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Industry Analysis: Fast Food Industry

Introduction

The fast food industry has been one of the most economically consistent industries in the world. At times when other service industries have been undergoing economic turmoil, this industry has remained strong and has, in fact, witnessed growth in the last few decades. Research indicates that the fast food industry in the United States generates more than 165 billion dollars in terms of revenue on a yearly basis (Collins, 2005). Currently, there are more than 180, 000 fast food establishments belonging to different brands. One of the reasons that could be perhaps attributed to the observed economic consistency of this industry is because food is a basic need. Even when the society is experiencing tough economic times, food remains a basic need that people cannot go without, and this is where the fast food industry hugely benefits. The fast food industry has been existence through the larger part of the 20th century. Before looking at the history of the fast food industry, it would be perhaps wise to define what exactly the fast food industry is and how it is categorized. For an establishment to be considered as a member or a component of the fast food industry, it must meet several stipulations. First, the establishment must be primarily engaged in the provision of food services whereby a patron selects food items or makes orders and also pays before they eat. Secondly, an establishment in the food industry can be primarily engaged in selling specialty snacks or non-alcoholic beverages that are consumed near on the premises of this establishment. However, orders made by patrons can also be delivered to their places of residence, for instance, pizza and burger delivery. In America, the beginning

of the fast food industry is attributed to the opening of the first establishment of “ White Castle” (Collins, 2005). This changed the perception of the public regarding fast foods. The establishment gave hamburgers a refined reputation in regards to quality and also brought out the “ cleanliness” image through its emphasis of the white color. In addition, the rise of the car industry also partly contributed to the rise of the fast food industry. Restaurants started drive-ins, short-hand cooks and even carhops to capitalize on a new craze that had hit the American people who had become obsessed with consuming food while in their cars. Over time, more firms started capitalizing on this emerging trend and this when iconic fast food organizations like McDonalds’, Burger King and Wendy’s emerged (Collins, 2005). The food industry has continued to grow, and new brands have emerged. Currently, the industry employs more than 4 million workers in various areas of the industry including food servicing, food preparation and food delivery. This paper aims to look at the opportunities and threats for business in this industry. This will be done by exploring several economic areas that entail this industry. These areas include resources, supply demand, capital, innovation and regulations.

Resources

In terms of resources, the fast food industry requires relatively little resources. Resources refer to the factors of production and can include aspects such as land, physical buildings, labor and so on. One resource that is of crucial importance to any industry is the raw materials. In the fast food industry, raw materials are relatively very easy to acquire since most can be

gotten from the many wholesale stores and production centers that exist in the nation. For instance, a fast food establishment that sells cakes can easily get the dough used for baking from somewhere as simple as a convenience store. (Collins, 2005) This also includes other similar items such as sugar and chocolate. Other raw materials like vegetables or dairy products such as milk are also readily available. The same applies to other resources such as labor. Unlike other industries, the fast food industry does not require extensive education skills and someone with the most basic of education or none at all can work in this industry. This means that the supply of labor in this industry is very large (Collins, 2005). There is no instance where this industry would fail to find a constant supply of labor. Other resources may be quite tricky. For example, finding a piece of land or even a piece of building on which to put a fast food establishment can be a tricky affair. In addition this resource being relatively scarce, finding a strategic area to put up a fast food joint where it is bound to attract customers may be quite hard. The other resource is capital. One must have enough capital to establish a proper fast food business that can effectively compete with the already existing and renowned brands such as McDonalds.

Supply

Supply is a crucial element in any industry. Supply normally refers to the availability of environments or entities where different product components can be sourced. In addition, supply can also be in terms of labor and as mentioned earlier, the fast food industry is in no short supply of this crucial resource (Royle, 2002). In regard to product components, the fast food industry supply chain is very well endowed with a host of suppliers. Most of

the raw material that are utilized in this industry are secondary in nature, and supply is, therefore, very high. In fact, there is huge competition by suppliers of the industry because of the presence of many of these suppliers. These, for example, include the industries that produce most of the raw materials used in the fast food industry. For instance, since most fast food industries sell snacks that include burgers, pizzas and so on, one major raw material is wheat flour. The suppliers of this product are very many as there are hundreds of companies in the country that produce wheat flour, this also applies to other simple materials which are produced by hundreds of companies and who therefore compete to deliver the same product. For farm products such as milk and vegetables, the suppliers for these products are also unlimited and also engaged in intense competition. In simple terms, a business that seeks to venture into this industry will not experience any problem of supply. As long as it has enough capital to pay for the various resources needed in the company, supply in the fast food industry is not an issue of concern. A business will always have a vast choice of supply options to choose from.

Demand

Demand encompasses the magnitude to which customers ask for the company's products. As mentioned earlier, the fast food industry has been consistent in terms of economic growth and has flourished in the last few decades. The industry's main product is food, a basic resource that people will always require in one way or another. This is why the future of the industry is assured. This means that the demand for a product made in this industry will never cease. Throughout the year, there is a demand for the

products of this industry including burgers, pizzas, soft drinks, beverages and so on. In fact, the demand in this industry has been relatively rising in the last few decades. As mentioned earlier, Americans continue growing fond of eating in their cars, and this is where the fast food industry comes in (Collins, 2005). Fast food establishments with drive-ins where customers can order and pick food while at the comfort of their cars are in high demand. The demand is also high among hard working people. These people are at work engaged in various activities most of the time, and consequently they do not have times to prepare heavy meals and the only option is to take orders or eat at fast food joints (Collins, 2005). Therefore as the number of working people increases, the demand for fast food establishments and fast food products such as snacks continues rising. Therefore, a business that ventures into this industry is not likely to experience any form of demand shortage unless it specializes in products that are not appealing to the consumer. However, if it abides by both the spoken and the unspoken rules of the industry and creates high-quality products, it will see its business flourishing since the demand for these products will always be high.

Capital

The capital required to start an establishment in the fast food industry is relatively small. This is unless a business owner wants to start a big corporation with various outlets and branches. However, for a business that hopes to venture into this industry by starting one or a few establishments, the capital required for this start up is quite low. This is indeed a huge opportunity for businesses in this industry. The resources and materials needed for a startup are few and the ones that required can be obtained at

relatively low costs (Mashhadi and Ijaz-Ur-Rehman, 2012). In addition, even if one does not have enough capital to start up a business in this industry, one could always take a loan. Loan companies understand the huge potential of fast food joints, and many are, therefore, willing to offer loans to people who hope to invest in this business (Mashhadi and Ijaz-Ur-Rehman, 2012). This is because of the understanding that a person who invests in this industry is likely to see returns in a very short time and therefore repay back the loan. Therefore, in terms of capital, this is one of the very few industries where business startup does not require much capital (Mashhadi and Ijaz-Ur-Rehman, 2012). In other industries, capital is always a huge issue and many people fail to realize their goals of establishing a business due to the constraint of capital that is required for the startup. Capital is required for things such as acquiring business premises, acquiring instruments or equipment to be used for production and hiring workers. Although these costs are still incurred in starting up a fast food restaurant, their budgets are significantly low meaning that the overall capital needed to start up a business is low.

Innovation

Lack of innovation is a problem that plagues the fast food industry by a huge margin. Unfortunately, this is not a problem that appears solvable in the future. This is because when it comes to food, there is not really much to be innovated about. Other industries have a huge potential for innovation, especially the industries that deal with physical products other than food (Schlosser, 2002). This is because it is possible to manipulate these products in terms of design and come up with a product that appeases the client.

However, when it comes to foods such as snacks, this is virtually not possible. There is always a predetermined set of food choices offered by many fast food outlets and over time, clients have become accustomed to the conventional snacks, such as hamburgers and introducing, for instance, a new brand of burgers would be treated with a lot of suspicion. In addition, there is not much potential for innovation when it comes to food. Unless a business owner, for instance, establishes a secret ingredient that can be added to food and that makes it different from others and is at the same time appealing to customers, then it is impossible to think of other forms of innovations (Schlosser, 2002). Any business owners have tried to come with fake innovations which essentially comprises of the same food product usually coated with something extra, but in the real sense, this is not real innovation. Therefore, one of the weaknesses of this industry is a lack of innovation as a potential tool for gaining competitive advantage. It appears that the only way that businesses can maintain competitive advantage is through exemplary customer service.

Regulations

The food industry is a very sensitive industry. Anything related to food is very sensitive. The government is very keen when it comes to food production entities. Since this a product that is consumed directly by humans, there is a need to ensure that the products produced in this industry are not only high quality but also safe for human consumption. Therefore, the government usually places very stringent regulations in industries such as the fast food industry (Mashhadi and Ijaz-Ur-Rehman, 2012). Companies operating in this industry are forced to comply with strict

government rules in terms of preparation and food service. Some of the procedures laid out many, not in actual sense be economically viable, and companies might lose a lot (Mashhadi and Ijaz-Ur-Rehman, 2012). Although the profits of the industry are not controlled by the government, local and state governments often adopt various laws and regulations that determine the running of the fast food business. These rules and law may be related to aspects such as advertising, health, safety, franchising, zoning, employment and the environment. In terms of employment, for instance, there is the issue of minimum wage in which fast food restaurants are supposed to pay their workers. In terms of safety, the fast food entities are required to observe and enact certain codes of safety (Mashhadi and Ijaz-Ur-Rehman, 2012). A regulatory and legal environment of this industry on a worldwide scale exposes businesses to complex litigation, compliance, as well as other risks that hugely affect the operations of this business and at the same time increases the costs of business operations.

Conclusion

The fast food industry is one of the most economically consistent industries in the world. When other service industries have been undergoing economic turmoil, this industry has remained strong and has, in fact, witnessed growth in the last few decades. However, any business hoping to enter this industry should not just do it anyhow. This is because there are various opportunities and threats for businesses in this industry.

In terms of strengths, one of these is the less intensive resources requirement in this industry. The resources or factors of production that are required in this industry are relatively low. The raw material required are

little. The labor required is also not much and is also readily available. The other resource in the industry is capital and since the level of this is very low, this a huge opportunity for business.

The other opportunity for businesses that hope to enter this industry is in terms of supply. Suppliers of material needed to make the product or the component of the products are very many. There is also intense competition between these suppliers, meaning that a business can make a choice from the long list of available suppliers and therefore chose the supplier who offers the lowest rates. This will economically be every beneficial to the company.

The other opportunity that exists for companies is in terms of demand. The demand for fast food entities and their products are forever on the rise and a business that ventures into this industry will greatly benefit from this demand. This aspect is perhaps attributable to the fact that food is a basic need, and people will always look for it and this why demand levels in the industry remain high.

The little capital to start up a business in this industry is another advantage. The fast food industry is not a capital intensive industry and starting a business in this industry is a straight forward affair that requires very little capital and various channels of acquiring this capital are also available. This is indeed a very huge opportunity that potential investors in this industry should take advantage of.

However, there are several threats that exists in this business that may perhaps discourage investors and business from entering this industry.

One of this is the lack of innovation. Lack of innovation is a problem that

characterizes the food industry and affects it very much. This problem does not appear to have a solution. When it comes to food, there is not really much to be innovated about unlike other industries have a huge potential for innovation, especially the industries that deal with physical products. It is possible to come up with different innovations for these products, but this not possible for food. The major threat posed by this is that entities that associate themselves with innovation cannot use this as a tool for gaining competitive advantage in the fast food industry. Many companies might be discouraged by this.

The other major threat is in the form of government regulations. The food industry is under constant regulation of the government especially under health regulatory bodies. This may be in regards to aspects such as food preparation. In addition, local and state governments often adopt various laws and regulations that determine the running of the fast food business. These rules and law may be related to aspects such as advertising, safety, franchising, zoning, employment and the environment. Observing all these laws may translate into increased cost of doing business for the fast food entities.

However, the opportunities outweigh the threats in this industry, and business should go ahead and venture into this industry.

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