<td>2,643,268</td>
</tr>
<tr>
<td>South West</td>
<td>1,582,080</td>
</tr>
<tr>
<td>Wales</td>
<td>571,327</td>
</tr>
<tr>
<td>Scotland</td>
<td>1,346,766</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>424,020</td>
</tr>
</tbody>
</table>

**UK** | 18,804,919 | 1,386,741 | 59,553.8 |

*Source: ONS ABI (2003).*

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Data from the *EFS* suggests that this regional picture is reflected in the relative levels of expenditure on eating out. London residents spend most on eating out; an average of £9.92 per week on food excluding alcoholic drinks, while the North East has the lowest average weekly expenditure of the English regions\(^{24}\).

37. London accounts for only 12% of the population, suggesting that other factors are important. The breadth of tastes offered reflects the diversity of the population, with ethnic cuisines offered wherever specific ethnic minority populations are found. Demand is driven by the financial health of the capital, its population structure and the magnitude of its hotel and tourism sector.

4. OUTPUT, EMPLOYMENT AND PRODUCTIVITY TRENDS

38. According to *Horizons for Success*, food sales by UK food service outlets increased from £22.9 bn to £25.7 bn in real terms between 1995 and 2004, equating to real growth of about 1.3% p.a over the period. (Table 6).

Table 6 UK Food service Sector Sales, Purchases, Meals and Outlets. (2004 Prices).

<table>
<thead>
<tr>
<th>Year</th>
<th>Outlets</th>
<th>Meals (Millions)</th>
<th>Food Purchases (£m)</th>
<th>Food Sales (£m) (excl. VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>268,559</td>
<td>8,157</td>
<td>8,440</td>
<td>22,866</td>
</tr>
<tr>
<td>2000</td>
<td>262,332</td>
<td>8,501</td>
<td>8,894</td>
<td>25,145</td>
</tr>
<tr>
<td>2001</td>
<td>262,511</td>
<td>8,438</td>
<td>8,733</td>
<td>24,795</td>
</tr>
<tr>
<td>2002</td>
<td>262,971</td>
<td>8,471</td>
<td>8,583</td>
<td>24,420</td>
</tr>
<tr>
<td>2003</td>
<td>262,971</td>
<td>8,488</td>
<td>8,674</td>
<td>24,669</td>
</tr>
<tr>
<td>2004</td>
<td>262,948</td>
<td>8,583</td>
<td>9,004</td>
<td>25,687</td>
</tr>
</tbody>
</table>

1995-2004 - 2% + 5% + 7% + 12%  


39. Growth in the UK food service sector has been driven by changing consumption patterns. Between 1964 and 1995, consumer expenditure on catering services grew about 1.9% p.a in real terms. This accelerated to 2.5% p.a. between 1995 and 2005, illustrating the remarkable growth in food service over the past decade.

40. Excluding ‘on trade’ alcohol sales, these growth rates were even more impressive (2.2% p.a. and 4.0% p.a. respectively). This implies that it is increasing consumption of food and non-alcoholic beverages (i.e. eating out in food service outlets) that is fuelling the growth of consumer expenditure on catering services.

41. **Consumer preferences** have shifted in favour of food service, resulting in a rise in the number of people eating out in commercial food service outlets on a regular basis over recent years.\(^{25}\) This reflects several factors:

- Rising incomes have altered eating habits, making eating out less of a special occasion and more of a regular activity. Increased frequency has been fuelled by the rise of more casual dining experiences.
- With consumers increasingly better off,\(^{26}\) people have higher disposable incomes and value leisure time more highly. The convenience and time savings offered by food service is thus proving particularly attractive. This parallels with the rise of convenience retailing.

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\(^{25}\) Mintel (2004). 20% of respondents ate out ‘about once a week’ in 2003, up from 15% in 2001.

\(^{26}\) This is a result of both wider employment and higher house prices.
Greater familiarity, the result of the prevalence of foreign travel, has widened the range of tastes demanded by consumers and the sector has expanded to cater for them, creating opportunities for firms to carve out profitable niches and increasing the differentiation amongst outlets.\(^{27}\)

The lack of culinary skills amongst young people may have supported demand in the sector, with eating out becoming the norm for some.\(^{28}\)

These factors have helped food service to maintain its share of total consumer expenditure. Net of ‘on trade’ alcohol sales, real consumer expenditure on catering services remained around 6% of total consumer expenditure between 1964 and 2005. (Figure 4). This contrasts with food and non-alcoholic beverages for consumption within the home, which declined as a proportion of total consumer expenditure over the period and is clearly income inelastic.

**Figure 4** Consumer Expenditure on catering services as a proportion of Household Final Consumption Expenditure (1964-2005). (Constant 2003 Prices).

![Graph showing consumer expenditure on catering services]

Source: ONS Consumer Trends.

Output growth has had a significant impact on employment in the sector. Between September 1993 and March 2006, employment in non-residential catering grew by over 0.5 million (compound growth of 3.8% p.a), causing its share of total UK employment to jump from 4.1% to 5.3%. Total UK employment grew by 1.7% p.a. (ONS Labour Market Trends).

As well as being the largest employer in the food chain, employment in non-residential catering also grew faster than in other sub-sectors (Figure 5), with

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\(^{27}\) Mintel (2004). One-third of customers like to try new dishes when eating out, with frequent food service customers significantly more likely to experiment with new tastes.

\(^{28}\) Mintel (2004). Young adults (aged under 25) are more likely than other groups to eat out.
only food retailing coming close to matching its rate of growth. Consequently, its share of food chain employment increased from 37% to 44%.

Figure 5  Employment in the UK Food Chain (September 1993 – March 2006). (September 1993 = 100).

Source: ONS Labour Market Trends.

45. Food service (the non-residential catering sector) has also become more significant economically, within both the food chain and the wider economy. Between 1998 and 2004, GVA grew by about 8.0% per annum, outperforming the food wholesaling (5.0% p.a.), food manufacturing (3.0% p.a.) and food retailing (1.9% p.a.) sectors. (Figure 6)

Figure 6  Indices of Gross Value Added for the four sub-sectors that comprise the Food Chain (1998–2004) (1998 = 100) (current prices).

Source: ONS ABI 2004.
46. Between 1998 and 2004, employment grew by about 2.6% p.a, whilst real output increased by about 3.3% p.a., implying that labour productivity\textsuperscript{29} – output per worker – increased by about 0.7% p.a over the period. Figure 7 shows that this is the result of a noteworthy recovery in 2004, given that between 1998 and 2003 labour productivity actually declined.\textsuperscript{30} In truth, the link between staffing and quality of service may have limited the scope for efficiency gains in some areas. It may not be sustainable, for instance, for a high-class restaurant, to reduce its waiting staff, even if this improved its productivity in the short-run. Productivity however remains important, particularly for the more price-competitive segments of the sector.

Figure 7 Index of Employment, Real Output and Labour Productivity in UK Food service (1998-2004). (1998 = 100).

Source: ONS ABI and CPI.

47. Total factor productivity\textsuperscript{31} (TFP) growth in the UK food service sector was mixed between 1998 and 2004, with no clear trends emerging.\textsuperscript{32} Whilst it increased over the period, its growth path was far from smooth. It fell slightly between 1998 and 2000; recovered between 2000 and 2002; then dipped again in 2003; but finished strongly in 2004 to end higher than in 1998.

\textsuperscript{29} Labour Productivity is a measure of output per unit of labour that captures (amongst other things) technological change and improvements in efficiency.

\textsuperscript{30} In this analysis, the non-residential sector is used as a proxy. Its real turnover from the ONS ABI is taken as its real output. The ONS ABI measure of employment is also used.

\textsuperscript{31} Total Factor Productivity reflects both the labour and capital used in the production process. Its growth captures the growth in output that is not accounted for by the growth in inputs.

5. THE STRUCTURE OF FOOD SERVICE OUTLETS IN THE UK

48. The key structural feature of the sector is its variety of outlets, reflecting the varying requirements of different types of eating occasion. This may have policy implications insofar as differences across the sector raise different issues and create different responses to policy levers. Sourcing requirements will also differ across the sector, creating a variety of opportunities for suppliers and distributors.

Restaurants

49. Restaurants are most traditionally associated with the sector but continue to develop in response to changing consumer preferences, demonstrated by the introduction of new formats and tastes. Outlets offer a wide range of prices and qualities, from the casual dining of the more price-orientated chains to the premium culinary experience of top-price gourmet bistro.

50. Popular segments are French, Italian, Indian and Chinese. (HfS 2004). New tastes are introduced frequently, reflecting consumers willingness to experiment. Noodle bars, such as Wagamama, are one growth area, with new outlets opening frequently. Sales in Noodle bars were forecast at £18m in 2002. In 2004/05, Wagamama’s turnover alone was roughly 2.5 times that at £45.6m.

51. Independents are commonplace, whilst chains operate in many segments, such as pizza (e.g. Pizza Express) and pub-restaurants (e.g. Brewer’s Fayre). Concentration is likely to increase due to both consolidation (e.g. the acquisition of Blubeckers by The Restaurant Group in 2005) and organic growth by chains.

Quick Service Restaurants (QSR)

52. Quick service includes fast food, cafes and takeaways. It involves some of the largest operators, such as McDonalds, and some of the smallest (i.e. small traditional cafés). Chains dominate, accounting for 54% of sales. The

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33 HfS (2004) define three types: a. Discretionary – meals when people chose to eat out (e.g. social eating). b. Refuelling – meals when people have to eat out for sustenance (e.g. people on lunch breaks). c. Impulse – meals when the decision to eat out does not involve any planning.

34 Restaurants are characterised by the sale of alcohol, table service is offered and that payment is taken after the meal has been eaten. HfS (2004).

35 Mintel (2002). The number of outlets increased from 20 in January 2000 to 45 in March 2002.


37 Pub-restaurants are “pubs for which food sales account for over 50% of total sales” (HfS 2004).

38 Typically in QSR, payment is taken before the meal is consumed and food being is at the counter. Table service is generally not offered. HfS (2004).
main segments are pizza, burgers, chicken, fish & chips, and ethnic (especially Indian and Chinese), although sandwich and coffee shops have experienced substantial growth over recent years. (HfS 2004). Health remains a big issue for this sector (see page 33 below).

Pubs

53. For the 50,000 pubs in the UK, food is accounting for a greater share of revenues and becoming a core activity for many. Outlets are now offering increasingly sophisticated ranges in an effort to attract consumers. This reflects the search for additional revenue streams in the face of changing consumer preferences, particularly the decreasing social acceptability of drink-driving.

54. Tastes remain mostly traditional, although there is variation across outlets. Chain pubs generally offer wider, but standard, ranges, whilst independents will tailor their menus to their regular clientele. Current market opportunities for suppliers of local and regional food are likely to be greater in the latter.

55. Despite the strength of non-price competition between pubs (such as ambience, entertainment, location and so on), food pricing remains key. Promotions are important in enabling operators to obtain the necessary volumes and demonstrate their 'low price' credentials. Food is often bundled with a beverage at a significant discount, particularly at quieter times of the week.

Hotels and tourist accommodation

56. Hotels – which include Bed and Breakfasts, Guest Houses, Hostels and Holiday Parks - generally provide food as well as accommodation, although opening hours of outlets, qualities and prices vary substantially across establishments. The provision of food service facilities also varies across and within the sub-sector and is hampered by the varied and demanding nature of different classes of customers. Business depends crucially on a healthy tourism industry. This link could potentially be fruitful for domestic manufactures if hotels and B&Bs were to stock and market more quality regional and local foods as part of their offering to international and domestic tourists. One barrier to this may be the strength of price competition, particularly among the larger hotel chains, where brand consistency is important.

Leisure and travel

57. Food is sold at many leisure establishments. It can be an important revenue stream to supplement their core activities. In some instances, the on-site
outlet will have a captive market, whilst its convenience is always a crucial advantage. Given the propensity for children to visit such outlets, the types of food and drink offered will have significant implications for the fight against childhood obesity.

58. The travel sector includes both catering on the move (i.e. trains) and at termini (e.g. stations). Horizons for Success treat it as part of other sectors.  

Staff Catering and public services

59. Many larger employers, such as the civil service, still provide catering outlets as a perk for staff, with over 3 million adults eating a meal in the workplace in an average week according to TNS. The rise of snacking and existence of many alternative outlets has forced traditional staff restaurants to adapt. Sandwiches are now their most popular food, with convenience the key attribute. Outsourcing is prevalent, with contract caterers operating many outlets. (OHG 2006).

60. Health services, education and other public services make up the balance. In many instances, meals are available free to the consumer and the cost is picked up by the state. Otherwise, prices are generally low.

Contract Catering

61. Contract caterers operate in the many food service segments, managing and operating catering outlets on behalf of a client. The decision to contract out follows the principles of outsourcing: contractor caterers have considerable expertise in food service, making them better able to exploit scale economies and other efficiencies than organisations for whom it is not their primary activity.

62. Concentration is high. Two firms dominate. With 90,000 employees at 8,500 sites, Compass had sales of £2.8 bn in the UK 2005. Sodexho had sales of £1.3 bn in the UK and Ireland in 2004/05; it employed 48,000 at 2,300 sites. Aramark is in third place, with sales of £400m and 12,000 employees. These firms therefore have some buyer power with suppliers and distributors.

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39 The former is included in leisure, whilst the latter is included in the relevant sector. HfS (2004).
41 In contrast, when a firm operates its own catering function, it is said to be ‘in-house’.
63. Contracts vary. Some have a fixed price, whilst the client pays all costs plus a set management fee in others. The remainder involve little or no subsidy from the client, with the customer paying the full price. (IGD 2005).

64. Staff catering ("Business and Industry") is the most important sector, with healthcare and education currently accounting for most of the remainder. (IGD 2005). Catering for the public is growing in importance, particularly leisure and travel. Pub catering is a potential market for the future.
6. LINKS WITH THE REST OF THE FOOD CHAIN

Food Manufacturing

65. Horizons for Success estimate that distributors take a margin of 30-35% on top of the manufacturers’ price. (HfS 2004). Consequently, it is estimated that food manufacturers received more than £6.6 bn in 2004. This is equivalent to more than 10% of the total sales of UK food manufacturers (although some food products will have been imported), illustrating the opportunities it offers to UK food manufacturers. Food service accounted for only 7% of sales for the Top 150 food manufacturers in 2004. (HfS 2004).

66. This has left many opportunities for smaller local and regional suppliers, and provides an alternative outlet to the mass retail market. Opportunities exist particularly in unbranded products, with start-up costs said to be low. It helps that most food service outlets have lower minimum volumes than supermarkets. Yet the supply chain is distinct from the retail supply chain, creating different challenges for those firms wishing to supply it. Its complexity is an issue; whilst there is less concentration than retail, the importance of distributors is increased (see below).

67. There are many routes to market and suppliers will have to decide on the most appropriate. This will depend on many factors, such as their target customers. In any case, they must recognise that food service operators will have different requirements than retail outlets. (64)

68. Some types of food service outlets, for instance, will be more concerned – like supermarkets – with continuity and consistency of supply, which may mean sourcing globally. Others (e.g. independents in the restaurant sector) offer more opportunities for premium regional produce.

Figure 8 ‘Back-of-House’ vs. ‘Front-of-House’.

There is a difference between ‘back-of-house’ use (by staff) and ‘front-of-house’ use (by end-user customers), particularly the packaging requirements. “Branded Products are more likely to be used in front-of-house applications where the brand is visible”, which may improve consumer awareness and loyalty to the brand. Unbranded products (own-label / generic) are used when the most cost effective option is required and can have a larger market share in food service than in retail. (65)

43 Approximately 75% of the £9.0 bn of food purchased by food service operators. HfS (2004). Total turnover of UK food manufacturers was £58.2 bn in 2004. (ONS ABI).
44 For instance, Bernard Matthews supplies turkey ‘tops’ to Mitchells and Butlers, with a given visual appearance (i.e. shape and skin), as well as a specific size and weight. IGD (2005).
69. Primary produce (e.g. meat and vegetables) and basic processed products (e.g. sauces) dominate demand, although more complex ready meals should grow in significance, reflecting storage issues and attempts to rationalise labour inputs in price-conscious segments.\textsuperscript{46} Opportunities also exist for other processed products that are “easy to prepare and hard to spoil”. (IGD 2005).

70. Food service has the potential to support domestic food manufacturers as the retailers source from more international markets. On the other hand, food service distributors are also making use of more competitive overseas sourcing, at least for more commodity-based products. Food service is not necessarily more lucrative for suppliers than retail. It has been estimated that for every £3 spent by consumers, suppliers receive £2 - £2.75 from retail but only £1 from food service.\textsuperscript{47} This partly reflects the greater value added of food service outlets compared to retailers and it is not clear whether supplier margins are actually lower than in retail. There are also other issues to consider (see below).

**Food Distribution**

71. Would-be food service suppliers will generally have to find a partner in the distribution sector. Such distributors have a key role in the food service supply chain, providing the vital link between suppliers and operators. Horizons for Success suggest that the sector is “too diverse for most companies... to service effectively without the involvement of some form of distribution partner”. (HfS 2004). In the ketchup and sauce market, for instance, “direct sales” to operators accounts for only 19% of suppliers’ total sales to food service.\textsuperscript{48}

72. There are three main distribution channels.

- **Delivered Wholesale** is the largest. Delivered wholesalers purchase products from suppliers and distribute them to operators. They had a 53% share of food service distribution in 2003. (HfS 2004). Brake and 3663 are the largest delivered wholesalers / contract distributors. (IGD 2005).
- **Contract Distributors** deliver products purchased directly from suppliers. They had a 16% share of food service distribution in 2003. (HfS 2004)
- **Cash and Carries**, such as Booker, are the third largest, with a 13% share in 2003. They provide a wholesale function for smaller food service operators, but do not generally offer delivery.

73. Other channels (e.g. grocery multiples and local retailers / wholesalers) accounted for the remaining 18%. (HfS 2004).

\textsuperscript{46} This is driven by declining skill levels and demands for higher wages.

\textsuperscript{47} These figures were supplied by Ian Glen, Food service Director of Kerry Foods. Glen (2006).

\textsuperscript{48} Competition Commission. (2006).
74. Despite Brake and 3663 having annual turnover in excess of £1 billion, neither controls more than 20% of total food service distribution, illustrating the diversity of food service supply chains. (Figure 9).

**Figure 9** Food service Distribution Market Shares (2003).

![Graph showing food service distribution market shares.](image)

*Source: Horizons for Success, reported in Out of Home Group (2006).*

75. Getting food service distributors on board appears to be critical in enabling local food producers to increase market penetration. 3663 has developed the concept of local food hubs, which it is currently piloting and plans to rollout nationally in 2006. (Figure 10).

**Figure 10** 3663 Local Food Hub Pilots.

In each of its pilots, 3663 has identified a local partner that will act as 'hub' for a number of local food producers. This means that 3663 only has to deal with a single supplier, keeping its costs down and enabling it to offer local food products a competitive price.

In its dealings, 3663 has identified two big issues for local food producers:

- They often do not realise the opportunities available to them in food service.
- Their products often do not meet the requirements of food service operators.

Although the pilots have only recently launched, they have had some successes. One of the top 3 contract caterers has already started listing the products from the pilots and plans to match 3663’s national rollout.

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Food Retailers

76. Traditionally, food retailers were involved in the provision of food for ‘in-home’ consumption, whilst food service offered food for ‘out-of-home’ consumption. There is now increasing competition between them and this distinction is beginning to blur. Several factors have proved significant:

- Food retailers have started opening more sophisticated food service outlets in their stores. Marks and Spencer, for instance, has three types of ‘in-store’ food service outlet. This includes Café Revive, which is said to be the “third-largest coffee shop chain in the UK”. Other grocery multiples are also improving their food service offers.\(^\text{51}\)

- The retail grocery market is now relatively mature, but remains very competitive. Therefore major food retailers have sought new means of competing for customers and increasing average spend. One way to do this is by offering more products with shorter preparation times, bringing the ‘out of home experience in home’ (Figure 11).\(^\text{52}\)

- Similar to the growth of convenience retailing, changing consumer preferences should increasingly involve food service outlets in the provision of food for ‘in home’ consumption (i.e. takeaways and home deliveries).

Figure 11 ‘Out of home’ products offered by food retailers.

- Substitutes with food service offered by multiples and other food retailers include sandwiches, ready meals and other pre-prepared food products.

- Multiples have long offered ready meals that tie-in with traditional food service segments (i.e. Italian, Indian and Chinese), but newer offerings are often targeted at the premium end of the market.

- Multiples are beginning to take greater inspiration from food service for their ‘ready to cook’ meals as well; for example, the M&S Gastropub range is “a delicious new range of dishes inspired by modern pub meals”.\(^\text{53}\)

77. The food service and retail sectors are in direct competition for supplies. When UK supplies are scarce (e.g. beef), the food service can lose out, thus necessitating imports. This could reflect differences in buyer power: even the largest food service operators struggle to match the purchasing power of

\(^\text{51}\) The Grocer. (2006). Store chains must wake up and smell the coffee.


supermarkets, but it is also said that retail specifications might be easier to deliver. (IGD 2005).

Assurance and certification

78. Growth in the organic retail sector from £609m in 2000 to £1101m in 2005 (at 2000 prices) illustrates the importance of provenance assured goods to the consumer. While there is little evidence available on the importance of provenance assured food in the foodservice industry, there is some evidence of growth in ethically sourced food becoming more popular among consumers. Sales of products carrying the Fairtrade Mark grew by around 63% between 2002-2006, although this measure includes food retail, foodservice and non-food items. Notwithstanding this, the Fairtrade sector, and the wider market for ethically sourced food has been characterised by a sharp fall in growth rates over the past two years. This suggests that while heightened consumer interest has sparked a large rise in the market for assured products, this may not look continue indefinitely. If the market for ethically sourced products in food retail appears to be maturing, this may have implications for potential expansion in the foodservice sector.

79. The restaurant sub-sector appears best placed to exploit consumer preferences for assured produce with high spend per meal and a discretionary element to decision making. Other sub-sectors face barriers to the marketing of food provenance. For example, the catering sector is often characterised by the divorcing of purchaser from consumers. This could weaken or distort signals to respond to the demand for food provenance: consumers may be willing to pay for premium produce, but are not offered it.

80. There appears to be an evidence gap in relation to provenance assured products in the foodservice industry. The key questions are:

- To what extent are provenance assured products important in the foodservice market at present?
- How capable are foodservice companies of responding to consumer demand for such products?

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54 Mintel: Organics 2005
7. ENVIRONMENT

81. The aim of the Sustainable Consumption and Production (SCP) agenda is to break the link between economic growth and its environmental impacts. By focusing upon the lifecycle of products, it draws attention to the potential environmental impacts across all sectors and links in the food chain, and this includes food service. The Food Industry Sustainability Strategy (FISS)\(^{55}\) sets out key priority areas for action, encouraging all sectors of the food chain, including food service, to improve their environmental sustainability by adopting best practice.

82. Larger food service operators and distributors are beginning to recognise the reputational and commercial benefits that environmental responsibility can offer. Both 3663 and Brakes, for instance, have sections on their websites advertising their Environmental Policies.

83. The market itself can provide strong incentives to encourage the efficient adoption of new technology (e.g. high energy prices). This requires firms to be well informed about the help available and likely savings, which is what various government support schemes are seeking to provide. (Figure 12).

**Figure 12** Selected Government Support

- Envirowise – the Government’s resource efficiency programme. It provides a variety of free services dedicated to resource efficiency, including ‘FastTrack’ on-site visits, a telephone helpline, events and workshops, best-practice case studies and information guides, and a website.
- Carbon Trust – set up by Government, it provides independent advise and assistance on energy saving. Services include on-site ‘Energy Surveys’, telephone advise, events, publications and a website. Most are free.
- Enhanced Capital Allowances – scheme to enable businesses to write off the cost of investments in energy savings technologies and products.
- Hospitable Climates Scheme – a free energy savings advisory programme.

84. The available evidence does not indicate whether food service is more or less environmentally sustainable than retail, and there is clearly potential for more research in this area. The following sections provide a preliminary consideration of various aspects of environmental sustainability in food service.

Energy usage

85. The FISS recognises that energy use by the food industry has important environmental impacts, not least its contribution to climate change. AEA Technology estimate that the preparation of food by caterers consumed 151,000 TJ in 2002, about 2% of total UK final energy consumption. This does not include transportation and other energy use by food service.\(^{56}\)

86. Robust data on food service is not currently available, but energy consumption data on the Hotels and Catering sector provides a proxy.\(^{57}\) (Table 7).

Table 7  Energy consumption for Hotels and Catering sector buildings by end use, thousand tonnes of oil equivalent. (2000, 2002).

<table>
<thead>
<tr>
<th></th>
<th>Catering</th>
<th>Computing</th>
<th>Cooling ventilation</th>
<th>Hot water</th>
<th>Heating</th>
<th>Lighting</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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<td>793</td>
<td>6</td>
<td>94</td>
<td>658</td>
<td>1,480</td>
<td>332</td>
<td>141</td>
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<tr>
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<td>108</td>
<td>555</td>
<td>1,116</td>
<td>323</td>
<td>117</td>
<td>2,967</td>
</tr>
<tr>
<td>(\Delta)</td>
<td>- 6.3 %</td>
<td>N/C</td>
<td>+ 14.9 %</td>
<td>- 15.7 %</td>
<td>- 24.6 %</td>
<td>- 2.7 %</td>
<td>- 17.0 %</td>
<td>- 15.3 %</td>
</tr>
</tbody>
</table>

Source: DTI (2005).

87. According to the DTI, the Hotels and Catering sector accounted for 16% of energy consumption by the service sector in 2002, 2,967 thousand tonnes of oil equivalent. This was a reduction of 15.3% on 2000, demonstrating that the sector has already started to take steps to improve its energy efficiency. Table 7 shows that energy use was distributed unevenly across a number of different activities: 38% was used for heating in 2002, 25% for catering and 19% for hot water.

88. Whilst improving energy efficiency in the areas of the highest utilisation might appear to be the obvious challenge, it is cost-effective to implement measures that deliver the largest environmental improvement for a given expenditure (which is the logic underling emissions trading schemes). Firms should also give consideration to the source of the energy in recognition that different energy sources vary in their environmental impact, particularly in relation to carbon emissions and thus their impact on climate change. In 2002, 34% of the total was electricity and the remainder was other fossil fuels (i.e. gas).

89. To put this in perspective, the ONS Environmental Accounts\(^{58}\) report that total greenhouse gas emissions by the Hotels and Restaurants sector were 2.3 mt

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of CO₂ equivalent in 2003 (down 6% on 2000), which was equal to only 22% of the total for the food and drink manufacturing sector.

Unfortunately, these statistics do not provide an accurate picture for food service; given that Hotels are included, the breakdown will be imperfect. Data on food service in the United States is available, however.\(^{59}\) (Figure 13).

**Figure 13** An International Perspective: Energy Use in the United States.

In 1995, food service accounted for 6% of commercial energy use in the US. Electricity contributed about half and natural gas just under half; the remainder, 3%, was fuel oil and district heat.

It was noted that, on a per foot basis, food service had the greatest energy use of all commercial building types. This implies that improved environmental performance in the food service service could make a valuable contribute to the SCP agenda.

Figure 14 illustrates how energy use was distributed: 32% was used for cooking, 15% for lighting, 13% for refrigeration, 13% for space heating and 11% for water heating.

**Figure 14** Energy Use in Food service Buildings in United States (1995).


91. The provision of accurate and widely disseminated statistics relating to the English food industry, as envisaged in the FISS, would enable firms to evaluate their environmental performance against their competitors, providing an invaluable insight in where they could do better.

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Water Usage

92. The FISS identifies reducing its current demand for water through the adaptation of best practice as a key challenge for the food industry. As a whole, the food industry is estimated to use 430 mega-litres from the public water supply a day, 10% of industrial use. As food service usage levels are currently unknown, the FISS intends to establish a baseline. This would provide additional information for food service operators, enabling them to compare their usage with others in the sector.

Waste

93. The FISS emphasises the challenge of reducing the amount of food and packaging waste generated within the food industry. Overseas evidence suggests that food waste and damaged product can be significant for food service. (Figure 15).

Figure 15 An International Perspective: Waste in Sweden.

Evidence from Sweden\(^60\) suggests that about “one-fifth” of food purchased by the food service sector is wasted. Plate waste was the largest source “at 11-13% of the amount of food served.”

In addition to the direct environmental impacts of food waste, the production of this ‘wasted’ food is estimated to have utilised 1.5% of the total arable land under cultivation, demonstrating the scale of such waste. The consequences can be significant, both economically and environmentally.

94. Even if this performance was replicated in the UK, it is not known how food service would compare with food retailing, although plate waste appears to be similar: according to one source, “between 3% to 6% of the food we buy is thrown away during preparation and between 10% and 12% of what we could then eat is thrown away”\(^61\).

95. Packaging is another important source of waste. ‘Front-of-house’ packaging is particularly significant for QSR; it contributes directly to local litter and visual pollution outside outlets, and is often sent to a landfill. ‘Back-of-house’ packaging, however, is often more efficient than retail packaging; pack sizes are generally larger and “large packs use less packaging per gram of product than small packs”.\(^62\) In addition, design efficiencies and the use of different

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\(^{61}\) Incpen. (1996). Environmental Impact of Packaging in the UK Food Supply System. http://www.incpen.org/pages/userdata/incp/Foodsupply.pdf. This excludes wastage by retailers (e.g. spoilage) as statistics could not be located.

materials have helped to reduce the quantities of waste and the environmental impact of packaging, whilst biodegradable packaging remains the big hope for the future.\textsuperscript{63}

8. HEALTH ISSUES

96. Consumers seem increasingly anxious about the health implications of imbalanced diets and are taking more interest in the food they eat. This creates opportunities for firms that manage to achieve a strong reputation in this area, and risks for those that do not.\(^{64}\)

97. Several food service segments have been impacted. QSR has been the focus of negative media coverage, whilst food service in education has come under increased scrutiny (Figure 16). Government is responding, but the reaction of consumers is crucial. Concerns about links with obesity have led to the introduction of healthier options and clearer labelling of nutritional content; however, taste is still an important selling point. Behaviour is changing slowly, but it remains uncertain how far attitudes will shift.

Figure 16  The Jamie Oliver effect

Jamie Oliver’s campaign for better school meals has changed public perceptions of food service provision in education, and arguably more widely, such as QSR.

New minimum standards for school meals have recently been introduced in England, whilst additional government funding to increase the provision of healthy ingredients has been made available.\(^{65}\)

These changes have created both risks and opportunities for Contract Caterers operating the sector. They have faced challenges in switching towards healthier menus\(^{66}\), whilst the latest evidence suggests that there has been a fall in the number of children eating school meals since the series was broadcast.\(^{67}\) However, increased government expenditure and the trend towards better quality has the potential to improve margins in the long term.

98. These concerns should not change the prognosis for long-run growth if the sector is able to adapt its business model to reflect these new market realities. Many QSR operators have already taken steps to improve their health credentials, whilst new ‘healthy’ sub-sectors (e.g. functional foods) are often created. However, there still appears to be significant potential for change in food service provision in some areas. This is illustrated by a report by the Soil Association which highlighted the difficulties consumers can face

\(^{64}\) For the nutritional and health challenges facing the food industry, see Defra. (2006). Food Industry Sustainability Strategy, pp. 57-62.  

http://news.bbc.co.uk/1/hi/education/5305990.stm

http://news.bbc.co.uk/1/hi/business/4985788.stm

http://www.schoolfoodtrust.org.uk/images/downloads/SFT_baseline_survey.doc
in locating healthier foods such as fresh fruit and drinking water in various family orientated attractions\textsuperscript{68}.

99. The influence of celebrities on consumers and wider society remains significant (Figure 16). Celebrities are often engaged in promoting new tastes, products and attitudes to food. The public sector is beginning to make use of this: Jamie Oliver was recently involved in an initiative to improve food in the NHS.

\textsuperscript{68} Soil Association and Organix (2006) Taking Our Children for a Ride
9. SUSTAINABLE PROCUREMENT

100. Given the links with health and the environment, careful procurement of its food purchases is one way government can help to further sustainable development. The public sector spends £2 billion annually on food and catering services in England alone, which represents around 5-10% of the total food services sector. The Public Sector Food Procurement Initiative (PSFPI) recognises that the government is in the position to use its buying power to help deliver the aims of the Strategy for Sustainable Farming and Food. The five priority objectives PSFPI are to:

- raise production and process standards;
- increase tenders from small and local producers;
- increase consumption of healthy and nutritious food;
- reduce adverse environmental impacts of production and supply;
- increase the capacity of small and local suppliers to meet demand.

101. Other benefits are on offer. Improving the health of the nation is the most obvious. Sustain, the alliance for better food and farming, recognise that the “food in hospital canteens is likely to affect the nutritional health of hospital staff as much as the people for whom they offer care.”

69 Indeed, everyone who eats in public sector food service outlets could benefit from the provision of healthier food across the public sector estate.

102. So creative tendering by the public sector can be a useful lever for addressing sustainability concerns. Defra has funded the publication of a guide which also explains what is acceptable within the requirements of UK and EU procurement legislation. However, other challenges remain, particularly with regard to the introduction of wider local sourcing. (Figure 17).

Figure 17 Case Study: local sourcing in an Oxfordshire School.

A school in Oxfordshire recently introduced local sourcing of its food requirements. In doing so, it found that small businesses were often unable to “meet the price specification or the other requirements”; for instance, they were often unable to supply the documents required to pass health and safety audits.

However, it should not be assumed that local sourcing is necessarily better than wider sourcing on environmental or health grounds. There will be many factors that determine whether it is. (e.g. efficiency of logistics, production systems, type and quality of food).
10. THE IMPACT OF LEGISLATION

103. Legislation, particularly the associated compliance costs, creates a burden for industry. The ‘better regulation’ challenge is being addressed through the FISS. The food service sector, which has a high proportion of small and medium sized firms, is already highly regulated in a range of matters, including food safety and labour regulations. The so-called ‘Smoking Ban’ is one example of future legislation that will impact on the sector. (Figure 18).

104. Recently the Licensing Act impacted on those food service outlets that serve alcohol, serve hot food after 11pm or are located in leisure outlets. These firms were required to apply for a new license, imposing a short-term cost, although the regulatory burden should decline in the long-run.

105. European legislation also impacts on food service. Food labelling concerns will be addressed in legislation in 2007, although the EU has already extracted voluntary measures through its Platform for Action on Diet, Physical Activity and Health, including a commitment by fast food outlets to provide nutritional information.\(^\text{72}\)

Figure 18 Smoking Ban to be implemented in the Health Bill

Smoking will be banned in all enclosed public places in England from Summer 2007, including food service outlets, such as pubs and restaurants.

Non-smokers, who were previously put off from eating in smoky outlets, may now decide to eat out more; however, smokers may be deterred from eating out if they are prevented from lighting up. The net impact is thus uncertain.

Pubs are expected to be most affected and are already taking action to persuade smokers to continue to patronise their outlets. Since smoking will still be allowed outdoors, they are investing in improved facilities, although these may not be energy efficient (e.g. outdoor heaters). The smoking ban may also encourage pubs to improve their food offers in an effort to improve their competitive position further. Other outlets, such as leisure, could well follow suit.

Worldwide, bans are in place in Ireland, New York and California. International experiences suggests that footfall may decline in some outlets but does not necessarily indicate that revenues from food service will fall. Based on the experience in Ireland, Key Note suggest that “publicans will lose some trade in the aftermath of the ban”, although they expect that “the impact is likely to be offset by other factors”.\(^\text{73}\)

The comprehensive ban that will be imposed should also be less distorting than the partial ban that was proposed. There was concern that exempting pubs not serving food could have led to some pubs to stop selling food.


11. CONCLUSIONS AND OUTLOOK

106. The market potential for food service is sound. Key Note expect the catering market to grow by “4.1% to 4.2% per year between 2006 and 2010”, whilst other market researchers are broadly supportive of these findings, this forecast represents a significant improvement on current growth levels. With incomes rising and time becoming relatively scarcer, trends to convenience and casual dining are likely to strengthen. This section outlines some additional challenges and drivers.

107. The diversity of outlets is one of the sector’s key strengths in meeting demand. It offers a broad selection of tastes, prices and qualities that should cater for the diversity of consumer preferences. The range of sub-sectors, business models and formats on offer should help to insulate it from rapid shifts in consumer preferences, although it may have implications for policy in addressing cross-cutting issues, such as environmental performance.

108. Yet challenges remain in meeting this demand. Health concerns remain one area of risk, although food service operators and government have taken steps to address these issues in creative ways. Nor is growth expected to be uniformly distributed across the food service sector: restaurants and pubs are expected to grow faster than QSR and Hotels, for instance.

109. Competition from supermarkets across various aspects of food service is likely to remain keen, as the boundary between food retail and food service begins to blur. In any case, food service is likely to become an increasingly important customer for manufacturers and other suppliers. This will create both risks and opportunities along the food chain.

110. Legislation should play an important role in alleviating any environmental and health concerns, although the impact on businesses should be carefully appraised.

111. With an ageing population in the UK, Mintel expect that older consumers will become increasingly important for the food service sector, particularly as many older consumers are becoming increasingly affluent. Capturing the so-called ‘grey pound’ will be a key challenge for the sector, which is currently focused on attracting younger consumers. Older consumers will have different preferences and certain groups might also have specific nutritional needs. The sector will likely have to adapt the range of tastes, outlet types and service styles it offers in order to better capture a widening spectrum demand.

112. There remain difficulties in attracting young people into employment in the sector, particularly into the lower paid segments of the market, such as QSR. EU expansion has helped to mitigate shortages. Migrants from new member states

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75 Mintel (2004).
have filled many vacancies, particularly for contract caterers. Overcoming similar labour shortages will be an important condition of growth in the future.

113. The importance of food as both nourishment and pleasure means that new leisure outlets will often require food service facilities in addition to their core service, creating opportunities for the food service sector. The Gambling Act 2003 allows the building of 17 casinos: 8 small casinos, 8 large casinos and a ‘super’ regional casino. These casinos are likely to offer catering facilities, illustrating the potential for new leisure activities to stimulate the catering market.

114. Tourism is another important driver and the hosting of international events should create further opportunities; for instance, the 2012 Olympics will bring a huge influx of foreign tourists into London and they will need to eat. Large-scale sporting events can also help to boost profits for those firms directly involved and offer promotional opportunities for others.

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Defra
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References

This note draws heavily upon the following sources. Additional references are noted in footnotes in the text:

• Horizons for Success. (HfS). (2004). This is Food service.
• IGD. (2005). Understanding Food service Opportunities for Farmers and Small Food Producers.