

THE FOOD INDUSTRY: HISTORY, EVOLUTION
AND CURRENT TRENDS

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Subject: Management

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Academic Year: 2014/2015

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ABSTRACT:

Since prehistory, when life on earth began, human beings have fought and struggled for food. With the passing of the centuries, humans started to cultivate the land, to farm and to raise animals in order to make eating easier and less laborious. Eventually people started to barter, and later to sell their products, to exchange food for other goods or to earn profits from them. The sources of food have increased dramatically and continued to change over time. While people in the past had to fight to find their daily meals, nowadays we who live in the Western world are continuously surrounded by promotions and advertisements for food products of different types, qualities and prices. Although it might seem contradictory, in the distant past it was very simple for people to make decisions about what they would or could eat: they just hunted whichever animal was easily available to provide the most nutritious meal. Human beings, without knowing it, had an optimal diet: rich in lean proteins, fruits and vegetables. With civilization, industrialization, technological innovations, mechanization, the economic growth and increasing welfare of people, especially in the 20th century, the situation has changed drastically. People are spoiled; they no longer look for food with healthy nutrients, instead they are attracted by those foods that seem more attractive and tasty. Often these products are high in carbohydrates, sugars and trans fats and are low in vitamins and proteins. Indeed, during the twentieth century, the food industry underwent the biggest transformation in its history. Food distributors started to look for faster and more convenient ways to produce their products: standardization, concentration, automation and simplification seemed to be the key to success. It was during these years, in 1922, that the world's first fast food company was founded: "A&W All American food". In my work I will analyze how this firm has managed to remain successful over several decades in the highly competitive food market. At the time it was founded, the food industry was not stable. America, like the rest of the world was facing the hardships and problems of shortage of materials and of employees in the wake of WWII and only the most structured and flexible firms managed to survive. Firms continued to increase the level of processed foods, using synthetic fertilizers and mechanization in

order maximize profits, and to reduce the costs and maximize the outputs. At that time this seemed the best way to feed people and to make both consumers and producers happy, by introducing low prices and high profits. However, this solution did not last for long. Soon researchers and doctors showed that the changes in eating habits together with the food production system, were having dramatic consequences on people's health, not to mention the environment. Data showed that Americans ate on average 20% more calories in 2000 than they did in 1983, and that the level of obesity has reached the alarming number of 78.6 million adults in U.S. Many younger firms, such as Panera Bread, have understood the severity of this problem and have adapted in order to meet new consumer requirements. In the last part of my dissertation I analyze this iconic American cafeteria and restaurant chain in order to understand how old and new restaurants are adapting to the changing trends within the food industry. In my conclusion, I suggest an answer for their success and show how two different and sometimes opposing firms have managed to become leaders in the food market.

INTRODUCTION:

The Food Industry has changed and developed over the decades in order to satisfy customer needs and consumer behavior. This industry is characterized by a complex system of activities concerning supply, consumption and delivery of food products across the entire globe.

My dissertation will focus on the history of the American food industry, concentrating on the development of the market from World War II (WWII) until today.

Before WW II, all over the world the people used to eat in very simple ways using only local and seasonal products as they were constrained to a geographical area. Another important change occurred in the role that women played within their family: as the men left to fight in the war the female population had to replace them working in industry. While their disposable income increased, the time they could dedicate to housework decreased drastically, with a consequent rise in demand for industries that could produce readymade food in their place.

After the war, the processed food that was initially developed for soldiers on the frontline became produce for grocery stores and restaurants in towns and cities. This phenomenon became even more evident when Richard and Maurice McDonald understood the importance of making food quickly, selling it cheaply and spending less time and resources in looking for the best quality food sources and in the final product. The two brothers redesigned the food preparation sector, as in the automobile assembly line, in order to achieve the product at a lower cost. McDonald's was the first of a series of fast food restaurants that, in a brief period, managed to compete in the market by offering reasonable products at a low price.

However, very soon studies started showing how cardiovascular problems, diabetes, musculoskeletal disorders, cancers and obesity, all diseases related to poor eating habits, were drastically on the increase.

The results were analyzed by several scientists, as, for example, Ancel Keys who observed how, unlike monounsaturated fats, saturated fats caused heart diseases. In 1968, Senator George McGovern, head of the Senate State Committee on Nutrition and Human Needs, started out on a mission to fight bad dietary habits. He worked on several food assistance programs aimed at formulating science based recommendations on which healthy foods Americans should eat in order to lower their risk of heart diseases and other chronic illnesses. The word "Dietary Goal" was first published in 1977 and stimulated reactions in the scientific community, in the food industry and numerous public health organizations.

Soon food producers had to face a new challenge: awareness about healthy nutrition was increasing, the slogan "you are what you eat" became more and more representative of the people's new mindset. However, whilst people wanted to consume food with no fat, it was actually the fat that gave it flavor and so, once it was removed, the consumer no longer found it attractive.

The industry had then to invest millions of dollars adapting to the consumers' new requests but also maintaining the products' appeal. Not only fast food chains tried to diversify and introduce new lines of products such as salads, fruit and organic food, but also competition between restaurants and fast food chains that offered healthier foods increased.

As people looked for healthy alternatives, this phenomenon caused the decline of many conventional fast food companies that in the past had been market leaders.

The opening chapter of this dissertation will initially analyze the changes in consumer behavior and the different business models since the last World War.

Consumer behavior describes how people make decisions when purchasing goods. Businesses continuously search the solution to this question in order to have a much better chance of creating and producing the right merchandise for the right target consumers at the right time. People make decisions about goods from much earlier than they probably realize. Over time they develop a systematic way to choose from among the alternatives sometimes not even being not aware of it. Other consumers, instead, follow a similar process of making decisions.

Business enterprises are established in order to create, deliver and capture prominence with the customer. Whenever a business enterprise is established, it either explicitly or implicitly employs a particular business model that represents the design and architecture of the mechanisms it uses. It thus reflects management's attitudes to what customers want, how they want it, and how the business can best meet those needs, get paid for doing so, and make a profit.

In the second chapter of my dissertation I will focus on the American food industry, its development through time and its specific characteristics. By observing its complete story and changes over the decades, clear evidence of market trends, transformation and mechanization will emerge. The one factor of our lifestyle that changed drastically during and after WWII is the way we eat. Food had to evolve, and with that evolution came industrial farming at a scale we had never seen before, mass food preservation through canning or freezing, and a technical revolution in the kitchen. One of the biggest changes instituted by WWII was the increased demand of processed food as women went out to work to replace the male workers sent to war and had less time to cook in the home. To feed the soldiers at front, the market developed new ways of offering readymade food that was easy to eat and to store; thanks to its success, after the war it was also implemented in American society creating a revolution in food production.

The last chapter of my thesis will concentrate on two typical companies of the American and global food market. I decided to focus "A&W All American food" and "Panera

Bread” as they represent how businesses have adapted to changes in consumer behavior and how new business models were employed to create impact on the customers and satisfy their continuously changing needs. Comparing these two businesses it is easy to see how firms have concentrated on different requests over time. The first represent the post-war mindset: companies that wanted to produce fast, cheap, tasty and appealing food in huge quantities, while the second shows how the increase in health awareness and importance of nutrition has influenced the way in which food is offered nowadays: slow, healthy, accessible and natural.

In my dissertation I will endeavor to report the phenomenon of changes in consumer behavior and the consequences on the food market. Through research and the analysis of data from several sources, I will attempt to demonstrate how habits and attitudes have changed in time and, whilst there has been an increase in consumer demand for convenience and pleasure, how, in recent years, there also been an escalation in awareness regarding health and sustainability issues. These new trends have drastically influenced how businesses operate in the food market and who the market leaders are.

CHAPTER 1: “Consumer behavior: the study that never stops to vary and evolve in time”

- Behavioral analysis: how did it start:

The aim of this thesis is to explain how consumer-purchasing preferences for food have changed over time.

Trends in the food industry have significantly altered recently; this can be seen by the increasing demand for collectively and environmentally friendly products.

From the early fifties, economic growth lead people to drastically change their traditional life style that resulted in being more sedentary with a higher availability of food and, as a consequence, over-eating. This caused an increase in obesity, which has lead to major public health problems. Only recently governments and the general public realized how important the relation between nutrition and health is. Consumer needs and desires have changed.

The mutual interaction between attitude toward taste and the nutritional information has been fundamental determinant of consumer behavior and purchasing decisions.

During WWII women began working outside the home to substitute the male population who went to war. Those who had previously been housewives, after the war, started to contribute to the family income, which allowed them to increase their standard of living. The pressure of work and the reduction of free time resulted in a drastic increase of consumer request for prepared food. Market research and analysis revealed that post-war consumers’ lack of time to prepare healthy meals, resulting in food being consumed quickly at work or during a short break. Most of the family meals, that were traditionally consumed at home, were substituted with snacks and individual ready meals. These societal changes deeply influenced consumer perception of prices, costs, convenience, menu, quality and location. Originally, the general public was not aware of food safety, nor attentive to information concerning food or what constituted healthy eating habits. Furthermore, those who were aware about food and nutrition often did not use their knowledge and did not practice correct behavior. Americans believed that, in

order to satisfy the newly industrialized economy, they had to produce low-cost commodities that were affordable to everyone.

The initial section of my dissertation will focus on an analysis of consumer behavior, a research focused on attitudes that aims to reveal and examine consumer performance and the consequent changes and adjustments in food companies' marketing and business plans. Trends have altered significantly over time, initially there was an attempt to integrate an analytic perspective to consumer behavior into marketing research, however, the main focus was on the potential contribution that psychological studies could offer to managerial decisions. Subsequently, in a second moment, there was an attempt to define the faculty of behavioral studies as theoretical foundations for marketing and consumer research. We will look first at the recent developments that have occurred in behavioral analysis.

Consumer behavior is defined as “the study of individuals, groups, or organizations and the processes they use to select, secure, use, and dispose of products, services, experiences, or ideas to satisfy needs and impacts that these processes have on the consumer and society”¹. Understanding consumer behavior helps the marketer to understand how consumers think, feel and choose between different products and brands. Buying decisions defined as “decision-process” are based on ‘Consumer Buying Behavior.’ An industrial analysis of the factors that influence the consumer decision-making process are necessary for businesses to develop products, marketing strategies and business models in order to meet the continuously changing needs and requests of consumers. As each individual has distinct thoughts, psychology, emotions etc., consumer behavior stands academically at the intersection of economic psychology, on one hand, and on marketing science (the study of the behavior of consumers and marketers) on the other. The main problem is that it is not possible to reduce all human behavior to a simple, single stimulus-response model.

¹ Kuester, Sabine. *MKT 301: Strategic Marketing & Marketing in Specific Industry Contexts*, Professor at University of Mannheim, lecture (2012): 110

In the past there have been two separate schools of thoughts on demand: the first were of the economists whose studies were focused in searching for rules that governed the operation of market processes and viewed consumer behavior in terms of a single act of purchase. Economists assumed that all consumers are rational and acted in their own best interest: to maximize their advantage. In contrast to this theory, there was the work of those that were initially statisticians and concentrated on psychological studies to identify rules that determine consumer preferences.

One of the first economists to study consumer behavior was Adam Smith who, in 1776, published “The Wealth of Nations” according to which consumers are motivated by self-interest. The economist wrote, “ Price varies directly as the quantity demanded, which depends on price; and inversely as the quantity supplied, which also depends on price”.² Smith, 17 years earlier, had published “The Theory of Moral Sentiments” in which he proposed a theory of consumer behavior that was in contrast with the previously mentioned work. However, primarily Smith took a psychological viewpoint according to which people’s behavior is directly controlled by emotions, the only way of avoiding emotions is to view personal behaviour from an outside perspective. The researcher Edgeworth made further studies and published “Mathematical Psychics”, he asserted that “the first principles of Economics is that every agent is actuated only by self-interest.”³ Edgeworth also defined a cardinal utility function: “the purchased quantities of each good are arguments and the marginal utility of each good is a decreasing function of the quantity.”⁴ These studies remained quite superficial until the late nineteenth century when statisticians developed techniques to test correlation and make accurate regressions. In 1890, the prominent researcher Marshall, published

²Smith, Adam; Of the Nature and Market Price of Commodities; In *An Inquiry into the Nature and Causes of The Wealth of Nations*; Edwin Cannan (ed.), 47-54. London: W.Strahan and T. Cadell, (1776)

³ Edgeworth, Francis Ysidro. *Mathematical Psychics: An Essay on the Application of Mathematics to the Moral Sciences*. (1881)

⁴ Brown, Alan and Deaton, Angus. Surveys in applied economics: models of consumer behavior. *The Economic Journal* 82, no. 328, (1972): 1145-1236

“Principles of Economics”, and made further progresses in the tradition of economics proposing the model with the classical ‘supply and demand’ curves which demonstrated numerous fundamentals of economics, such as the theory of Marginal Utility. The economist also presented the concept of elasticity of demand that shows how a 1% change in price impacts the quantity of the product demanded. Numerous studies continued to be made with consequent progress in econometrics and demand analysis. The agricultural economist Moore identified some problems with the classical theory. One of the biggest complications arose with the shifting of demand and supply curve and the short and long run equilibrium. This gave an incentive to econometrics and statisticians to find new equations that could describe more accurately the total market process. In the early 1900s a sampling research theory also helped to identify problematic conclusions that had been made in the demand analysis. The various developments and studies made on the question did not conclude with a new theory on consumer demand but underlined the consistency and integrity of the demand function and the preference mapping. By 1939 the basis of the classical theory of demand analysis was established and strengths and weaknesses were discovered. Over the years, opinions regarding marketing have changed enormously. According to the conventional belief, the main focus of marketing was on social sciences such as economics and sociology. With the passing of the years, marketing continued to remain focused on individual consumers but was highly influenced by behavioral science. Consumer behavior analysis uses behavioral sciences to understand and interpret how human consumption works. This analysis explains performance in terms “of the consequences it produces, the rewards and punishments that are contingent upon it.”⁵ It is important to underline how these new studies did not exclude the traditional perspective on consumer choice. The science philosopher, Paul Feyerabend, in 1975 published the book “Against Method: Outline of an Anarchist Theory of Knowledge”⁶ in which he stated how there

⁵ Podsahoff, Philip; Todor, William; and Skov, Richard; Effects of Leader Contingent and Noncontingent Reward and Punishment Behaviors on Subordinate Performance and Satisfaction, *The Academy of Management Journal* 25, no.4 (1982): 810-821

⁶ Feyerabend, Paul. *Against Method: Outline of an Anarchist Theory of Knowledge*, Verso (ed.), 17-25. London: New left Books, (1975)

was an “active interplay of and the huge developments in behavioral psychology resulted in the ‘Consumer Behavior Analysis’.” The possibility of identifying a behavioral perspective on consumer purchasing decisions and marketing activities was first presented in the 1970s by Berry and Kunkel who published, in the *Journal of Marketing* 32 “A Behavioural Conception of Retail Image.” In the article they presented behavioral consumer psychology that was derived from sociological studies. Their theoretical report was based in observing the connection between marketing defined as “the analysis and satisfaction of consumer-buyer in order to maintain and increase demand and social science.”⁷

In 1981, in the *Journal of Retailing*, Rothschild and Gaidis published “Behavioral learning theory: its relevance to marketing and promotions” and highlighted again in their research how strong the connection between behavioral psychology and marketing was. Their studies were quite simplistic as they described human behavior as a basic result of connecting organisms whose actions depend on positive and negative consequences. It was only in 1988 that Foxall published in the *International Journal of Research in Marketing* “Radical Behaviorism And Consumer Research Theoretical Promise And Empirical Problems” and made further progress in the subject, he looked at the strong influence of language and verbal behavior on people’s conduct and, therefore, choices.

Consumer psychology provided enough evidence on how consumer behavior is a central dimension of everybody’s daily-life and is continuously influenced by numerous factors. These factors are ‘external’ (economic, technological, political, cultural, demographic, natural etc.), ‘internal’ (personality, life stage, attitudes, motivations, feelings, knowledge etc.) and ‘organizational’ (brand, advertising, promotion, product, price, service etc.) and cause the consumer to continuously change identity, beliefs, attitudes and practices. People buy products for different reasons that can be: ‘self-concept’ (user’s self image), ‘nostalgic attachment’ (past self), ‘interdependence’ (part

⁷ Foxall, Gordon R. Foundations of consumer behavior analysis. *Journal of Economic Psychology* 1, no. 2. (2003): 165-199

of users daily routine) and ‘love’ (emotional bond with the user). There are also some types of consumption that can be defined as ‘reckless’ and/ or ‘pathological.’ ‘Addictive’, ‘impulsive’, ‘immoral’, ‘illegal’ and ‘compulsive’ consumption are only some examples of counter-normative use. The study of Consumer Behavior can be considered today an interception of five disciplines: Psychology, Sociology; Anthropology, Economics and Marketing Management.

A company’s ability to make a profit and to survive in a competitive marketplace depends not only on its financial capabilities but also on understanding customers and the market. Therefore, it is essential for a business to determine the main factors that influence consumer demand, motivations and preferences in order to identify their buying behavior and to be successful. John Arndt (1976) defined in “Advances in Consumer research: reflections on research in consumer behavior” Consumer Behavior as “the mental and physical activities of a person or group of individuals who are concerned with ultimate consumption that links acquisition, usage and, in some cases, disposition of economic and consumer goods and services both from the private and public sector.”⁸

When a company observes customers’ buying decisions it is necessary to consider the fact that consumers are going to spend their limited resources: time, money and effort, to gather information, evaluate the different products and make the purchasing decision. Consumers are all different and a company can spend their resources trying to anticipate how many consumers there will be, what they will buy, when they will buy and where they will buy. To analyze the behavior and preferences of consumers, a company usually makes assumptions and looks at the possible consequences and reaction of consumers. Several models have shown that businesses that are able to understand and to meet all the aspects of its costumer market will have higher profits and develop better strategic decisions for consumers; therefore, marketers must focus on learning consumer

⁸ Arndt, Joahn; Reflections on Research in Consumer Behavior; In *Advances in Consumer Research* 3, Beverlee B. Anderson (ed.), 213-221, Cincinnati (OH): Association for Consumer Research, (1976).

buying behavior. Individuals or groups of individuals select, purchase, and dispose of goods and services in order to satisfy their needs and desires.

Throughout history several models have been used to represent consumer behavior. Each theory takes a different perspective of consumers. The traditional models of consumer behavior are: 'The Economic Model' that can be distinguished between a microeconomic and a macroeconomic theory; the 'Learning Model'; the 'Psychoanalytical Model' and the 'Sociological Model'. However, today there are diverse contemporary models: the 'Nicosia Model' (1966); the 'Howard Sheth Model'; the 'Engel Kollat Blackwell Model' (1972); the 'Black Box Model' and the 'Consumer Decision Process Model'.

- **General consumer behavior models: psychology, sociology and economics; different fields that try to find the same responses:**

The models of consumer behaviour have been distinguished in General and Contemporary Approach. Four distinct models of the first category are used to understand consumer behaviour:

- The economists were the first to try to understand consumer buying behavior. Initially, researchers considered man only as rational and self interested. Studies that concentrated on the rational aspects of human habits started around 300 years ago. Adam Smith (1723-1790) was pioneer of the economic approach in consumer behaviour studies. The Economic model explains buyer behavior under an economic perspective and it is further divided in a Micro and Macro economic view. In both models there is the assumptions that resources are scarce, needs are unlimited and that the consumer wants to maximize utility and minimize costs. The market is considered to have perfect competition: consumers know their different alternatives, have the capabilities to value them and take rational decisions.

Early in the twentieth century, Alfred Marshall developed a **Microeconomic Model** that based demand on utility, it ignores why and how consumers behave in certain

ways. The economist was the first to introduce the concept of Marginal Utility. Economics is a social science concerned with the allocation of scarce resources to produce products that satisfy consumers' unlimited needs and wants.

This neoclassic economic theory of consumers concentrated on the collection of goods consumers would buy at various quantities and prices. It mainly concentrates on the act of purchasing.

Marshall's main view was that "a price reduction of a product increases the value of the goods in buyers' minds and leads to increased sales"⁹; price is the only determinant of purchase.

The main assumptions of this model are primarily that consumers are rational and purposeful thinkers who act in their own interest; secondly, that additional satisfaction of a unit that is bought after the first purchase will be less than the first purchase's marginal satisfaction and, thirdly, that customers have faultless information about the marketplace. Purchasers carefully allocate their scarce resources among different purchasing decisions in order to maximize their value and satisfy their needs.

However, the economist believed that it is not possible to satisfy consumers as they have unlimited needs and wants.

The main problem of this model is that economic factors alone do not explain variations in sales and that the assumptions of rationality are not always realistic. Often consumers make satisfactory and not optimal decisions because the time that is required for an information search is not considered worth it by the consumer to do the best evaluation of the different alternatives. Often information is biased.

The **Macroeconomic Model** is based on the monetary value of goods: it looks at the overall economy. James Duesenberry, an economist at Harvard University, in 1949 published "Income, Saving and the Theory of Consumer Behavior", he used statistics to show how there are variations in consumer spending and saving behavior across

⁹ Marshall, Alfred; The Substance of Economics; In *Principles of Economics* (8th edition), 14-22. London: Macmillan and Co., (1920)

families. In his paper he criticized the previous theory as it failed to consider psychological factors that might influence consumer choice. In particular, it failed to consider how others could influence individual preferences. People continuously observe other persons' choices before making their own purchase decisions. Duesenberry arrived at the conclusion that consumption is determined by the purchasing decision made by individuals in one's reference group. Consumption is primarily governed by peers and social groups; when people move up (or down) the social ladder, their consumption varies. This is called the relative income hypothesis. In the twentieth century Milton Friedman published "A Theory of the Consumption Function". The economist developed the theory of "permanent income" according to which agents spread consumption over their lifetime. His theory states that a person's purchasing decision does not only depend on that person's current income but also depends on expectations about future income, called "permanent income", the average amount that they expect to earn over a few years.

Soon economists and other researchers realized that the economic model was not complete and had some imperfections. Researchers realized that there could be a psychological explanation for many behavioural phenomenon that characterized consumer buying decisions and had not been considered by economists. Mainly psychologists started to focus on the mind and on irrational, impulsive and emotional aspects of consumers. The new studies concentrated on the aspect that rational man do not always take rational decisions and that people are continuously influenced by external factors. This psychological approach is also called Learning model or Pavlovian Learning model as it finds its origins in the studies of the classical psychologist Ivan Pavlov (1849-1943). While the economic perspective had already structured studies from the 1940s, the formal approach to psychological studies started only in the 1950s and 1960s. Researchers that have undertook this second view have been considered to undertake a behavioral approach and are defined Classical Behaviouralists.

- The **Learning Model** states that people must continuously repeat the decision-making process. Consumers are problem solvers whose main issue is to satisfy its needs and wants. In this model it is assumed that the consumer uses simple learning rules. Learning refers to a change in the behavior that results from previous experiences or a similar situation that has already occurred. One of the main concepts of this theory is that learning is a product of reasoning, thinking, information processing and perception. Learning is deeply affected by the experiences of the buyers. People do not forget past experiences and situations and they learn continuously from them. They learn to associate connection between stimulus and responses, which becomes habit. It is essential for companies to understand the response of consumers in the marketplace. Marketers have to understand how consumers learn to respond to new marketing situations or how they have learned and responded to similar situations in the past. The learning process consists in three steps: the first stage is “Drive” according to which the individual has a strong internal stimulus, if it is compelling enough it will become a motive to act in order to satisfy a need. The second step is “Cues”: these are the stimuli coming from the marketing and social environment and determine when buyer will respond. “Response” is the last step of this model and is required to satisfy the individuals compelling need. This sequence of steps will result in habit that characterizes behavior. Practice and experience lead to changes in behavior. The main limitation of this model is that it seems to be incomplete; learning cannot be the only driver of consumption and it also does not take in consideration personal differences and impersonal influences among people.
- The **Psychoanalytical Model** focuses on the personality of consumers and their responses. This theory explains human behavior from a psychological perspective. Consumer behavior is determined by a series of deep motives. This theory is the result of the work of a group of psychologists who concentrated on individual personality. At the center of this model is how needs and motives influence buyers. The theory was developed by Sigmund Freud (1856-1939), he focused on the subconscious and instinctual side of people. According to this model people have a

complex set of motives that will induce them to certain purchasing decisions. Consumers have conscious, utilitarian, needs and subconscious motives that are mostly social and psychological, and of a hedonic nature that people are unable or unwilling to discuss. Many motives are instinctual (not reasoned), or subconscious, they have a symbolic nature, which means that they are objects and characters that represent an idea or concept.

According to Freud, the human personality has three dimensions: the “ID” which is the source that induces people to act, it is the instinctual, animal side of human beings; the “Super Ego” that is conscience; and “the Ego” that solves the conflict between “ID” and “Super Ego” and satisfies both of them. The “Ego” is the impulse of finding satisfaction in a socially acceptable way.

- The core of **the Sociol-psychological model** is that individual buyers are part of an institution that is called ‘society’; they are continuously influenced by it and, in turn, influence it. Different societies continuously interact and cause changes in individuals’ buying behavior. Therefore, buying decisions are not totally determined by utility. Buying decisions are governed by social compulsions. Individuals face continuously pressures from the society that derive from the general culture, sub-culture and other social groups with which he or she interacts.

Psychologists arrived to the conclusion that some psychological elements deeply influence the decision making of people and have to be taken into consideration to understand consumer behavior. Some of these factors are perception, learning and motives.

- **Contemporary consumer behavior models: the role of “interpersonal causations”; the consumers are “information processors”:**

The Contemporary Models were derived from the above mentioned economic, psychological and sociological fields and used to study consumer behavior. Examples can be made with the comprehensive models that take in consideration more than one variable and are constituted by:

- The **Nicosia Model** is a model in which all variables are related and interactive, it is considered to be a simplified form of comprehensive model. Francesco M. Nicosia, an important name in consumer behavior studies, developed this model. The model focuses on the relation between the business and the consumer.

This model is described by a flow of influences where each component provides input to the next. A company's activities continuously influence the consumer buying process, there is a strong linkage between an organization and its targeted consumers. Companies stimulate consumers who develop particular attitudes towards a certain offer that is determined by the circumstances. People will then look for or evaluate that product. If this process is positive, the individual will be induced to buy the product. This model is divided in four basic areas, called fields, and describes the flow of events between them:

Field 1: has two characteristics: the consumers' and the company's. The company's message reaches the consumer's attributes and this becomes the input for the next field. Field 1 represents the consequences of a message from the company that is sent through different forms of marketing and reaches the consumers. The first field can be divided in two sub-fields: Sub-Field One that consists in the firm's attributes and the firm's communication to the consumer and Sub-Field Two that is the consumer characteristics and the consumer understanding of the message and other inputs.

Field 2: is the area of investigation and evaluation of the different alternatives. This section will motivate people to buy and becomes input for the successive area. This field can also be identified as one of "Search and Evaluation". During the first field the consumer has responded in certain ways to the inputs, in this subsequent field the consumer has to evaluate means, end and relation: this is where the evaluation of the advertised product and the different choices occur, it is also defined a "pre-action" field. If the process gives enough motivation to act, it will result in the inputs for Field 3.

Field 3: “The Decision”, is the act of purchasing or not purchasing. Here the passage from motivation to the action of buying occurs. The act of purchase leads to certain purchasing behaviors.

Field 4: “Consumption” is the use of the object purchased. The result of this area is the feedback on sales results. The experience that the consumer has with a certain purchase will influence future buying decisions. When we look at the purchased item we also consider the storage and use of it. Following consumption, the firm will have a feedback about it and be able to modify and improve its product; this is the output of field 4.

This model has some limitations, as it does not offer explanations on internal factors that may affect the personality of individuals and does not take in consideration the relationship between consumers and companies. In this model several assumptions and simplifications have been made that could put it in doubt. For example, it has not been specified what category of customers we are talking about, if there is a relationship between consumers and the company for which type of product is this valid and if only the first contact that consumer has with the business is considered.

Nicosia Model

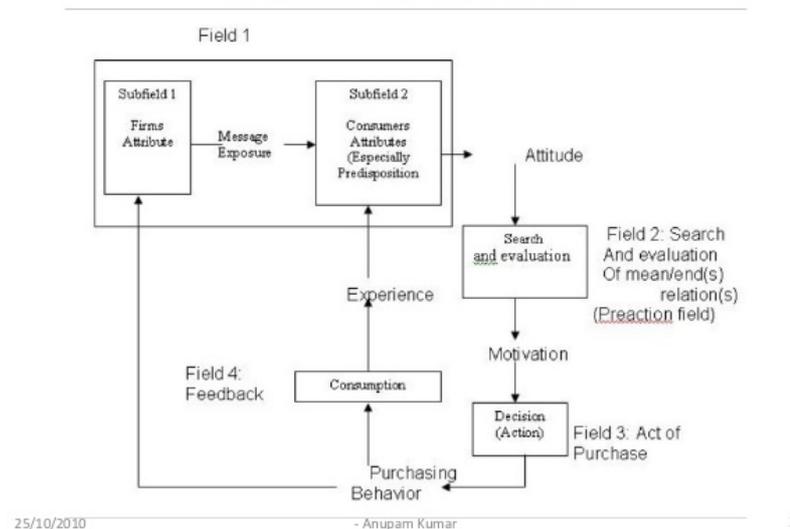


Figure 1: Author: Kumar Anupam . 2010. Nicosia Model of Consumer Behaviour

- The **Howard Sheth Model**, was presented in 1969 in “The Theory of Buyer Behaviour”, describes a unified theory for the understanding of a variety of behaviors, from the industrial purchase to that of the consumer. This model is considered to be one of the most comprehensive as it describes the various motives of consumer behavior and the different purchasing decision stages.

This theory uses the learning model as the basis for the first integrative model of buyer behavior. The model borrows from learning concepts to explain brand choice behavior. As learning takes place over time, the buyer moves from exclusive to routinized problem solving behavior.

The model shows how the rational choices of brand performance shown by buyers in a condition of incomplete information and limited abilities.

This theory of buyer behavior is the merger of different social, psychological and marketing studies on purchasing decisions. The goal of this model is to explain consumer behavior but also provide an empirical test of such behavior and its results. It distinguishes three levels of decision-making:

- 1) Extensive problem solving: the customer has very limited knowledge about the brand and products and has not yet developed the criteria to choose the product. The consumer, before purchase, will look for information about all the brands available on the market.
- 2) Limited problem solving: choice criteria are well defined but the customer is still uncertain about which is the best brand. Buyers still have limited knowledge about the brand and the market. At this level the choice criteria is clear but the client still does not know which is the right solution to satisfy their needs.
- 3) Routinized response behavior: choice criteria are well defined and the customer has a strong preference on a certain brand. The consumer is ready to purchase a product.

There are four major components in this comprehensive model that describe the purchase behavior:

- 'Input variables': stimulus coming from the external environment. These variables are information cues about the attributes of a product or brand. They can be of three types: 'significant' if they directly influence consumers through the brand's characteristics (quality, price, service, availability, distinctiveness), 'symbolic' if they influence consumers in an indirect way (quality, price, service, availability, distinctiveness) and used by the marketer to represent their product or 'social' if they are derived from the social environment (family, reference group and social class) and are internalized by the consumer at the beginning of the process.

- 'Output variables': these are the buyer's possible responses to stimulus inputs. Consumers follow a sequence order to derive conclusion about their purchase consideration: Attention, Comprehension, Attitude, Intention and Purchasing Behavior. The consumer is initially attentive about the various stimuli that help him develop an understanding of the different brands; he will then attain a certain attitude towards the product that will lead a firm intention to purchase it.

- 'Hypothesis construction': these are intervening variables that influence consumers' decisions and have been classified in two groups: 'perceptual' and 'learning' constructs. The former consists in how individuals perceive, are sensitive and respond to the information of the input variable. It is divided in three steps: 1) Sensitivity to information: in which the consumer is open to different alternatives 2) Perceptual Bias: the consumer perceives each brand differently, he develops therefore biased conclusions 3) Search for information: The consumer looks for additional information to arrive at a conclusion.

The 'learning' construct is instead related to the buyer learning, formation of attitude, opinions and the final decision. The consumer develops different perceptions on diverse brands.

The purchase decision of a consumer is the result of six learning concepts: 1) 'Motives', that are goals impelling to action 2) 'Evoked Set', these refer to the buyers' perception of the ability of a brand to satisfy their needs 3) 'Decision Mediators', consumers follow certain rules to rank their purchasing alternatives. 4) 'Predisposition', refers to preferences in the Evoked Set 5) 'Inhibitors', are the forces

that block the consumer's ability to purchase a certain product 6) 'Satisfaction', this depends on how the product's perceived performance meets the consumer's expectations.

- 'Exogenous variables': are forces external to the buyer that can influence decisions, they are not defined but taken as constant. Some external forces are: social class, culture, organization, time, pressure etc..

The main limitation of this model is that there is no clear distinction between external and other variables, and that the forces are often difficult to measure and not clearly defined. Purchasing decision are often also not systematic and sequential and don't follow specific model's steps.

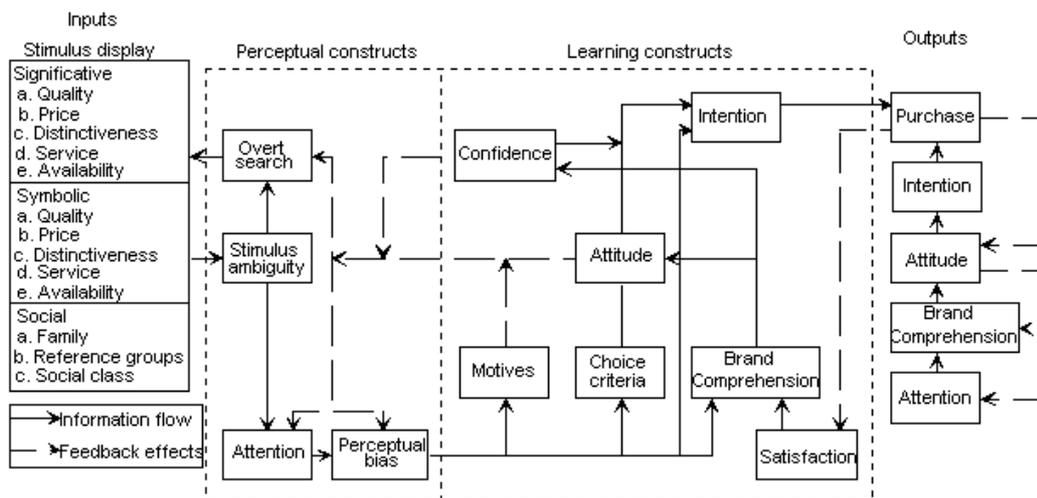


Figure 2: Author: Howard, J. and Sheth, J. 1969. The Howard Sheth Model of Buyer Behaviour

- The **Engel-Kollat-Blackwell Model** was first presented in 1968 by Engel, Kollat and Blackwell and after modified at the beginning of the 1990s by Rice and then took the name of **Engel Kollat Miniard Model** (Blackwell, Miniard et al. 2001). It is a conscious problem solving and learning model of consumer behavior. This model shows the different components that form the decision-making process and also the numerous connections that there are between the components and subcomponents. The information elaborated by the consumers in this theory can be

compared to the one in Howard-Sheth Model as when being processed they have influence on consumer's decisions and responses.

The model variables are grouped into four categories that constitute consumer decision process. The first stage is the "Information input" (internal and external search), also called the 'data collection stage'; it can be distinguished into two categories 'marketing' (advertising, store display etc.) and 'non-marketing' (family, friends etc). The second stage is the "Information processing" (exposure, attention, perception, acceptance, retention) in which the information gathered during the first stage is processed and kept in mind by the consumer. Consequently, there is the "Decision processing" that forms the third stage and is constituted by: need recognition, search, evaluation of alternatives, purchase and outcomes. The last stage is formed by the variables that influence the decision-making process, that can be environmental influences such as: cultural norms, values, reference group, unpredictable circumstances or individual influences like beliefs, attitudes, motives, evaluation criteria, lifestyle, information influence. The environmental forces of this theory are comparable to the external variables of Howard-sheth model.

The main limitations of this model are that there are too many variables and that it is very complex.

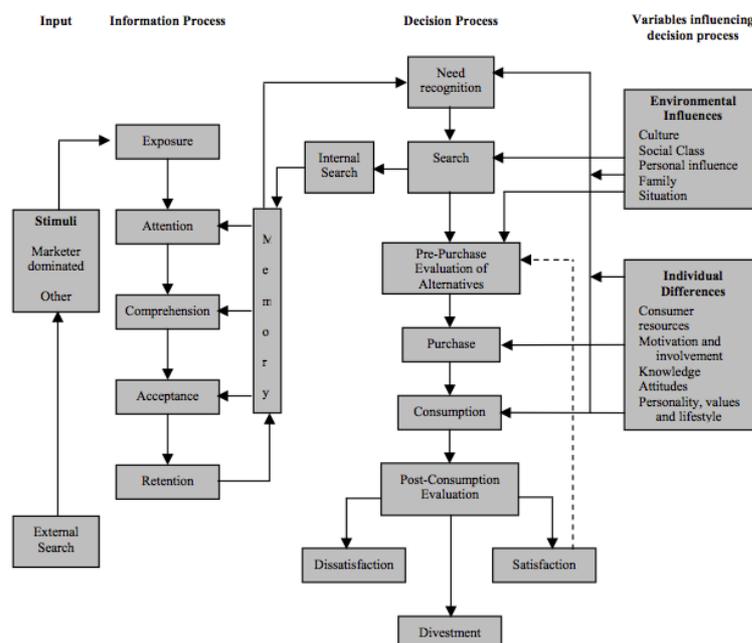


Figure 3: Author:Blackwell, Roger; Engel, James; and Miniard, Paul. 2001. Consumer Behavior: Engel Kollat Miniard Model

- The **Black Box or Stimulus Response Model** shows how stimuli interact; consumer characteristics, decision process and responses. Stimuli enter the customer's "black box", formed by consumer characteristics and the decision making process, which produce certain responses. There are two types of stimuli: Marketing, planned by the company (product, price, promotion, place) and Environmental (PEST factors), which are determined by social factors. The black box model is related to the black box theory of consumer behavior that does not concentrate in the internal processes that occur in the consumer but instead on the links between different stimuli and the responds that they create in the consumer.

Marketers have to understand the factors that form and regulate "Buyers Black Box" which is constituted by the buyer's characteristics (cultural, social, personal, psychological) and the decision-making process, in order to determine consumer's responses.

According to this theory, it is not necessary to focus on the consumer's internal processes but on the relation between stimuli and responses that are the result of a conscious and rational decision process in which it is assumed that the buyer has recognized the problem. However, this does not completely represent reality, as many decision are not consciously made. When consumers have perceived a problem, they look for information on goods and services that can solve the problem. Perception describes the internal psychological event that is associated with information search and is defined as "the process by which an individual receives, selects, organizes and interprets information to create a meaningful picture of the world"¹⁰. Usually consumers continuously search for information on goods and services and this allows researchers to predict their purchasing decisions.

¹⁰ Howard, John; and Sheth, Jagdish; *The theory of buyer behavior*; New York: Wiley, (1969)

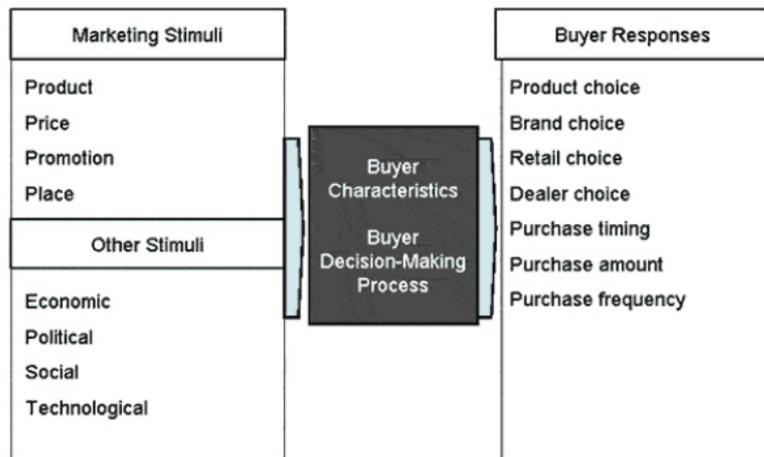


Figure 4: Author: Philip Kotler. 1999. The Black Box Model

- **Consumer decision process: the question to which behavioral analysis seeks an answer:**

We have seen that consumer behavior is “the process consumers go through when they make purchases and it involves factors that influence their decision and usage”; it consists in “the many reasons why people shop for products, buy, use and then dispose of them”.¹¹ The main goal of consumer behavioral studies is to understand how consumers make purchasing decisions. The study of this subject is essential for businesses to make marketing decisions. In 1968, Engel, Blackwell and Kollat developed a model that describes the consumer decision process. This model consists of five steps through which consumers pass when making purchasing decisions: ‘need recognition’, ‘information search’, ‘evaluation of alternatives’, ‘purchasing decision’ and ‘post purchase evaluation’. The purchase is the visible part that results from a complex decision process. The decision making process is a repeated, flexible and progressive process that is undertaken for different types of decisions. The importance people give to the different stages depends on the different factors involved. The

¹¹Lombardo, Jennifer; Understanding consumer decision-making process; Chapter 5, lesson 1, Administracion y Marketing; Professor of Marketing; Universidad privada del norte. lecture: (2014)

number of stages undertaken and the timing strictly depend on the type of decision taken. The elements that influence the purchase decision can be distinguished in four categories: the nature of the product, the characteristics of the producers, the nature of the consumer and the situation of purchase. The aim of companies is to understand these stages in order to effectively induce the customer to buy certain goods or services. Everyday people have to make decisions that concern their lives. Often we make evaluations without thinking how we arrived at the deduction of which is the best option. Some consumers follow similar purchasing processes while others do not. People do not have to respect all the stages when making easy decisions; however some choices are so important that all steps must be completed. Often individuals don't even realize how long they have had purchasing power.

The first stage of Consumer Buying Process is "need recognition": it occurs when the consumer perceives that his level of satisfaction is not at the desired level. There can be internal (physiological) or external stimuli (e.g. advertising) through which a consumer perceives a need. They must be compelling enough to induce an individual to begin the purchasing process. Needs can also be of different types and Maslow proposed a classification for them: physiological, safety, of love and belonging, of esteem and of self-actualization. When an individual realizes which product can satisfy their need it becomes a 'want'.

The second stage is the "information search": once the consumer has identified his need and want he will look for information about the best alternative that will satisfy his sense of lacking. The consumer can receive information actively or passively. Information can also be influenced internally (derived from memory, experience) or externally (derived from family, friends, mass communication, advertising etc.). The time that the consumer dedicates to the 'information search' depends on the costs, the risk involved and interest in the product.

The third step is the "evaluation of alternatives." Having gathered information about different products the consumer has set of diverse alternatives from which to choose. The individual has to evaluate the different options and select the product that best meets his need.

In order to do so, he has to look at two aspects of the attributes that form the different alternatives: the objective characteristics, such as functionality, and subjective ones, such as perceived value. Individuals each have different perceptions of qualities and this is why they make different choices.

The fourth step is the “purchasing decision”. After having evaluated the different products and brands, the consumer is ready to choose what he wants to purchase. The final purchase decision may be deviated by two factors: negative feedback from other consumers and an unpredictable external event (change in price, income etc.)

The final stage is the “post-purchase evaluation”. The consumer will compare the perceived performance of the product with its expectations. If individuals are satisfied they will recommend the product to other consumers and will remain loyal to the brand, making subsequent purchases. On the other hand, if the consumer is dissatisfied he will repeat all the 5 stages of the purchasing process and exclude the previously chosen brand from the alternatives.

After having seen the different consumer behavior models and how they have changed and evolved in time I will try to focus and analyze on the firm’s business models. Business models have also changed a lot in time in order to adapt to the continuously transforming market.

- The business model: how to create value and earn profits:

Having understood consumer behavior and the purchasing process, businesses must develop successful and effective plans in order to generate revenue and make profits from sales.

The model that describes the method, means and strategy used by a company to capture value is called the Business Model. The value creation of a business is the complex result of an interconnected set of relationships and activities between several players.

The notion of the business model started to appear in 1995, since then interest in this subject has greatly evolved and has been the object of attention of many researchers, businessmen, journalists and academics. The reason this model became popular in this

period was the drastic reduction of transaction costs in the processing, storing and sharing of information that lead to the development of new methods of doing business. In the past, most companies had the same business model, nowadays it is not sufficient to choose a profitable market but you must also develop an innovative business model in order to survive the increasing competition.

Although several papers and articles have been published on the business model, a clear and distinct definition of the subject has not been offered. However, several interpretations have been given to the concept; it has been referred as a statement, a description, a representation, architecture, a conceptual tool, a structural template or a framework. Despite all the different interpretations of the subject, we can conclude that the business model is a building plan that consents the design and realization of the business structure and systems that constitute the company's operational and physical form. The rapport between strategy, organization and system is defined as a business triangle and is influenced by external forces such as competitive pressure, social and technical changes etc.

It is important to underline that there are two main perceptions of the business model: the first refers to it as the way in which a company does business and the second refers to it as the conceptualization of how a company does business in order to see its objectives, means, strategy and methods to capture value in a more clear and simplified way. Business model evolution can be distinguished in five phases: In the first phase, published literature mainly focuses on finding the right definition and classification of the model (Timmers 1998). In a subsequent phase, researchers concentrated on identifying the different components of this model. In the third phase, authors, managed to find clear description of the various components that constitute the theory (Hamel 2000, Tucci 2003). According to Hamel, to survive in the "age of revolution"¹², companies must adopt new, innovative business models. The main characteristic of this original view is that the model has to contain both the creation value and network value that constitutes suppliers, partners, distributors etc. Afuah and Tucci described the

¹² Hamel, Gary, Chris Lauer (eds.), *Leading the Revolution*. Massachusetts: Harvard Business School Press, (2002).

business model as “a unifying construct for explaining competitive advantage and business performance”¹³ and defined it as “the method by which a company builds and uses its resources to offer its customer better value and to make money”.

During the fourth phase, researchers, started to make progress and test the model. In the last stage the reference model was applied in management.

Companies follow different business models according to the company’s offer. It is possible to identify nine building blocks that form the “business model canvas” and that describe diverse models. It has the characteristics of any other model. It is important to underline how this model is closely related to innovation: the innovation of a business can be derived from each box and businesses commercialize their new ideas through this model. Some companies adopt business models in order to facilitate innovation and the organization of the skills adopted.

This model cannot only lead to innovation but it might be shaped by it. Calia and Maura (2007) showed how innovation can cause business model reconfiguration. New innovation, technologies require appropriate business models in order to capture value from consumers.

¹³ Zott, Christoph; Amit, Raphael; and Massa, Lorenzo. The Business Model: theoretical roots, recent developments, and future research. *Journal of Management* 20, no.10 (2011): 2-20



Figure 5: Author: Osterwalder, Alexander; and Pigneur, Yves. 2010. Business Model Generation

Organizations need to have a deep understanding of how consumers behave, with regard of what they produce, in order to be successful in selling their products. Consumer behavioural studies consist also in understanding what products certain consumer targets want to acquire and when they decide to purchase them. Consumer behavior is the analysis of how people take buying decisions and have needs and wants concerning a specific good or service. By understanding consumers businesses can try to predict how they will respond to new products offered and discover new gaps in the market. There is a deep influence of consumer behavior in firm's business models, examples can be made in several fields. A big portion of decisions taken in the Marketing area of businesses depends strictly on the results found in consumer behavior researches. The correct marketing mix has the effect of inducing people to buy immediately and can have tremendous impact on the rationality of consumers in the decision of maximizing their utility with a certain product. Marketers have to concentrate mainly on three different aspects of consumers: the Personal, specific to a person; the Psychological, unique to their thought process and Social, that can include a person's family and other social interactions. The advertisement, commercial and

promotions of a determinate product, strictly depends on the client: if a certain good is targeted for teenagers, as chips for example, the business will be more likely to concentrate the advertisement of it on social networks; if the product is instead targeted for households, as a vacuum cleaner, the marketing activities will be concentrated mainly on magazines, TV and posters. Another important area that is deeply influenced by consumer behavior results is the Product Development. When businesses discover a gap in the market that has not yet been explored and filled with a product, a new good or service will be produced in order to satisfy the missed needs and wants of people. Businesses have therefor to learn as much as they can from consumers in order to produce a winning idea. Service is another important element in business that needs to be considered in the above mentioned relation between consumers and business. Service is the result of an interaction between consumer and front line employee. Clients choose to consume a certain product depending on the service offered by the business. An example can be made by those consumers that need a fast service during meals because they have small brakes form work: those clients will more likely be loyal to fast food and therefor the business should continue to train its employees to serve the clients quickly in order to guarantee their long term loyalty. Often businesses even study past consumer behavior in order to predict future sales and have no problems of product shortage. Many consumers go often to the same restaurant and choose their favorite dish every time, if the restaurant would run out of it this could compromise the satisfaction and loyalty of the client. As previously mentioned consumer behavior deeply influences the business model of organization but it is also very important to notice how, the other way around, businesses profoundly influence the clients behavior. Successful business don't only have to understand consumers but they also have to understand how to best influence the behavior of them in order to induce them to buy the product offered. Organizations are able to do this by studying consumers needs and wants to get them to persuade them to buy the good. There are several ways to do this. First of all companies have to be able to influence their clients emotionally. One of the most used, successful and immediate ways to impact clients is through particular and impressing promotional material. Messages and values transmitted by companies through TV, radios, posters

and magazines are often impressive, emotional and hard to forget for consumers. Researchers have shown that people often buy products that have been promoted in an emotional way transmitting a sense of surprise, joy or humor. An example can be made with McDonald's advertisements: this firm has used more than 23 different slogans to promote its products and concentrated its commercial campaigns on the overall experience given by the brand rather than the single product. "Happy Meals", "I'm loving it", "The taste you love and to share" and "Get in on all the lovin' action ahead of time" are only two of the several fun slogans used by the brand to connect people with McDonald. Only recently business have understood how they can influence consumers behavior by being socially responsible and transmitting this value to consumers. Many firms have nowadays become ecologically sustainable and active in charities, by informing their consumers about their activities they have managed to impressively increase demand. One of the most known food companies known for its role in sustainability is Starbucks. This firm has been active in several fields and been founder of many projects like: "Commitment to Origins" through which several funds were given to local coffee producers, their families and communities and educated to be ecologically sustainable; "Commitment to Environment" in which recycling was encouraged both in coffee-growing countries and in-store distributors; "Commitment to Communities" through which Starbucks guaranteed to be a responsible neighbor and an active contributor in communities from where its resources derive. At last is also very important to underline how this cafeteria has played a big role in sustaining the respect of people in the working environment and underlined how dignity needs always to be maintained.

The connection between consumer behavior and business model can be made by the recent emergent trends in the market. Companies have perceived that consumer behavior habits in eating have changed deeply: the demand for healthy and sustainable products has increased and several business are trying to meet these new needs. Researchers have revealed that those companies that have not been interested in monitoring and keeping up with consumer behavior trends have been left behind and not been able anymore to reach competitive advantage. Instead, those companies that

have focused a lot of their attention and researches towards consumers have managed to anticipate future trends and earn higher profit than other firms.

Since people of different culture and nationality have continuously changed preferences of food, restaurants and other food suppliers have to comprehend the behavior of consumers in order to adapt successfully their strategy and be efficient. Firms looking at consumer's behavior have to look different factors that influence the purchase of people and consider them when modeling the business. In the next chapter I'm going to analyze more accurately the strong relation between consumer behavior and industry business models and how the former has led to several changes in the market.

CHAPTER 2: “The Fast Food Nation”

- Industrialization of the food industry and the birth of processed foods in North America:

The development of the food industry, through industrialization and processing started in the early 1900s. It is necessary to look at history in order to understand the profound changes that have affected this market through the years. Modernization, mechanization, social progress, the increase in quality of life, feminine movements and the World Wars are just some of the factors that have influenced this market. In the early 1900s, most Americans were still farmers who lived in rural areas. With the urbanization and industrialization of the country most of the population moved from agricultural environments to cities in order to participate in the labor market. Industry was not yet fully developed and people had low living standards with limited financial resources. The profound political, social, scientific and economic changes at the beginning of the century had a huge impact on how food is processed and marketed. In order to support the new economy it was necessary to offer cheap basic everyday products. New technologies were adopted to transport food from the countryside to the cities and to guarantee its freshness. It is important to underline that most preservation techniques like drying, salting and fermentation were adopted from ancient civilizations, for example, one of the most used techniques was canning, this technique had been experimented in the middle of the eighteenth century by the Dutch navy. The aim of mechanization of the food system was to increase the level of specialization, simplification and standardization the entire value chain. The new concept of specialization was to be more efficient and reduce cost by maximizing output by concentrating on a single product rather than producing different varieties. Mechanization of the market also led to big changes in the workers' jobs. The labor force did not have to develop different skills in order to be able to perform different activities in the production system and workers became more and more specialized, performing simple, limited and routine tasks. The main goal of production was to be efficient and produce outputs that were uniform. The concept of economies of scale

developed soon in the economy: “the gain in efficiency that comes from doing something on a larger scale, such as mass production or buying in bulk. During these growth periods many smaller factories closed down, often because they could not compete with larger, more efficient operations.”¹⁴ The main success of this development was the ability to produce higher volumes of food with minimum effort and costs. The new market managed to attract the consumers by adopting a strategy of cost leaders. Soon the American food supply market was recognized as the most productive and success of the world. However, this fast growth and concentration on the production rather than the product, lead to hugely negative consequences that impacted the whole of society; health, environment, animal welfare and social equity all began to suffer from the rapid industrialization. The first 50 years of the 20th century were characterized by poverty, war and agriculture communities. The working class was very poor and often suffered from malnutrition, infant mortality was also very high. Both during and after World War I, the situation did not improve: there was a serious shortage of food and the economy suffered a stock market crash that heralded the imminent Depression. In the 1930s the economy was hit by a global recession; poverty and malnutrition continued to persist. When World War II started in 1939: men had to go war, while women had to substitute their husbands at work. These important social changes had a big impact on the economic, technological and social situation in many countries. We can conclude therefore that the turning point in the American economy came after World War II. Following this dreadful historical event health, technology and nutrition greatly improved. During the Second World War in order to make the conservation, storage and the transportation of food to the front line easier, food started to be processed industrially. The army was responsible for complex innovations in the food industry like the microwave ovens and plastic containers. These new techniques were subsequently adopted for the general public in order to offer products that were

¹⁴Ikerd, John E. *Crisis and Opportunity: Sustainability in American Agriculture*. Lincoln (NE): Bison Books, University of Nebraska Press, (2008)

safe, nutritional, varied, convenient and attractive for the consumer yet, at the same time, profitable for the suppliers. At this time food began to be processed so that consumers had safe and attractive products. When food rationing finally ended, health, nutrition education, consumer spending and mechanization rose drastically. But what is food processing? It is defined as “any procedure undergone by food commodities after they have left the primary producer and before they reach the consumer, who may themselves further cook or process the food.”¹⁵ Processing can occur at different levels and have also different levels of complexity in the technologies adopted. New forms of food supply that were used in food processing were diffused after WW II. Entrepreneurs that entered the food market started to adopt continually more mechanized, automated and specialized techniques. The goal of the new industrial leaders was to run viable, profitable enterprises by offering highly standardized products at low costs.

This market only really took off in the second half of the 20th century. Women started going out to work contributing to the family income; the main trade off of their new lifestyle was that they had now limited time to take care of the house and their children. Soon entrepreneurs understood that they had to offer fast and attractive snacks that could be consumed in short breaks at work. With the increasing standard of living, women soon understood that restaurants could be a good alternative to their home cooking. The feminist movements of the period proposed automated food chains and centralized kitchens, the main goal was to liberate women from the preparation of food that was time-consuming and, at the same time, very costly. The concept of ready-cooked food soon spread around the country, fast food describes food products that can be prepared and served very quickly. This type of fare offered by restaurants and stores was initially characterized by being very cheap and of low quality. In the 1950s fast food restaurants began to proliferate around the country. This type of restaurant focused

¹⁵ Welch, R.W.; and Mitchell, P.C.; Food processing: a century of change, *Oxford Journals* 56, no.1, (2000): 1-15

on gaining experience and abilities in product development, sourcing practice, service levels and standardization of operations.

- **The propagation of restaurants, its benefits and disadvantages:**

There were several factors that favored the expansion of this new type of restaurant: the increased diffusion of cars, the construction roads, the development of suburban communities, the post war baby-boom, improved standards of living and a reduction in the time available for domestic chores. This new type of business was immediately popular, the reasons were several: firstly, there was a change in gender roles, women started working outside the family home and had limited time to spend on housework, fast food restaurants could offer a good alternative to cooking. Secondly, consumers increased their standard of living and became more refined; they did not want to spend their time and energy on housework. As in the second half of the 20th century, both men and women worked and the disposable income of families almost doubled allowing the members to spend more money on eating out and other activities. A third important factor that helped the diffusion of this type of restaurant was the arrival of immigrants in America who wanted to be able to find their traditional foods. Different types of fast food restaurants soon spread around the country offering diverse type of cuisines from Japanese to Italian, Chinese, Mexican and British. Soon the fast food concept spread all over the World, dominating the food industry market. However, the diffusion of these restaurants soon had several negative consequences: focusing on the costs and speed of production rather than the quality of the product, lead to the production of food that was not healthy for the consumer. Studies began to show how the food produced in fast food restaurants contained high levels of trans fats that could be linked to numerous diseases like obesity, diabetes and cardiovascular problems. Trends show how the level of overweight people in the United States has drastically increased in recent years. In the 1950s only the 9% of the population was obese, during the 60's access to food become very easy and there was an oversupply in the market. At that time men consumed approximately 2200 calories a day while women consumed about 1500. Through the '80s and '90s the percentage of obese and overweight people continued to rise, reaching

30.5% and 70% in 2000. Today, men consume about 2700 and women about 1950 calories daily. In 2014 the level of overweight people arrived at 72.1% and obese levels reached 35% of the population.

The development of a strategy based on low costs, not only had negative consequences on the quality of food and, therefore, the population's health but also on the environment: the cheaper materials used for packaging in this sector were not biodegradable nor environmentally friendly.

By looking at these figures we can see how the situation in America has completely changed over the last 100 years. In 1900 most of the population was poor and malnourished, almost all working class children were underweight and women often suffered from anemia. The low levels of food hygiene were also an important source of diseases like tuberculosis, typhoid, salmonellosis and numerous other infections. Only in the '40s were there advances in nutrition, medical and food science that helped the industry to develop and grow in an impressive way. Food production, standards, safety and accessibility improved over the years. The situation passed from one of undersupply and scarcity of food products to one of oversupply and a high density of controlled food. In 1954 the National Health Service was established in the USA. As mentioned earlier, the increase in standard of living lead to an increase in the availability of ready foods, and malnutrition became a problem of the past. However, other social problems arose: there was a drastic increase in heart disease, cancers and diabetes, all health issues tightly linked with a bad diet and poor nutrition. In the second half of the 20th century people started to consume large amounts of trans fats, refined carbohydrates and lower levels of fibers than ever before. Seeing this worrying situation soon governments, administrations and different institutions began to realize how important it was to raise public awareness of how significant it was to conduct a healthy life style and eat a balanced diet. Very soon consumer's needs and desires changed and consequently the type of demand, accordingly, the food industry started to offer a new variety of products. As people became aware of the strong link between food and health,

manufacturers started to offer food products with lower levels of fats, sugar, salt and with higher levels of fibers.

The huge changes in consumer attitudes towards food throughout history have constantly reflected the long-term economic, social and cultural situation of the different countries. Whilst in the past the studies on nutrition were few and information about food was very limited, today consumers are more aware and informed about the food word. Technological developments in the last 100 years have not only helped food companies to improve the efficiency of production processes, but also that of communication. The variety of promotional tools available that help businesses to communicate with consumers has sharply increased and these new promotional instruments have deeply influenced consumer behavior. Now companies can stimulate consumer choices and attitudes in several ways. Businesses no longer focus on developing highly standardized and impersonal mass communication, they prefer rather personalized, interactive and highly targeted messages. Sources of information for consumers have also increased; people now have a much broader knowledge about food, brands and correct diet. In today's society conducting an unhealthy lifestyle is a question of personal choice rather than a condition caused by scarce information and limited alternatives. Consumers are becoming more involved with the food they eat, nutriment is no longer a mere question of survival but it is seen by buyers as a source of pleasure, socialization and an enjoyable experience.

How is it possible that the 'Food Culture' and customer behavior towards nutrition has changed so much through the decades? In the past people had limited income and so they focused only on basic needs, eating was necessary to survive, money was used to buy simple products so that the rest of could be used for other necessary outlays. Unlike today's society, there were distinct social roles and the family hierarchy had to be respected: men went to work in order to financially support the family, while women had to take care of the house and the children. The entire economy was organized to be efficient, reduce costs and produce highly standardized products. The traditional culture was obviously also reflected in the food culture: products were similar, standardized and

predictable; cooking was one of women's habitual activities and eating was seen only as necessary to survive. The American culture has changed a lot over time and, consequently, the attitudes of people towards food altered too. In today's modern society there are no well-defined social classes, instead there are complex social networks. Family members do not have a specific role and identity within the family: often both women and men do the housework and go out to work. People no longer consume essential and basic products necessary for survival, nowadays there is such a high quantity and variation of products on offer that the consumer can choose the one that best meets their needs from among different alternatives. Brands aim to offer consumers an 'experience' before, during and after the purchase and not just a product. Goods and services are becoming more and more customized; of high design and quality. The modern eating culture and customer behavior reflects all these changes: products are distinct, characterized by different attributes in order to satisfy a scope of diverse customers and their needs. Cooking is no longer necessary merely to feed the family, data shows that, on average, American families go out to eat in restaurants or fast food outlets five times a week. People are also more engaged in choosing the food that they find most attractive, customers can select from among an infinite variety the food that is more appealing to them and best satisfies their needs. Studies have shown how, in recent years, customers' interest has turned mainly towards premium/fresh or discount/low cost products rather than mid-market goods aimed at the masses. Customers who purchase the first type of products, distinguished by freshness and quality, are usually educated to a higher level and have an income superior to \$100000 per year. Instead, discount/low price products tend to attract people with lower education standards who earn less than \$35000 per year. Market research has also shown how the consumers' interest in food is growing. People don't spend anymore time, effort and money to look for the product that best satisfies its needs and wants. By examining data on trends in the food market it is evident how retailers who do not offer specialized products (ex. Supermarkets, Supercenter, Warehouses) are losing business, while those who focus their business strategy on the specific needs of consumers by

offering low cost (eg. Discount stores) and high quality (ex. Organic/specialty stores and no Primary need stores) are booming.

- **New trends: experience, health, sustainability, convenience and pleasure:**

Can these effects and changes in the channels of distribution seen also in restaurants? As mentioned previously, the technological development of the last 100 years has drastically improved and developed different levels of communication. These have helped business, not only, to communicate and persuade consumers to purchase their products but also to increase consumer awareness. Health, which is an intangible food quality, is increasingly important for consumers. The increase in consumer's awareness is due to the availability of health information (ie. based on scientific research) and interactive health communication on the Internet, which has helped consumers to understand the strong link between health and food. Consumer attitudes towards health have changed impressively in the last years. The greater knowledge and consciousness of nutrition have lead people to look for healthier products in order to prevent diseases and maintain a healthy life style. Health choices have often been the consequence of different interpretations of conflicting signals and types of communication. Therefore, consumers have developed contrasting theories about the healthiness of some food products. However, some theories, such as: 'industrially produced food is less healthy than homemade', 'additives are unhealthy', 'fat is bad and vegetables are good' are common to them all. Increased health awareness has been linked also to demographic changes that have occurred in society: today the population of elderly people is much higher than in the past. Older people are more interested than the younger ones in healthy food as they are more conscious and interested in living longer in good health. Modern food businesses have a strong market orientation and therefore their main focus is on consumers. Products have to be designed, developed and distributed in order to best satisfy consumers' needs and guarantee their product loyalty long-term. Successful innovations in the food market and production process have occurred in the last years in order to meet changes in buyer's demand. In the past, technology was employed to maximize the efficiency of the production process and to reduce costs as much as

possible. Currently, food manufacturers are adopting innovational techniques to produce constantly more diverse, healthy, safe and environmentally sustainable products. Companies are continually researching consumer behavior to be able to recognize and satisfy the clients' emerging needs and desires. The food products aimed at promoting 'health living' have been defined "functional foods", these products have been integrated with bioactive ingredients to improve the health benefits derived from their consumption. Clearly, the demand for these products is increasing because of improved awareness of the link between good diet and good health. One of the sub-categories that has been most successful is the reduced or low-fat sector. In recent years there have been several high profile legal claims against fast food companies for their elevated level of saturated fat content, 'functional foods' can therefore offer an attractive alternative and play an important role in the attempt to reduce the constantly increasing level of overweight and obese people. The main disadvantage of 'functional foods' is that consumers are often skeptical about these modified products, as they perceive them as "unnatural".

Another important influence on consumer attitudes towards food is convenience. People in time have consolidated the preconception that fast food is more convenient than the healthy one. Subsequent to the American economic depression and cultural development, the population was looking for increasingly convenient products. Studies show how modern consumers perceive the convenience attribute in the food market as important as other attributes like taste and health. But what does 'convenience' actually mean? With the passage from a traditional to a contemporary culture, people have much less time to spend on domestic activities and also, as discussed above, the time and effort necessary for cooking meals are channeled into other activities considered more essential. The American consumer is constantly looking for more accessible, portable, appropriate and utile products. Convenience in the context of food can be defined as: "reduction in time and effort (mental and physical) spent buying, storing, preparing and consuming food. 'Convenience foods' are defined as any fully or partially prepared food in which significant preparation time, culinary skills or energy inputs have been

transferred from the homemaker's kitchen to the food manufacturer and distributor.”¹⁶ The demand for these type of product is increasing because of several factors like the growth in number of single-person households, ageing population, changes in roles within families, female participation in the labor market, longer working hours, increasing interest in healthy eating, a decline in cooking skills, a reduction in traditional mealtimes and the desire to spend less time and effort on food-related activities. Differently from the past, consumer interest is also in the quality of the product, consumers will no longer accept to compromise the freshness and healthiness of food. This is not always easy to achieve, companies find it difficult to produce ‘convenience foods’ that respect certain standards and, at the same time, are profitable. Studies have also shown how consumers often perceive that healthy eating does not always correspond to ‘convenience’ eating, but this is not always true. In the last decade awareness of health issues has increased and food manufacturers have perceived the new needs of society. In the past, specialized health and organic stores already existed in the food market, however, they were more costly and aimed at higher income consumers. We can show how this continues to be a problem today as data of the United States Department of Agriculture's Economic Research Service and The Reinvestment Fund have shown that about 9% of the total population live in areas that offer consumers no access to healthy foods. People that live in this communities usually have lower incomes and can not afford to buy higher quality products. Even though the authorities and policy makers have recognized this situation, no solution has yet been found. However, it is important to underline how, in recent years, leaders in the restaurant market have differentiated their menus to offer healthier alternatives and have added nutritional and calorific information to food packaging in an attempt to reduce the problem and meet the increasing concerns about health issues. Research has also shown how food manufacturers have found a new slot in the market that has not been exploited in the past; as consumers increase their awareness of the relationship between diet and health, numerous restaurants concentrating on convenient, cheap, organic and appealing

¹⁶ Grunert, Klaus; Tudoran, Alina; Chrysochou, Polymeros; and Mingkou, Theodosia; *Trends in the new product launches in the food industry*. MAPP Center for Research on Customer Relation in the Food Sector, Aarhus: Aarhus University, (2012)

products that, at the same time, are healthy, are now opening. Businesses are constantly developing food product combinations that can meet the new demand for convenient but healthy products, the main characteristics required are: short preparation times, vegetable content, meals that are light, sustainable and for specific diets.

Consumer attitudes toward food have changed vastly over time: in the past it was simply considered essential for survival. In today's contemporary society, the consumer is looking for a pleasure in food; a hedonic food experience. Therefore, companies had to adapt to this change in consumer attitude by no longer producing just essential and basic products, but by offering increasingly appealing and attractive goods. Quickly food manufacturers understood the importance of offering not only a food product but also, a memorable experience. Customer experience is the internal and subjective response customers have to any direct or indirect contact with a company. "An experience occurs when a company intentionally uses services as the stage, and goods as props, to engage individual customers in a way that creates a memorable event".¹⁷ Consumer experience is multidimensional and includes hedonic dimensions, such as feelings, fantasies, and fun. Today, consumer attitudes and the retail food buying process is completely different from in the past and it is possible to identify several factors that have changed over time. Traditionally, companies believed that consumers were pushed mainly by extrinsic motives to purchase products. Choice from among the products offered was determined by exogenous influences and depended strictly on cognitive factors: preferences depended simply on the diverse attributes of the different products on offer. Products were seen merely as an aggregate of different components. Today, restaurants have understood how the overall experience before, during and after the purchase is essential to guarantee long-term profitable relationships with consumers. Companies have now understood that consumer purchases are mainly influenced by intrinsic reasons and emotional factors. Consumers have a holistic concept of food products: they are more concerned with the 'whole' rather than the analysis and

¹⁷ Pine, Joseph; and Gilmore, James; Welcome to the Experience Economy. *Harvard Business Review*. (1998).

Available at: <https://hbr.org/1998/07/welcome-to-the-experience-economy>

separation of the single parts. Products are seen as “gestalt”, in their entirety of color, material, surface, taste, sound, properties, purpose, function, use etc.; the product sends a message that is received and interpreted by the consumer. Consumers constantly expect higher quality and enjoyable foods. Reports show how restaurants and fast-food outlets today mainly focus on the fun atmosphere rather than fine cuisine. Around the year 2000, a global movement of very sophisticated chefs proposing researched and studied cuisine of extremely high quality began. Soon food was seen as an art form and a modern form of expression and the importance of offering a unique experience was never neglected by these ‘celebrity chefs’. Several new impressive techniques were introduced to produce and present food in a memorable, exclusive and innovative manner that remained impressed in consumers’ minds: such as studies into molecular gastronomy and the introduction of new and unexpected ingredients never used before in traditional cuisine. These world famous chefs have attempted to revolutionize eating in in several locations like schools, airports, shopping centers and fast food restaurants. However, it is important to underline how consumers are not willing to renounce the convenience factor to have a greater dining experience and cuisines. So restaurants adapted to produce convenient, affordable meals that, at the same time, were fresh and of high quality. This was achieved by proposing the products to consumers in an exclusive atmosphere, in a unique and memorable way and, at the same time, using locally sourced, seasonal and affordable products that guarantee freshness, quality, convenience and accessibility.

One of the biggest changes in consumer mindset that has occurred in the last decade is that people no longer think in the short term of their personal interests and the survival of their family, but they now think long-term. Consumers are increasingly more attentive to sustainability and respect for the environment because they are experiencing first hand how the natural world is suffering and has been damaged because of the superficial attitudes toward this issue in the past. High levels of pollution, waste, the ozone hole and climate change are only some examples of the damage caused by human activity. Consumers are not only interested in the final product but also in the manufacturing process. Issues such as animal welfare, environmental concerns and

GMO-free products are becoming important issues. Companies are trying to satisfy this new social attention by becoming more sustainable: being able to address current needs without compromising the environment for future generations. The Dow Jones Sustainability Index describes corporate sustainability as a “business approach to create long-term shareholder value while addressing social and market needs”¹⁸. In conclusion, we can define sustainability as the attempt to respect the planet and its populations whilst, at the same time, safeguarding the survival of the business. Businesses have perceived this new long-term consumer perspective and have adapted to it. Modern businesses try to develop responsibility and consciousness of their actions and impact on the environment during the entire process of value creation. However, it is important to underline how, through globalization and the development of new technologies, obstacles between countries and markets have disappeared. This led to a consequent improvement and facilitation of the transportation of foodstuffs around the World. Consumers have continually more access to a higher variety of non-seasonal foods from further afield. However, numerous studies indicate how consumers are increasingly interested in animal welfare, environmental issues, climate change, wellbeing etc.. There is increased demand for organic products, new forms of distribution for locally produced, seasonal foods (i.e. farmers’ markets) and restaurants that promote a balanced diet and specialize in healthy products. Scientific and other types of research into the link between nutrition and health is constantly in the news and several books criticizing the current food regimes (e.g. “Food Wars” by Tim Lang, “Fast Food Nation” by Eric Schlosser) have recently been published. Nonetheless, this increasing trend for healthier and more sustainable products has encountered some barriers in recent years. The economic crises that effected almost the entire western world in the 21st century slowed down the development of this new market. Healthy, sustainable and appealing products are more expensive to produce and, as a consequence, only accessible to the higher income families; during the financial crises, the potential clients of this type of product

¹⁸ RobecoSAM and S&P Dow Jones. Sustainability Investing. *Dow Jones Sustainability Indices*, (1999).

Available at: <http://www.sustainability-indices.com/about-us/dow-jones-sustainability-indices.jsp>

were reduced even further. Nonetheless, important movements, driven undoubtedly by increasing concerns about sustainability, are growing, as for example vegetarianism (even if this type of radical dietary choice is often driven by health concerns rather than sustainability reasons). Studies show how businesses with certification of their sustainability and socially responsible have greater demand than those that without. As consumer interest in the quality of food increases the demand for more 'genuine' products, this raised awareness of sustainability is motivating businesses to review their business models in order to act more responsibly towards society and the environment. Customers perceive local, natural and traditional products as of 'better quality' and containing lower levels of preservatives and other chemical additives essential for the conservation of foods but, at the same time, harmful to human beings and the environment. The signs of this new trend in demand are the growing market of organic products and the diffusion of the concept of 'slow food'. New certification which guarantee the dependability of the products, such as the 'Protected Designations of Origin' (PDOs) and 'Protected Geographical Indications' (PGAs), have been introduced to the food market, although it has been claimed that these certificates can cause confusion in consumers about which indicate truly organically produces foods (e.g. the Danish 'O-label').

All the above-mentioned emerging trends in the food market are cumulative with the traditional values such as taste (sensory quality) and price. The specific trends do not substitute one another or the previous ones. Businesses must adopt a holistic vision with consideration to the fact that increased awareness; technology and innovation, have rendered the modern consumer, wanting all of their traditional and contemporary needs satisfied, extremely demanding. From the observations above, we can deduce that food choice is not a simple procedure for consumers but the result of a complex system of diverse factors. Through the years, consumer demand has become more and more complex and exigent. The complexity of food choice can be considered the result of two factors: firstly, the increasing differentiation of the foodstuffs from which to choose and, secondly, the increasing dynamic complexity and heterogeneity of consumer demand. The increasing variety of consumers has given food suppliers, such as retailers

and restaurants, the opportunity to differentiate into diverse sectors and attract different clientele by offering distinct products to satisfy their dissimilar needs. The growth of the market has given several advantages to the food business because of the increasing opportunities to add value, the reduction in competition and concentration of businesses, the high consumer preferences and therefore loyalty, the brand equity and the higher margins. However, there have been also some drawbacks: numerous companies have encountered difficulties in adapting their business model to the continuously changing customer demand and acquiring new knowhow has often been a huge obstacle.

These changes in consumer behavior have led to a change also in how consumers perceive value in food products. Whilst in the past, a decent flavor was enough for businesses to be successful, in today's market it is not. Restaurants and food retailers must study new business models in order to meet the numerous new and different factors that influence consumer behavior. It is also important to highlight how companies must bear in mind how cultural and subjective factors also deeply influence a person's perceived values and preferences. Food suppliers must have both the capacity to adapt to all these changes and the ability to understand and seize opportunities by observing the market, thus developing together production-related and market-related competencies. The former consists in developing the ability to create a product, whilst the latter consists in being 'market-oriented', this is considered one of the main sources of competitive advantage for businesses and defined as: "the organization wide generation of market intelligence, pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it."¹⁹ By developing market-related competences, businesses are able to understand consumer demand and accordingly develop new products. Market orientation plays an essential role, especially in situations where customer demand is unstable, complex and heterogeneous. In situations where market orientation is very important, usually, also higher flexibility skills in the production competences are required. This involves two important factors: "firstly, flexibility in using available

¹⁹ Jaworki, Bernard; and Kohli, Ajay; Market Orientation: antecedents and Consequences; *Journal of Marketing* 57, no.3 (1993): 53-70

resources in alternative operations, typically required when products are differentiated, and secondly, for flexibility in identifying, configuring, and deploying chains of resources for new uses, typically required in the context of new product development.”²⁰

Understanding consumer demand is essential for the survival of a business. Companies must recognize which of the numerous potential sources of competitive advantage are most likely to add value to the product making it profitable and popular long-term. Understanding the consumer consists in developing knowledge about food choices, the main motivations for consumption and the relevance of situational factors that influence people. Once the business has accumulated knowledge about target consumers, it can seek to attain a competitive advantage by developing new products. Introducing new products can produce huge advantages to a business but, at the same time, can be very risky. Matching product development to both the market and consumer demand is becoming constantly more difficult because of increasingly complex and heterogeneous consumer trends. Several product factors that are currently important to consumers are invisible (health, convenience etc.) and, therefore, more difficult for businesses to convey. Therefore, besides the physical development of the new product, the management of communication with consumers and suppliers is also essential. Maintaining a connection with customers is necessary to guarantee their satisfaction and long-term loyalty; whilst managing the supply processes is essential to guarantee the provision and quality of raw materials. For businesses that decide to differentiate in many different areas, the containment of the costs for market research is also essential.

²⁰ Sanchez, Ron; Understanding competence-based management: Identifying and managing five modes of competence; *Journal of Business Research* 57, no.5 (2004): 518-532

CHAPTER 3: “Flexibility: the key to success”

- A&W “All American food”: it’s all about tradition, standardization and speed of service:

In this last chapter of my dissertation I will analyze two different emblematic firms of the American food industry. The goal of my study and research is to follow how the food market has developed and adapted to its clientele over the years. From early on, food suppliers of every type, have tried to cope in the best possible way to respond to consumers’ needs and wants, to meet their expectations and to satisfy them with the service and goods offered. It is important to note how the firms that have managed to survive in long run, that have been profitable and achieved competitive advantage, are those that have been most flexible and open to innovation, diversification and adaptation. The firms that have concentrated their efforts and attention on consumers’ preferences and behavior are those that have been able to survive in the market. Another essential element required for a firm’s success, is the adaptation of the company’s business model to the results found in consumer behavior research. Firms have to understand how to best combine their business models and the products offered with the target consumer requirements.

One of the most famous and oldest food chains to be founded in USA is A&W All American Food. In 1919 in Lodi, California the American entrepreneur Roy W. Allen, from Illinois, bought a secret recipe from a chemist and started a business by selling only this soft drink – Root beer. Allen’s activity had immediate success after the prohibition period and the entrepreneur soon understood he had to take immediate advantage of his fame and expand. In 1922 Allen entered into a partnership with Frank Wright and founded the world’s first drive-in food restaurant called “A&W All American Food” that today has more than 1200 outlets in sixteen different countries. The activities of these two industrialists are a clear example of how catching up with times, culture and trends is essential for success. Initially Allen decided to open a beer stand in order to meet the demand of the veterans returning home after World War I.

The unique taste and freshness of the drink immediately appealed to his new clients. Three years later, by observing consumers, the American entrepreneur understood how people often wanted to eat with their beer. Therefore, he decided to enter into a partnership with one of his employees, Frank White and expand his activity. A food menu was added in each A&W restaurant and so the first franchised food chain was founded. Soon Allen had another brilliant idea. People started to have very limited time with which to eat and only small breaks from work where allowed. Also after World War I, women tended to dedicate less time to home activities and looked for alternatives ways to produce home cooking that required less time and effort. Contemporarily to these radical cultural and social changes, a new invention started to become more and more popular around the world: the motor car. White and his partner decided not only to start restaurants that offered high quality Root Beer and food menus but to make some of them drive-ins. A drive-in is literally a restaurant in which clients can drive in with their car and get served by staff who take the order and bring the food swiftly. This type of service guaranteed a reduction in the time the client needed to consume his or her food: clients no longer needed to park the car, walk in the restaurant, find a seat, order the food, get served, consume their meal and pay the check. In 1950 with 450 outlets, Allen decided to retire. He took this decision because he realized that he was satisfied with what he created.

The “Value proposition” followed in the firm’s business model was to deliver different types products. Allen wanted to satisfy many needs and solve problems that were arising in the society. First of all the firm was founded in 1919 right when Volstead Act was made. The act prohibited the sale of alcoholic drinks. At the same time soldiers of WWI were coming back from the front . Allen found a great opportunity and proposed a valuable alternative - root beer - to the soldiers that were looking for prohibited drinks. The entrepreneur soon recognized that the women did not have enough time to cook and so, to solve this problem, he decided to establish the first drive-in restaurant. The decision to offer food as well solved also the problem as often people requested snacks or light meals when consuming their beers. When Allen realized that almost everyone

had issues with time and that breaks from work were ever more reduced, he decided to implement a even faster way of serving people: the drive-through restaurant. Allen's business had solid foundations and a notable "Value Proposition" and thanks to this combination the business managed to survive even after his retirement.

Despite its great success, the chain suffered some losses during World War II (WWII) due to the government's sugar rationing and scarcity of employees, the chain continued to increase exponentially and by 1956 it had become international. The impressive increase of the brand started mainly after WWII as many soldiers returning from the front decided to franchise their own A&W Restaurants. The reason why this brand managed to have immediate success was that it understood what consumers really wanted. The American population wanted food that reminded them of home, of their traditions, but at the same time was tasty and convenient. During the following years, the business introduced several new food offers, offering their clients excellent and unforgettable experiences through their ever fresher and unexpected food combinations. By 1963 A&W had become the first food chain to serve its clients the traditional American Bacon Cheeseburger and thanks to this the firm became known worldwide. Less then ten years later, in 1971, the Allen and Wright firm decided to expand its activity further and to produce root beer in bottles and cans, which were distributed to grocery stores. The variety of products offered by the brand continued to increase: along with different types of hamburgers the brand also offered consumers chicken tenders, chicken strips, hot dogs, corn dogs, root beer, shakes and sundaes. Although it could have been difficult for the brand to keep up with the market trends, as it has decades of experience this was never been a problem. Over time A&W managed successfully not only to satisfy its consumers by meeting their expectations with its several different products, but also to retain their loyalty. Customer loyalty is intended when: "consumers become committed to your brand and make repeat purchases over time. Brand loyalty is a result of consumer behavior and is affected by a person's preferences. Loyal customers will consistently purchase products from their preferred brands, regardless of convenience or price."²¹ For this to be possible, as previously mentioned, a

²¹ Definition: Brand Loyalty, Dictionary, *Investopedia*, (1999)

business must evolve and adapt to the continuously changing aspects of the market, which relate to the growth and development of a particular country. The experts of A&W stated that the key of their success was to: “find a balance between old and new and then tracking the progress.”²². Their focus has always been to objectively and realistically analyze their weaknesses in order to improve, change and evolve in the right way. The American food company has also given always a lot of attention to the analysis of the external environment in order to discover and overcome market threats and to exploit instead new opportunities that might allow the firm to grow. As the present chief executive Kevin Bazner stated, for the food chain, it was not only a question of only producing new fresh products but also of understanding how the brand was seen and perceived from the consumers’ prospective. Bazner acquired the business in 2011 and consciously looked to the past of the brand to understand how to move forward. One of the biggest strategic steps made by the owner of the brand was to improve the marketing side of the business. Marketing consists in: “The management process through which goods and services move from concept to the customer. It includes the coordination of four elements called the 4 P’s of marketing: Product, Price, Place and Promotion. Marketing is based on thinking about the business in terms of customer needs and their satisfaction.”²³ Finally we can say that marketing is made up of all those activity that involve the creation, communication, delivery and exchange of product that have value for different types of customers. Bazner wanted to make the brand more interactive, playful and fun. He decided therefore to give more importance to the already existing A&W mascot: Rooty. Rooty, the Great American Root Bear, that became famous in ‘70s was already present on the packaging of the different hamburgers proposed by the brand: Teen Burger, Baby Burger, Mama Burger, Papa burger and the famous Bacon Cheeseburger. The A&W Burger family appeared the first time in 1963 when the four ‘family’ character choices were first introduced to

Available at: <http://www.investopedia.com/terms/b/brand-loyalty.asp>

²² Duncan, Nicole; Consumer trends, Not the Same Old Thing; *QSR Magazine*. (2014)

Available at: http://www.qsrmagazine.com/store/not-same-old-thing?utm_campaign=20141111&utm_source=jolt&utm_medium=email

²³ Definition: Marketing, *BusinessDictionary*; (2015)

Available at: <http://www.businessdictionary.com/definition/marketing.html>

consumers. Statues of the burger 'family' were exhibited in various stores all over America. With the passing of the years the bear appeared in several TV commercials and print advertisements and so became the face of A&W All American Food. The company 'mascots' were removed for a period during the 90s, however, after its reintroduction by Bazner, Rooty reached its peak of popularity in 2011. The funny bear became the mascot, protagonist and star of A&W's twitter account, of an app, of the firm's website and several videos on YouTube that promote the food chain. Marketing with a mascot can be a very successful way to promote a firm's product. It is a cheap if unconventional way to keep a product in the client's mind. It mainly attracts the attention of younger people and this was the reason why Bazner adopted this marketing strategy. Over the years the food chain targeted different clients: first the veterans that looked for beer when returning from the front; then it was the housewives who had no time anymore to cook; then families that wanted to consume "All American Food" outside their home and now A&W want to capture the attention of youngsters. The Mascot is a perfect means with which to do this. Mascots don't only help to increase the image of the corporation and help to build customer loyalty and easier recognition, but can enhance the overall experience offered by the brand. Mascots can 'interact' with the customer in a fun and memorable way and stick in the clientele's mind much more efficiently than a slogan or a posted message. Customer behavioral studies have revealed how people look continuously for memorable experiences, firms have so to transmit emotions, joy and fun and enter into people's everyday life. Mascots take pictures with children, dance and colour with them and so their image will remain impressed on their minds. Once young children have had a memorable experience with a Mascot they will encourage their families to return to the same place, in this case A&W restaurants. Rooty the bear has a special corner in A&W's website in which different episodes about his "life" are played out. With the recent diffusion of new technologies like smartphones and social networks the entrepreneur also discovered other successful interactive ways through which to diffuse the image and knowledge of the brand. These new forms of marketing are again targeted primarily for younger consumers. It is possible to download on a smartphone the application through which

children can learn to spell the alphabet or read an interactive book with the funny bear. Another very modern forms of communication and interaction with the clientele have been recently used by the brand and targeted this time mainly for teenagers. Nowadays, one of the most used Applications that can be downloaded on smartphones is Instagram. Clients of A&W have been invited to post pictures of themselves with the bear on their personal pages and then give the possibility to upload them on the official site of A&W “All American food” webpage. The diffusion of social networks is becoming essential in the American food supplier’s business model. In 2013 Rooty became the first mascot to have an official LinkedIn profile. When other users added the mascot on their profile, Rooty would write funny comments about their behavior. However, the profile was quickly closed as the bear is not a real person. After this defeat the American food chain decided to exploit another social network in order to promote its products. At the beginning of April the brand new product, Mini polar Swirls, was launched by using Twitter’s Vine app. A&W was the first business that used Vine to propose a new product. The decision to adopt this strategy was taken by the Social and Digital Communication Strategist at A&W, Liz Bazner. She believed that this social media tool could be a unique way of proposing new products by using a short funny video. A fun example of an A&W video used to promote the product, is one in which “Rooty shows off his flair for magic tricks by transforming cookies into an ice cream and cookie mini polar swirl, making a girl appear from the air.”²⁴

Having considered the marketing and promoting strategies of the firm, it is possible to determine which “Customer Segments” the firm’s business model wanted to reach. “A Customer Segment’ is the act of separating a group of actual and potential clients into sets of similar individuals that are related from a marketing or demographic perspective. Customers might be grouped according to their gender, buying tendencies, age group, special interests etc.”²⁵ The firm has decided to target mainly the young, teenagers and

²⁴ Corr, Amy; A&W Restaurant’s Social Media Moves: Locked Out Of LinkedIn, Rebounds With Vine, *MediaPostOTL*,; (2013)
Available at: <http://www.mediapost.com/publications/article/199180/aw-restaurants-social-media-moves-locked-out-of.html#axzz2Yf1ZSkF9>

²⁵ Definition: Customer segmentation; *BusinessDictionary*. (2015).

adults who come from average traditional American families and look for “All American Food”. However, it is important to underline, how the firm has targeted its products and service to reach not only families but also young working people who do not have time to cook or who have short work breaks. The prices of products are not high and therefore it is possible to conclude that the client group that the firm wants to reach does not have a great deal of disposable income. By looking at the pricing tactics of the firm it is also possible to identify another area of the firm’s business model: that is, the “Revenue Streams”. For A&W revenues come from two goods offered that are perceived to be of value to consumers: the historic root beer and traditional American food. The pricing tactic and business level-strategy used by the company is called cost leadership strategy. When firms try to follow this strategic path they want to lower price, and for this to be possible, they have to reduce costs, as much as possible, at every production stage. The low-cost strategy is usually applied when consumers are very price sensitive.

Setting low prices can be a good business-strategy to distinguish a company from its competitors, especially in cases where there is intense competition. Low prices can help to increase demand and so guarantee higher sale volumes, also it ensures continuity of sales in difficult economic periods.

In order to adopt this strategy firms have to have a cost efficient management of the value chain activities. The value chain consists in a “whole series of activities that create and build value at every step. The total value delivered by the company is the sum total of the value built up all throughout the company.”²⁶ Firms can use also different methods to reduce costs. First of all, as A&W has done, adopting an economy of scale can be helpful. An Economy of Scale is adopted when: “it is gained cost advantage that arises with increased output of a product. Economies of scale arise because of an inverse relation between the quantity produced and per-unit fixed cost as

Available at: <http://www.businessdictionary.com/definition/customer-segmentation.html>

²⁶ Definition: Value chain, *The Economic Times*. (2015).

Available at: <http://economictimes.indiatimes.com/definition/value-chain>

the costs get shared over a larger number of goods.”²⁷ The firm managed to adopt this strategy thanks to its great expansion ability and to the myriad products that it produces and sells everyday. Another way to reduce costs is through the Learning curve. Many food-chain firms, as A&W, produce highly standardized goods, distribution methods and techniques and the staff have to follow routine habits in order to increase the speed of production. By performing always the same activities, the system of production gets faster, easier and increasingly automatic. Finally it is important to mention how “All American food” has tried to have maximum capacity utilization in order not to have unnecessary costs and to distribute the maximum number of units possible. Thanks to A&W’s ability to reduce costs it has been able to bring down the price of its products and therefore obtain more market share.

It is important to underline another important change that has occurred in firm’s business model. One of the most noticeable trends that have emerged recently in the food market is the increased attention that people give towards quality food. Consumer behavioral researches have revealed how people always look more toward sustainable, healthy and fresh products. Therefore, in 2013, A&W decided to hand-bread their chicken tenders in 250 restaurants. The brand decided that it was time to move toward higher quality products, to have a more-integrated menu and to expand the chicken products’ category. In order to promote its new intentions, the marketing department of the firm decided again to use the new technologies that are increasing diffused around the world. To promote the new menu of “hand-breaded chicken tender texas toast sandwich”, the brand decided to adopt an unusually large hashtag: #supertastylargeandinchargeofTexastosttwoSandwichmadewithdeliciousonehundredpercentwhitemeatandbreadedchickentendersandyourchoiceofclassicorspicypapasauceeitherwayyoucantgowrongwowthatssoundsso goodyou needtotryoneitonlyavailableforalimitedtimeImgoingtohavetogogetonemyselfareyoustillreadingthissee youatAandW.

²⁷Definition: Economies of Scale. *Investopedia*. (2015).

Available at: <http://www.investopedia.com/terms/e/economiesofscale.asp>

Through a simple hashtag A&W managed to promote the style, the size, the type, the taste, the quality and the brand of the product. The healthy sandwich was not the only product being proposed in these years. In 2013 A&W also made a strong marketing campaign for “100% pure beef raised without any added hormones or steroids”. With this new campaign the food chain demonstrated that its interest and attention for quality of the product starts at the beginning of the value creation. The raw materials used to produce hamburgers, hotdogs and the other products have to be of excellent quality. The firm pays attention to every step in the supply and the value chain. A&W stated that: “Our Pure Beef Guarantee simply means that all of our beef is raised without added hormones or steroids, and comes from ranchers who are committed to ethical, sustainable practices. We only use 100% beef for our burger patties and add absolutely nothing else. No additives, No preservatives. Just beef.”²⁸ In order to ensure the quality of the resources and products used to make hamburgers and sandwiches, A&W dedicates a whole area of its website to “Its Ingredients Guarantee”. The business offers “simple, tasty ingredients and farmed with care.” The website is then divided into three areas that allow you to chase the origins of beef, chicken or egg products. The beef “comes from selected ranches and their local partners that follow the same stringent standards, raising their cattle with care and without any added hormones or steroids.”²⁹ Finally the names of the ranches with which they work are listed: Spring Creek in Vegreville; Meyer in Montana; and Teys in Australia. At the end of the website area the slogan “Great Burgers start with Great Beef” is written in order to further impress upon consumers the underlying quality of the product. On the website the area dedicated to chicken products instead affirms that the chickens are “raised without the use of antibiotics and nourished with grain-based, vegetarian diet without animal by-products. All A&W chicken products are 100% made with chicken breast, without fillers.”³⁰ Like

²⁸ Schultz, Sarah; Fear-Marketing: I’ve Got a Beef With A&W; *nurselovesfarmer.com*. (2013)

Available at: <http://www.nurselovesfarmer.com/2013/09/fear-marketing/>

²⁹ A&W restaurants; Our Beef Guarantee. *awguarantee.ca*. (2015)

Available at: <http://awguarantee.ca/en/beef/>

³⁰ A&W restaurants; Our Chicken Guarantee. *awguarantee.ca*. (2015)

Available at: <http://awguarantee.ca/en/chicken/>

in the case of beef products here also the chicken farms are listed and a slogan at the end of the website is underscored: “When you know how it is raised it tastes even better”. The last guarantee area of the website is dedicated to egg products. Here it emphasizes that “Eggs come from hens fed a vegetarian diet without animal by-products.” A&W uses eggs mainly for breakfast products. “Breakfasts has to begin with freshly cracked Nature’s Best Eggs, made just the way you like them. What better way to rise and shine in the morning?”. This again is an example of how the firm relies a lot on the quality of its products for its success. Again, the famers and a slogan is highlighted at the and of the page: “Great breakfast starts with great eggs”.³¹

In order to grasp all the necessary changes A&W used a combination of surveys’ data, personal comments and feedback that could be uploaded on their website and help the business to grow and improve in the right direction. In addition, so as to meet the always increasing interest regarding a health lifestyle, on all its menus and website A&W added the calories and other nutritional values. The level of obesity and illnesses linked to overweight was and is still increasing in the US and this could be an effective way to teach people to pay more attention on what they eat. Giving visibility to the food’s nutritional values could also help people to learn how it is consume a correct diet and which are the foods that are needed to achieve a healthy lifestyle.

Now, after more the 70 years of activity, thanks to its continuous and meticulous care in developing the correct strategy, A&W Root Beer has become the biggest world distributor of root beer, the drink that started the business. Although many years have passed since its inception, the activity has noticeably expanded; A&W has not relinquished its quality nor has it stopped mixing the secret drink formula every single day. The attention to the high and uniform quality of the product began in the early years of the company when in 1922 Allen decided to extend A&W Root Beer exclusively to every single franchise. In 1978, another important innovation that was introduced by the company, this was to standardise a core menu that allowed the clients to consume a complete meal at a constant and convenient price. Also this, was another

³¹ A&W restaurants, Our Egg Guarantee, *awguarantee.co*. (2015)
Available at: <http://awguarantee.ca/en/eggs/>

way in which A&W could professionally understand consumers' needs and preferences. The American economy was facing a very hard time during these years and "A&W All American Food" Managers understood the importance of offering their products at an accessible price to the now not so affluent American population. Thanks of the high success of this new idea the set menu of 1978 was only the first of several others that were proposed in the following years. The brand's concept became stronger and stronger: "a modern, comfortable fast food environment at competitive prices serving finest quality food."³² The period of greatest re-organization and improvement of the company was during the 80s and 90s. During these years the entrepreneur Alfred Taubman, who had opened several shopping centers, decided to buy the A&W food chain. The increasing obligation to serve franchise needs and to offer them assistance was given in order to encourage even greater expansion of the company. In 1991 George Michel was appointed as president of the American company, he was responsible for impressively increasing the number of restaurants. The new locations were opened mainly in shopping centers, office buildings and big public areas with a high affluence of people. The new target of Michel was to open in the pedestrian areas with a high density of people. In order to exploit the food market further, Michel, decided to sell A&W products also through food cards and kiosks. The competitiveness of the American food supplier became very high and the points of distribution continued to increase.

After this analysis of the company's strategy and business model we can conclude that the business managed to be successful thanks to its unique and special ability of managing its resources and reaching its several different consumers through diverse touch points. The Business's strategy has managed to distinguish itself thanks to its flexibility and ability to adapt to the cultural, economic and behavioural changes that have occurred in the food market in the last 96 years. A&W also understood that the key to success was not to design a unique strategy and marketing plan for all its restaurants

³² Knight, Peter; and Knight, Anette; Our History, A&W All American Food. *awrootbeer.com*. (2009)

Available at: http://www.awrootbeer.com/aw_history.php

located in different countries. Demonstrating their flexibility, the food chain decided to implement diverse business models in the different restaurants so that each one suited the particular geographic area, and culture and economic situation where it was located. Each restaurant had to be different, and different models had to be devised in order to meet the local consumer needs. The core business decided also to offer assistance, proto-typical equipment, seating, lighting and materials to the franchises that were opening new outlets. This plan of assistance was a way of guaranteeing high quality standards not only of the food but also of the location in every A&W restaurant. Project managers were assigned to every franchise in order to assist each step necessary before the opening of an outlet. The location, restaurant and design of the outlets have changed a great deal over time in order to meet the new trends. Consumers need more convenient products and a faster service so A&W are no longer drive-ins in the 60s model but they are free-standing restaurants with drive-thru service. One of the most important features of the firm's business model on which companies have to focus so as to capture value from consumers are the decisions that are taken regarding the distribution channels. These choices are part of the "Key Activities" in the business model canvas. We have seen that at A&W the path through which the firm's products have been sold during the firm's history have changed and expanded greatly over time. Initially, only root beer was sold in simple stands; following its success, the firm began to introduce food products and shortly there after the first drive-in restaurant was built. When they realised that people only wanted to pass by the restaurant and not even park, the drive-through restaurants were introduced. The difference between a drive in and a drive through is that in the former people literally drive in the restaurant, park their cars, are served by the staff that walks out to take the order and returns with the food. People usually consume their meals on the premises. In the second type of restaurant, instead, consumers wait in line, make an order through a window, pay and receive their food. The first of 1200 restaurant was opened in 1963. The impressive expansion of the food chain occurred in the 80s and 90s when the distribution locations of the product were concentrated mainly in areas of heavy traffic, like shopping centers and other large scale public buildings, where the demand and attention of clients was very high. It is possible

to conclude that A&W American Food is a traditional fast food chain that focuses mainly on the quantity and standardization of the environments where it distributes its products, rather than underlying the atmosphere, particular design and unique quality of the restaurant

However, A&W wants to ensure the excellent service of A&W levels in every outlet. Managers decided to organize training guides and instructional videos for the restaurants' employees. One of the newest initiatives that has been undertaken by A&W is the respect for the environment. The firm underlines how it is essential to be aware of how each person's choice or activity influences the whole population and the future. This is the reason why everyone should understand the importance of respecting the environment. In order to be active in this area the American food chain has distinguished five distinct areas which will reduce the firm's impact on the environment. The first area is the "food" itself. The firm believes that it is essential to adopt new innovations and technologies to help to produce the products in a more sustainable way, this is the reason why A&W chooses its suppliers very carefully. One of A&W's suppliers is Lamb Weston. Weston has 30 local farmers that produce French fries that come from high quality potatoes. All the production is local, which means that the potatoes are grown in an area of 50km and that the water used to irrigate is also from the surrounding area. In order to have lowest negative impact on the surrounding environment, after that the water has been used it is purified so that it can be used again for further irrigations. Data shows that by using this method Weston has managed to significantly reduce its water consumption every year. A&W affirms also that the cows are grown in an ecologically friendly way. The waste that they produce is used as fertilizer and green energy allowing it to generate power for more than 2500 houses. Tomatoes are also grown in an ecologically friendly way by A&W's suppliers. Natural sunlight and special screens are exploited by farmers to reduce heat loss and thus reduce the waste of energy. In addition, rain water is used to irrigate the tomatoes. A very recent developed and natural form of pest removal is used: no chemical products are needed but only bug predators such as ladybugs are used. Another particularly new form

of sustainability is the production of electricity through onions. The onion supplier of A&W manages to generate clean, renewable electricity from onion waste.

The second highly important area in which the American food chain concentrates in order to maintain the respect of the environment is the “Packaging”. This Business has always been concerned about the amount of waste it produces. A&W has, therefore, decided to reduce as much as possible the amount of packaging, by using recycled materials. An example of the effort that the firm is putting into this area, is the change of plates, forks and knives being used in its restaurants. In the past A&W used to serve its meals in plastic or paper plates, nowadays, instead ceramic plates are used to serve the different foods. So doing, the restaurants managed to reduce waste by some 121.000 kg. Also the glass mugs used to serve the famous beer are ecologically sustainable and help to reduce the waste produced in the restaurants.

The third area we are going to look at is the “Energy”. A&W has been always disposed to adopt new innovations and technologies to substitute old equipments in order to save more energy. Each machine has its own monitor to control the amount of energy used. This method helped the firm to reduce and improve the saving of energy in many areas. An example of new machinery that is being used is the new fryer. This new equipment requires half the amount of oil and gas compared to old fryers. The slogan of this firm’s commitment is. “We turn off the lights. And not just when we close”.

The fourth area that we are going to analyse is “Water”. The firm’s slogan “making every drop count” further demonstrates their commitment to the environment. The main goal of the firm is to reduce as much as possible the amount of water needed. A&W uses an ecologically sustainable type of paper composed parts of the wood that would otherwise not been deployed. The supplier from which the firm takes this paper has been one of the world leaders in reducing the amount of water needed in order to produce its product. A&W has also installed very efficient air-coolers, instead of water-coolers, to keep the Root beers cold and at the same time save water.

The last area that we are going to analyse is the waste. A&W affirms that “it is called waste for a reason”. Reducing the amount of waste in a restaurant can be not only a way of being more ecologically sustainable but also a way of reducing useless and

unnecessary expenses. The American company has so focused on finding ways through which to reduce the amount of packaging used and alternative forms of serving the products. Plastic forks, paper plates and French fry cups have been eliminated and been substituted with steel cutlery, ceramic plates and wire baskets. In every restaurant there are also special garbage bins present in which it is possible to separate organic and recyclables products.

Although we have seen the several strategies and innovation through which the business has managed to survive, earn profits in the long run and adapt the world's changes; it is important to underline how the history of A&W All American food has played an essential role in the current success of the firm. The now adult American population still remembers when they were young kids and would go with their parents to the local A&W drive-in. The American baby boomers grew up with A&W. The lasting relationship between the clients and the company is the main reason why A&W continued to have success.

After having analysed all the different aspects of the firm, it is important to conclude by identifying which was actually the key to the success of the business. We have seen before how Afuah and Tucci described the business model as “a unifying construct for explaining competitive advantage and business performance”³³ and defined it as “the method by which a company builds and uses its resources to offer its consumer better value and to make money”.³⁴ In the case of “A&W All American food” it is possible to identify several business model building blocks on which the business has focused in order to continue to be innovative, grow and ultimately survive. One of the most important areas of a firm business model is the “Key Partners”. Choosing the correct business structure is essential for the survival of a company. One of the most used forms of organizational structure is partnership that is defined as: “ when two or more people start or expand a business and manage and operate the business. Both owners are

³³ Zott, Christoph; Amit, Raphael; and Massa, Lorenzo; The Business-Model: Recent Development and Future Research; *Journal of Management* 20, no. 10; (2011): 12

³⁴ Zott, Christoph; Amit, Raphael; and Massa, Lorenzo; The Business-Model: Recent Development and Future Research; *Journal of Management* 20, no. 10; (2011): 12

equally and personally liable for the debts from the business.”³⁵ Roy Allen discovered and founded the Root beer company in 1919 but as the demand for the product continued to increase he decided to form a partnership with Frank Wright, one of his employees. This was a strategic move on the part of the entrepreneur. He choose his partner, very carefully, knowing that Wright understood the market and the consumer extremely well and would therefore be an invaluable asset, helping him to enhance the business model and to adapt the organization so as to cope with consumer demand and behaviour. In 1924 with the growing popularity of the brand Allen decided that he had learned enough from his partner and decided to buy out his share. In the same period the entrepreneur registered the name “A&W Root Beer” and the A&W logo with US Patent and Trademark office. Allen demonstrated again his business capabilities by adopting a Franchising strategy for his business model. And so A&W became the first franchised food chain. One of the most adopted forms of business model and organisation, through which companies operate and produce consumer goods, is with Franchises. A Franchise is a: “ type of license that a party (franchisee) acquires to allow them to have access to a business’s (the franchiser) proprietary knowledge, processes and trademarks in order to allow the party to sell a product or provide a service under the business’s name. In exchange for gaining the franchise, the franchisee usually pays the franchisor initial start-up and annual licensing fees.”³⁶ Allen started selling franchising licenses for A&W outlets all over America and had immediate success. A decision taken at precisely the right time as soldiers returning from the front after WWI wanted to start their own activities back home, and the food chain seemed was a good choice for many of them. However, the entrepreneur wanted to ensure that each outlet maintained the standards desired. He defined a detailed contract that each franchisee had to sign in which he defined the design, the floor plan, the mugs used for serving etc. Thanks to this strategy the business continued to increase and by 1933 already counted 170 outlets.

³⁵ Definition: Partnership; *Investopedia*. (2015).

Available at: <http://www.investopedia.com/terms/p/partnership.asp>

³⁶ Definition: Franchise. *Investopedia*. (2015)

Available at: <http://www.investopedia.com/terms/f/franchise.asp>

In 1950 Allen retired and sold his activity to Gene Hertz. However, Hertz business model was very different from that of company's founder, as he allowed the franchisees to manage their own activities, marketing and promotions, without contractual restraints. The new owner also gave much less attention the franchised outlets, concentrating only on his activities. Despite these lacunae in Hertz's management efforts, the business continued to grow and new outlets were opened. Eventually, however, the dissatisfaction of the franchisees grew and the entrepreneur had to sell the business. This was only the first of several ownership changes that occurred, for the company, in the following years. During the successive years the business strategy was changed from focusing on root beer to focusing mainly on the service at the drive-in restaurants. In order to expand the business activities even more, it was decided to establish different series of owned firm subsidiaries. A subsidiary is: "a company that is partly or completely owned by another company that holds a controlling interest in the subsidiary company."³⁷

In 1974, A&W Beverages was established and with the change in ownership in 1983 was renamed A&W Brands, Inc. The business goal was to sell the root beer in bottles and cans and other beverages to consumers outside of the restaurant. In 1978 another subsidiary was established - A&W Restaurants - to manage the increasing number of franchised outlets. Another important change occurred in the firm's management and business model when in 2002 they were acquired by "Yum Brand, Inc". This company is a partnership of national and international franchisees that buys different food chains with the goal of opening global, iconic brands on which clients can rely. The company, at the time, owned several other American chains like Long John Silver's, Pizza Hut, Taco Bell and Kentucky Fried Chicken. Thanks to this acquisition A&W managed to expand impressively by co-branding with other Yum chains. This was a very unusual event as a franchisees decided to run a franchise chain. The aim of the larger company was the same as that of A&W: make the activity continue to grow nationally and internationally. However in 2011, Yum! Brand decided to sell the oldest American

³⁷ Definition: Subsidiary; *Investopedia*; (2015)

Available at: <http://www.investopedia.com/terms/s/subsidiary.asp>

franchised food chain to “A Great American Brand” as it did not properly represent the American food tradition as A&W was primarily recognised for its beer. A Great American Brand consisted in an organisation of owners of franchised restaurants who wanted to concentrate mainly on the international expansion.

- **“Panera Bread”: personalization, healthiness, freshness and quality are the new sources of success:**

In this first part of the third chapter of my dissertation I analysed the oldest American food chain company. Now, I will try to do a similar analysis of one of the most famous new American food chain companies, that is, look at its strategy and business model. CBS News has ranked Panera Bread as one of the most successful and healthy fast food of America. The firm, founded in 1987, is much more recent than A&W All American food. Initially the company was called Au Bon Pain Co. and was located near St. Louis. The founder Ron Shaich and Louis Kane created the company with the idea of changing the eating habits of the American people. The entrepreneurs wanted to provide a healthy fast food alternative. Until then fast food outlets only offered fried, processed meals and did not consider the health of their clients. Shaich, instead, wanted to propose handmade, artisan-like products, offered in a quality environment with friendly and well-trained staff. Thanks to its attention also to the quality of service the company, known today as Panera Bread, was ranked fifth in the foodservice category in Fortune’s “World’s Most Admired Companies”.

In 1993 the company expanded impressively and 20 new outlets were opened. Around 1997 the name of the food chain was changed from Au Bon Pain Co. to Panera Bread. After this rapid expansion the company continued to increase exponentially thanks to its franchising. By 2014 the company was present in 1800 location and today, the company operates in more than 1926 outlets in 46 states. By exploiting the market potentials of the cafeteria model and by opening company-owned and franchised outlets in rapid succession, the company embraced a growth strategy that made it hugely successful, As for A&W, franchising was key to firm’s success and to its ability to establish itself within the food industry. All franchises purchase directly from Panera Bread. The firm

retains an in each franchised restaurant as it get 4-5% from stores transactions. Each franchised restaurant has to contribute with 0.7% of its revenue to the parent company's advertising budget and with 0.4% of its marketing activities.

The impressive, rapid, expansion of the company allowed it to be recognised for its success as 37th on "Business Week's list of Hot Growth Companies" in 2005. Following this, in 2008, Panera Bread was considered American's healthiest food chain. Its reputation for quality was also given by having been rated number one for "Best Healthy Option: salad, facilities etc.". In 2011 Shaich was nominated for a MUFISO Pioneer Award, for being one of the most important and relevant figures in the history of the foodservice market. In 2014 Panera Bread made \$4.5 billion in sales. The same year the food company announced its plan to remove all artificial coloring, sweeteners, flavors and preservatives from the food menu. One of the main reasons why Panera has had this impressive success is for its focus on healthiness, nutrition and quality. When the firm was founded the managers and owners immediately understood that there was an unmet need in the market. People were increasingly conscious of their health and on what they were eating and, as Panera Bread founders noted, there was no food company that was trying to satisfy this new consumer demand. For the founders Kade King, Ken Rosenthal and Ronald M. Shaich starting the business was a big risk, they wanted to start a new activity, never seen before, that offered a new category and level of products in the market. The American café describes its beliefs as: "good food, food you can make you feel good. Food served in a warm, welcoming environment, by people who care. To us, that's good eating and that's why we're here."³⁸

One of the clearest examples of the firm's commitment to wellbeing is that Panera Bread was the first firm to add nutritional values to its products. Calories and other information about the food its offers can also be found on the official website of the company. The nutritional values of Panera bread products are quite standardized as the same recipes are always used. In order to make calories controls easier for consumers,

³⁸ Shaich, Ronald; Panera bread; Who we are. *panerabread.com*. (2015)

Available at: <https://www.panerabread.com/en-us/our-beliefs/who-we-are.html>

clients can upload the menu from the official Panera Bread website and directly calculate the nutritional information of what they are eating.

The standardization of the different products has rendered also suppliers' activity, controls and orders more easy to make. Although the name "Panera Bread" could mislead the clients in thinking that the food chain offers only bread, this is not correct: indeed, the company sells a vast range of different products including soups, sandwiches, pasta, salad, fruit smoothies, frozen drinks, Panini and several different side choices. The food chain has also decided to target some of its products for clients who do not have limited expendable income. Panera bread has focused on a differentiating and cost leadership business level strategy to distinguish its position and from its competitors in the market. When a firm decides to undertake a differentiation strategy it means that: the brand wants to stand out for its unique features, benefits, service or other elements and target its products for a wide range of consumers. Products that are produced using this strategy are usually perceived as being unique/different compared to the other products available in the market and therefore clients pay premium prices to acquire them. The prices consumers are willing to pay are often higher than the costs of producing a differentiated product and so the firm obtains a higher margin than the other firms in the industry. In order to adopt this strategy it is necessary to identify which product features are perceived by consumers to be more relevant and try to satisfy them in the best way possible.

This type of strategy is used by firms to reach competitive advantage and therefore allows the company to earn higher profits compared to the average of its competitors. Panera Bread clearly adopts this strategy. In 2009 it was nominated in "The Wall Street Journal" for having increased its sales without using discounts, coupons and sales but by focusing on the clients' willingness to pay for high quality products. The food chain focuses mainly on the American middle classes, people, who can spend about \$8.50 for a meal. In contrast to most American chains, Panera Bread focuses on clients who are in regular employment. One of the clearest examples of the strategy adopted by the company is the introduction of a lobster sandwich, which sells for \$16.99. Panera bread products distinguished itself not only for its unique quality but also for its health attitude

towards its products. In 2015 the company announced that all additives would be eliminated from its products. The main ingredient that will be abolished from the food recipes is an important preservative called “Tert-Butyl-Hydroquinone. The health conscious food chain was the first national chain to publish a list of additives and preservatives that will be eliminated by 2016. The CEO Ron Shaich affirmed that the main goal and strategy of the firm will be to produce healthier and wholesome products in order to meet the new trends and needs of the consumers. Consumers, indeed, are becoming more aware of the unnatural ingredients used in food chain products and look now for healthier alternatives. Panera Bread, as mentioned before, has not only focused on high quality products but also on the importance of the clients’ nutrition. The American food chain has always emphasised the importance of having proper meals in order to conduct a healthy, positive and energetic lifestyle. While most other food chain propose products with high level of carbohydrates, sugars and saturated fats, Panera gives its clients the chance to choose among several high protein meals. From 2005 the firm also committed to the removal of all artificial trans fats from their menu.

On the firm’s webpage there is an entire section that is dedicated to teaching people about the importance of having a right nutrition with high levels of protein. Protein is the main component of human beings, from skin to muscle and to organs. It is also provides a huge source of energy and activity. Encouraging a diet rich of protein can also help to fight obesity and weight issues. Researchers have shown how lean proteins are not only good for diets but also reduce hunger during the day and therefore help to reduce the amount of food consumed. Another important factor to notice is that consuming a protein rich diet helps the body to burn more calories when its digests protein rather than carbohydrates. After the results of this extensive research Panera Bread decided to add several new products on its menu, such as almond milk smoothie, avocado and tomato on a

Bagel, omelette, quinoa with almonds and low-fat yoghurt. For each product sold in their restaurants the list of the ingredients, the steps necessary to prepare it and the nutritional value can be found on the website. Panera Bread is a keen promoter of “eating clean” , which means eating simple, natural, unprocessed, and whole foods.

Nowadays it is not always easy to find these type of products, although in the past only these were available. However, new trends of 'eating clean' are emerging in the market. More and more Americans have realised that the problem of obesity, which is very prevalent in the US, needs to be addressed. The increasing attention on well-being and health is also having a positive impact on the planet. The goal of the company is to put only simple healthy ingredients into its products, while at the same time being careful to keep its food tasty. To maintain a healthy diet it is necessary to consume a lot of vegetables. Although in the past the diet consisted mainly of greens and vegetables, nowadays they have lost this habit as these foods are considered difficult to store, and laboriously to prepare and cook. Panera has added an area on its website where it undermines this myth. It lists several tips on its official site showing clients how to clean, slice and peel foods quickly. In order to improve eating habits of people the company dedicates an area of its website to listing seasonal products and how to choose them. Other important tips are given on the Panera Bread website, such as, foods which provide energy, the importance of drinking water, healthy good fats, the advantages of having many small meals, advice on how to lose weight, egg whites as a source of protein, the importance of exercise etc.

Panera has managed to distinguish itself from the other brands not only through its products, but also with the locations where it serves the food. Indeed every Panera Bread café is different. Every outlet has a unique and memorable location that will render the eating experience unforgettable, thanks to its amazing views, unique design and historic architecture. The "Channels" of the firm's business model, have been carefully chosen in order to target the consumers successfully. Like A&W, Panera has tried to concentrate its outlets near malls and big public spaces but unlike A&W, the firm has tried to make each location unique, distinctive but at the same time characteristic of the area, rather than the usual standardised designs of franchises. This management strategy was adopted by the cafeteria so as to render each experience at Panera as different and unforgettable as possible.

One of the most particular Panera outlets is the one in Mashapee, Massachusetts. The restaurant is located in an amazing stop for travellers who want to experience a

traditional seaside café. It has a very rustic and bright environment decorated with wood finishes. In order to allow the consumers to enjoy a 360° experience, during the summer season the wide glass doors are opened in order to let the sea breeze come in. Another notable Panera café is in Chinatown, Washington D.C. This cafeteria tries to link the local history with the youthful and fashionable area. The restaurant is located in a historic building while the community that lives in this area of the city is mainly inhabited by ‘hip’ youngsters. Each level of the restaurant has small living areas where the client/tourist can decide what to visit during the remaining part of the day. After having looked at Panera Bread’s commitment to its location it is possible to conclude that one of Panera Bread’s “Key Activities” in its business model are the distribution channels. The location and design of the cafeterias are precisely chosen, and in addition, the company puts a lot of effort into the presentation of its products. In the food industry consumers’ purchasing decisions are deeply influenced by the eye. Often the appearance of food has a much greater influence than any rational decision or the level of hunger of an individual client. The food chain’s managers display all the fresh, inviting, tasty bread in the shop windows and at the entrance of the restaurant. Although Panera strives to attract consumers mainly through its tempting bread, the main revenue streams of the firm do not derive from this product.

Another important activity in firm business model is to produce high volumes of products in order to be able to reduce costs. The staff is stimulated to cook and serve consumers as quickly as possible in order to increase the amount of sales every day and consequently the “Revenue Stream”. The cleanliness of the restaurant/cafeteria is also paramount for the company.

When Shaich founded the company he did not only concentrate on the individual needs and experiences but also on those of society as a whole. He observed that fast food were encouraging people to consume their meals in a hurry, standing, alone and without socialising. This was only a recent habit of the American population, as in the past people used to consume their meals sitting at table with the family. In order to encourage this tradition Shaich decided to propose a “Family Dinner Menu”. Paner

Bread's CEO believed that eating together made family "stronger and happier". Consuming Family meals at Panera Bread could improve the experience of entire families and therefore the satisfaction of the clients and the demand. Shaich promoted the importance of sitting all together and sharing each one's day, in order to build stronger bonds between parents and children and make everybody happier, more relaxed and less stressed. Data, however, shows that still only 1/3 of the American population consumes meals together, owing to lack of time, different commitments, reduced ability to cook and the television. In order to render menus even more interesting and not to bore people with the same products, the American café has decided to add special daily soups and to encourage consumers always to try the new products launched in the market. Often the new flavours proposed are inspired by the season, in order to guarantee always fresh, made to order and natural products. Panera Bread has also realised that eating habits of people are becoming more and more complex and specialised compared to those of the past. Nowadays in America the number of people who look for vegetarian, vegan, gluten conscious, protein rich or complex carbohydrate menus is increasing. In order to satisfy also this type of consumer the American chain has created special menus. Panera talks to its vegetarian clients and affirms that: "whether you're going meat-free for health, environmental or animal-welfare reasons, being a vegetarian doesn't mean that you have to be stuck with salads. Our menu is filled with tasty choices you can really get excited about. At Panera, to quality for our vegetarian category, each item does not include meat, fish and shellfish."³⁹ The food chain proposes different alternatives for vegetarians like: sandwiches, Panini, granola, soups and pasta. Panera Bread dedicates a part of its website also to vegans informing them that although they don't eat fish, meat or any animal products, this is not a problem, as the firm offers its clients vegan-friendly alternatives. Some examples of the products offered are: oats, smoothies, salads and soups. Researchers have also revealed that people look more and more for gluten-free products. This new trend has emerged not only owing to allergies or problems of intolerance, but also because many people

³⁹ Shaich, Ronald, Panera Bread, Eat Well your way; *panerabread.com*. (2015)
Available at: <https://www.panerabread.com/en-us/featured-menu/curated-menus.html>

believe that gluten-free products are healthier and are good for diets. Therefore, the café proposes a wide range of smoothies and salads that can satisfy this demand. A healthy diet consists not only in reducing the amount of carbohydrates, gluten products, sugars and fats but also in increasing the amount of protein. Panera bread proposes different products high in protein, such as ham, egg and cheese sandwich, avocado egg white sandwich, turkey, sausage, egg white sandwich, protein smoothies, chicken and quinoa salad, Caesar salad etc. People who look instead for complex carbohydrates look for products that are as close as possible to their natural state. To propose these type of products the brand had to reduce the amount of processed carbohydrates, increase the one of complex carbohydrates and choose whole, plant-based foods, such as whole grain sandwiches and Panini, quinoa, oatmeal, lentil soups, bean soups and different types of salads.

After having observed all the different initiatives, commitments, goals and activities of the firm it is possible to affirm that the company's food policy has three core areas: clean ingredients, transparent menu and positive impact. The firm's first point means that the company "is committed to sourcing and serving high-quality ingredients without artificial additives including added MSG, artificial trans fats and ingredients we they needs to be in the food."⁴⁰ The second point of Panera Bread's food policy is to have a transparent menu. This firm's commitment means that it wants to allow consumers to choose what they eat. Every person has different eating habits and needs so there is no one-size solution for everyone's best nutrition. In order to make the menu even more transparent calories are written near each product. The last area of the café's food policy is "Positive Impact". The firm is committed to having a positive impact on its food system. The company not only gives information about the products that they are eating but also where the ingredients come from and how the suppliers' companies work. The food chain is dedicated to ensuring the best quality life for the animals farmed. No gestation for pregnant sows, pigs are never given antibiotics, cows are only grass fed and chickens are cage-free, have vegetarian nutrition and never receive

⁴⁰ Shaich, Ronald, Panera Bread, Clean ingredients; *panerabread.com*. (2015)
Available at: <https://www.panerabread.com/en-us/our-beliefs/our-food-policy/clean-ingredients.html>

antibiotics. Although the firm focuses a lot on the quality, the standards and the healthiness of its products, it does never give up to the taste of the products. Panera emphatically states that it offers “Food as it should be.”

In order to maximize the sales and the demand of consumers the brand does not only offer the possibility for the consumer to buy the products in store, but also online. A printable menu is rendered available on the website and makes the buying process even easier and quicker. This service was mainly rendered available for those people who have small breaks from work during which to consume their meals and do not have time to wait in line to collect their food. Thanks to this service consumers can decide exactly when they want to go to the restaurant and collect their meal immediately. However, the chairman Sheich soon realised that often people don't even have time to cook at their homes. He decided therefore to offer products that were prepared by the chain in order to save people time in the kitchen. These meals, ready in a few minutes, were created to substitute complete home meals. The product range sold in Panera Bread as “Panera at Home” is very wide. Soups, Mac and Cheese, Frozen bread, salad dressings and meats are only some examples.

Through the internet clients can not only order single meals but also have access to the catering service. The service guarantees a catering coordinator that helps clients to construct their menus according to their tastes and needs. The consultant also helps to decide which foods are the most appropriate, the exact quantities and meal box sizes. The catering staff will follow each step of the order from the call to the pick-up or delivery time to ensure also that everything gets delivered correctly and at the right time. Another commitment and service that Panera has offered to its clients in order to maximise sales and make the buying process easier is “Panera Bread Gift Card”. This card is more convenient than cash and is easy-to-give and can be set up to reload automatically so that people never run out of money when they are shopping. The bakery card is free and there are no obligations; news, surprises and rewards will instead be delivered to the client. Consumers can easily check the balance they have uploaded on the card in order to control their expenses and the money left. In order to make this

service even more enjoyable Panera Bread allows its clients to personalise the card: a message and personal design can be added in order to make the card yours.

The company is not only interested in attracting adults but also youngsters. The food chain has developed an alternative, interactive way to make the youngster interested in the bakery: Fun Bakery-Training classes have been created for kids who like to cook and bake. The bread produced during the classes is then given in part to the family of the children and in part to people of the community that need it. For older kids, the firm has created some scout group activities that help children to cook and to socialise and interact.

Panera Bread not only counts on one-time adult and young clients but its main objective is to conquer consumers' trust and loyalty and maintain long-time relations with them. To encourage clients to come repeatedly to the café Panera offers some rewards and surprises. Consumers sign up in "MyPanera" without any obligation and charge. When people consume their meal they have then to show their card and register what they bought. Clients will automatically receive their first reward and afterwards they will collect points and get a surprise gift every time they reach a certain amount of them. It is possible to conclude that the "Customer Segment" that the firm wants to serve is recognised as "Fast-Casual", this segment comprehends all those clients who are increasingly careful about what they eat. The concept of fast casual dining is very different from fast food as people, looking for quality, search for real food and real cooking but at the same do not want to reduce the convenience factor. In order to satisfy these consumers, the firm has tried to eliminate the separation between fine and expensive, quick and cheap, and to create a restaurant that includes the characteristics of both types of food suppliers. Thanks to this commitment to consumers, Panera has been extremely successful, clients love the attention that the chain gives to the food it serves and the methods used to produce it. It is important also to underline that one of the most appreciated aspects of the firm is the simplicity of its products, the absence of artificial ingredients and the fact that the food is freshly produced on demand. Everyday fresh bread is produced and offered to the clients in a pleasant environment. These food characteristics are exactly those that "Fast-Casual" consumers look for in their meals.

These consumers can be found mainly among urban and suburban workers. Thanks to this strategy the firm has managed to reach a uniquely competitive position in the market, distinguishing it from all those fast foods chain, such as A&W, that tend to concentrate on the speed of service.

The American bakery is interested in its clients and the community at large. In order to show its commitment to social issues, in 2009, the company founded “Panera Cares”. This non-profit organization consists in a “Pay as you can” restaurant and was first located in St. Louis. When Panera Cares was founded the managers of the company realised that one of the biggest problems in the world was food ‘insecurity’: over 50 million of people in the US are considered “food insecure”. The goal of this initiative is to overcome problems of food insecurity. Soon this service expanded into several other American States and now serves 3.500 clients every week. This non-profit organisation gives those who can not afford to go to restaurants the opportunity to eat the same meals of those people who can.

Panera Care also offers ‘at risk’ young teenagers the opportunity to learn some working skills and obtain, through their commitment, long-term working contracts. Therefore, it is important to underline how Panera not only tries to solve problems of hunger but also how it tries to prevent them by training people with disadvantaged backgrounds and providing them with full time, stable employment. But the road to become a Panera employee is not that easy: first this youngsters have to learn how to behave, then they become volunteers at the Panera Cares café, then they have to learn how to manage the money, then they have to follow hospitality, safety, communication classes and finally they start working with mentors. After that managers evaluate their work weekly until the company decides whether or not they are ready to become regular employees. The goal of this initiative is to make the teenager aware that “if they want they can”. Panera Cares is only one of the several commitments that the firm has in the society. In fact, Panera Bread partners with “Feeding America Association” that provides black beans soup to some of American’s hungriest people. This low Fat Vegetarian Black Bean Soup is used to Feeding America-affiliated food banks all over the country. One of the

firm's "Key partners" is in fact "Feeding America". The two companies formed a strategic alliance in 2012 through which Panera will continue to conduct its charitable activities that have distinguished the firm since its inception. This alliance has been created so that the American chain can continue to easily donate money to the foundation, while also assisting through its resources, dimensions and skilled staff to provide good quality and nutritious food to people in need. Thanks to this activity more than 37 million people have created 61.000 food buffets, open kitchen and charities across America. Profit Panera consumers are continuously encouraged to give donations and participate to firm's charitable activities. The money collected is split between various charitable activities: half will be donated in cash to "Feeding the America" meaning that the money will remain local and the other half will be used to procure Panera's black bean soup to be distributed to Feeding America agencies.

The reason why the non-profit American company decided to serve black beans is that it is a complete meal, full of vitamins, proteins and healthy carbohydrates. The soup can also be easy accompanied with rice or bread, cheap products that can be found everywhere. In 2013 Panera Bread served about 2.600.639 soups.

In order to increase the contribution that the firm gives to society it has also started the "Fundraising night overview". Through this initiative people can easily donate money to their charity organization. To do this, clients only have to go in one of the cafés and consume their meal, a part of the cost will be directly donated to the interested institute.

The American food chain continues to improve and grow in a successful way thanks to its commitment to understanding consumers and listening to their feedbacks. The cafés uses several surveys, like the Customer Satisfaction survey, to measure the level of contentment of the clients. Thanks to consumers' feedback the company has introduced new services like the Rapid Pick-Up. Thanks to this new type of service clients can order online their meal, pay it with their credit card and choose the time when to go to pick it up without having to stand in long lines. This service allowed workers to make the best use of their short office breaks, needing to leave their desks only for a couple of minutes and come back with their meal-box. In order to take advantage even more of

the new technologies, the American café, created even an application that can be downloaded on the iPhone and allows clients to directly order their meals.

Thanks to Panera's strategy and business model it has been recognised in 2015 first in "the World's Top 10 Most Innovative Companies of 2015 in Food". The American food chain received this award thanks to its experience, the technologies used and the service offered. In contrast to other fast food chains, Panera continues to innovate its technologies, layout and staffing. To illustrate the firm's pro-active initiatives, Forbes, shows how through a phone application consumers can place an order five days in advance and pick it up directly in the restaurant, skipping the line. Consumers can also choose to order the products directly at their desk or at the table where they are going to consume their meals. The chain also offers to deliver products free of charge if the order is above \$5. Customers can even personalise their meals according their taste and the system will remember who prefers what as long they have signed in in "MyPanera".

After having considered the main characteristics of the American firm's structure, organization and many aspects of its business model, it is possible to determine the main growth strategy and business-level strategy incorporated in the Panera Bread model. The "Revenue Stream" of the firm strictly depends on its pricing tactics and business-level strategy. The business-level strategy is defined as: " an integrated and coordinated set of commitments and actions the firm uses to gain a competitive advantage by exploiting core competencies in specific product markets."⁴¹ There are five different business-level strategies that firm can decide to follow: general differentiation or cost leadership; focused differentiation or cost leadership; and an integrated cost leadership/differentiation strategy. The last strategy is the one that been used most recently as most consumers want low prices products with highly differentiated features Usually firms who use this strategy successfully adapt quickly to new technologies and rapid environmental changes, managing thus to reach and maintain a competitive advantage. Panera Bread is an example of a firm that has adopted this strategy. The American cafeteria's business model concentrates on high-

⁴¹ Hitt, Michael; Ireland Duane; and Ioskisson, Robert; In *Strategic Management: Concepts: Competitiveness and Globalization*; Jack W. Calhoun and Melissa Acuna (eds), 11th ed; 102-126 Ohio: Cengage Learning; (2014)

level foods and sells them at low costs. The strategy adopted by this new company is different from the firm A&W, and other past restaurants, as before restaurants concentrated only on providing clean locations and a wide range of menu options as a way of reducing costs and attracting more customers. Panera wanted to reduce costs and to sell products at low prices, but keeping the level of consumer spending the same. In order to reduce costs the firm has maintained low-cost menu items derived from particular recipes that require cheaper resources. The food chain's success has also been due to its capacity for maintaining food costs below 25%.

Data shows that the firm has managed to successfully implement this strategy, as it has been ranked as one of the fastest growing food companies in America. The "Revenue stream" of a firm depends also on the value customers are willing to pay. This is the reason why Panera Bread decided to offer a wide range of products. Indeed, in order to increase the "Value Proposed" to its consumers, Panera Bread has decided not only to be a bakery, which is its core activity, but also to sell a wide range of different products like: sandwiches, salads, soups, pasta etc. To increase the value of the product sold, Panera put a lot of effort also placed a great deal of emphasis on the presentation of their low-cost meals. Thanks to this attention to detail, it has managed also to attract more sophisticated consumers. The food chain's value mainly derives from its ability to serve quality products at low costs; this capacity has allowed the firm to reach a uniquely successful position in the market.

The food chain does not only offer value through its products but also through the service it provides. The firm wants to ensure that clients have a memorable 360° experience at the restaurant. In order to ensure this, Panera Bread carefully trains its staff to guarantee optimal customer relations with front line staff . A selection of energetic/skilful employees are also necessary to guarantee that the venues are maintained at the desired standards. Having good quality and highly trained employees also distracts consumers from the fact that they might slightly over the odds for cheap products and therefore helps the firm to maintain profits. In order to ensure that each product proposed in the market will be appreciated and to reduce waste, the firm performs in-house tasting, before launching the product, in order to gather customers'

feedback. This is another difference between Panera Bread and A&W that demonstrates the commitment of the former firm to propose only fresh and high quality products that consumers will appreciate independently of its price. This tasting strategy is also a way of reducing waste, and consequently costs, as the firm can then produce the more popular items in bulk/on a vast scale.

Most of the “Costs” of the firm are related to the production of the food items. Many items needed by the food chain are supplied by the local market. Several of Panera’s price products are therefore strictly linked to the local price of the raw materials needed. As the firm depends a great deal on the local suppliers, these have a notable power on the firm. However, the firm, as A&W, has managed to reduce costs thanks to developing a unique system of staff training classes, market analysis and bakery certification that is valid for each restaurant. If each outlet had to develop these activities on its own, costs would increase drastically and there much time would be wasted. As seen previously with A&W, the learning curve serves to teach the company how to reduce costs. Another strategy to reduce costs, which A&W had also used, regards economies of scale. In order to exploit this method of cost reduction, Panera decided to centralise the production of bread dough for those restaurants in close proximity to each other. This has helped many franchised and owned restaurants to reduce the costs of necessary resources and also capital requirements.

Panera Bread strives to satisfy different customer needs and specific food requirements. Several food alternatives are offered, such as high protein, low carbohydrate, vegetarian or vegan products. Another important element in Panera’s business model is to have good “Customer Relationships”. Customer relationship management (CRM) consists in: “The principles, practices and guidelines that an organization follows when interacting with its consumers. From the organization’s point of view, the entire relationship not only encompasses the direct interaction aspect, such as sales and service related processes, but also in the forecasting and analysis of customer trends and behaviours, which ultimately serve to enhance the customer’s overall experience.”⁴² The goal of

⁴² Definition: Customer Relationship Management (CRM); *Investopedia*; (2015)

good customer relationship management is to build and maintain profitable customer relationships by delivering superior customer value. One of the building blocks of CRM is customer satisfaction. Panera Bread relies a great deal on consumer satisfaction, ie if product's perceived performance matches a buyer's expectation it will enhance client loyalty. Loyalty consists in consumers' repeatedly buying products and not being influenced by situational influences and marketing activity that could induce behavioural changes. In order to guarantee customer loyalty Panera proposes continuously fresh products made on the premises.

From Panera's business model it is possible to deduce that it is not necessary to choose between quality or low price. The firm's attention has been always focused in providing the best in different areas and in every single outlet. Thanks to this concentration in all the specific aspects of the business, the firm has managed to maximize its profits and expand. Panera has focused its strategy on a specific niche and this has been the key to its success. Restaurants that have specific niches are more likely to be able to focus on them and grow. "Panera's niche is all about quick, friendly and tasty sandwiches, salads, and baked goods. They have a specific niche and excelling at it while keeping costs down has helped them expand rapidly through the country."⁴³ Consumer needs and wants change over time and Panera Bread, more than A&W, has understood that the in-store experience is becoming more important than speed and convenience.

There is another aspect which has been crucial for firm's success. Like A&W, the firm decided to remain open for breakfast, lunch, the "daytime chill out" and the early evening.

Thanks to its unique position in the food market, the pleasant environment, the unique products, the brands' power, customer loyalty and the revenue stream, Panera Bread has managed to remain leader in the food market.

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Available at: http://www.investopedia.com/terms/c/customer_relation_management.asp

⁴³ All Food Business; Panera Bread and the Low-Cost business Model.
allfoodbusiness.com (2013)

Available at: <http://allfoodbusiness.com/articles/panera-bread-and-the-low-cost-business-model/>

- Conclusion

In this study I have looked at the history of the food industry, its evolution and how its trends have changed over the years. By observing two successful, but very different, companies I have been able to conclude that the key to success in this market is flexibility. The study has shown how leading firms in the industry have always managed to adapt their business models to the changes in consumer behaviour, so as to satisfy demand and produce goods and services for their clientele that will guarantee their loyalty over time. The two firms that I have analysed, “A&W All American food” and “Panera Bread”, despite their different business models, have managed to be highly successful and also survive in a competitive market for long periods. The organization of the first company concentrated on standardisation and providing food and drink that is perceived as ‘quintessentially’ American. A&W, thanks to its attention to consumers’ needs and wants, managed to overcome and even exploit the problem of prohibition, by producing root beer; it was also able to recover from the shortage complications associated with WWII and to expand impressively over time by opening more than 1200 outlets in different regions of America. Panera Bread, instead, embraced the strategy of diversity and tried to fit in with local customs, the local environment, even local societal trends etc. By observing both firms’ history and strategies, it has been possible to observe how they managed to become leaders in the food market, with markedly different approaches, but also in different historical periods: one in the early 20th century and one more recently. The primary strategic aspect that unites the two firms is their flexibility with regards to their structure, their organizational model and their mind-set; it is possible, therefore, to conclude that this was the key to the success of both these companies.

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