FOOD TRUCKS MOTOR INTO THE MAINSTREAM

How rolling restaurants are on the road to becoming a $2.7 billion industry...

It’s a sunny afternoon in San Francisco’s UN Plaza, and people are lining up in droves to eat at the eight food trucks parked there. Dressed in everything from neat suits to shorts and tank tops, diners wait to partake in the unusual and usually delicious fare they can buy – and enjoy the party atmosphere. Most popular is Koja. A swarm of patrons – at least 50 – seem happy to wait in line for such Korean-Japanese fusion options as Kamikaze fries; French fries covered in sauces and meat they couldn’t get anywhere else.
Gourmet food trucks are a growing enterprise. Over the past four years, these upscale meals on wheels have motored into major cities from San Francisco to Miami. The National Restaurant Association says these mobile eateries generate about $650 million in revenue – about 1 percent of total U.S. restaurant sales.

A higher quality alternative to traditional fast-food restaurants, gourmet food trucks often serve organic, locally grown and off-the-beaten-path fare. Tapping into a host of powerful consumer trends, from a desire for local products to an interest in unusual products, these rolling restaurants offer a more affordable route to business ownership for entrepreneurs experimenting with expansion or unable to find financing for a brick-and-mortar establishment.

Emergent Research expects food trucks to generate between 3 and 4 percent of total restaurant revenue – about $2.7 billion – by 2017, a fourfold increase from 2012. In other words, food trucks are not a fad but a viable market segment with significant competitive advantages over quick-serve, fast-food and take-out food vendors.

To delve deeper into the trend, Emergent Research recently interviewed a cross section of food truck operators and their customers. This included:

- 272 customers in person at food truck sites in San Francisco, including 168 lunch customers and 104 dinner customers.
- 27 food truck owners or managers in person, by email or by phone.
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RECIPE FOR SUCCESS: COMBINE GOURMET FOOD WITH UNIQUE EXPERIENCE

Unlike the stereotypical roach coaches with horns that blared “La Cucaracha” during company lunch hours, today’s gourmet food trucks offer high-quality cuisine. Customers can find a rich selection of upscale fare from fusion foods, such as Korean bratwurst and Native American fry bread fusion pizza to lobster corndogs and crème brûlée. More than 90 percent of lunchtime survey respondents rated food truck quality as either excellent (43 percent) or good (48 percent). About 50 percent characterized dinner cuisine as excellent.

Patrons shared this enthusiasm while feeling that food trucks provide good – but not great – value. In fact, food truck cuisine isn’t cheap. Customers spend an average of $9.80 at lunch and $14.99 at dinner per person. Only 8 percent of lunch patrons spend less than $8, while 45 percent of dinner patrons spend less than $10. Still, some 50 percent of lunch and dinner diners feel that the value is excellent or good.

More than two-thirds view the cuisine as a treat or an opportunity to try something new or fun. Reflecting that view, most customers don’t frequently visit food trucks. Only 27 percent of lunch customers said they ate at food trucks more than once a week. Meanwhile, 32 percent said they go once a week and 41 percent said they go less than once a week. Dinnertime diners are even less frequent: 70 percent of those surveyed said they eat dinner at food trucks only once a month or less.

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For many, it’s the experience that attracts them to food trucks. More than 80 percent of those interviewed used words like fun, exciting, new, different, unusual and unique when asked why they dined at food trucks.

**FOOD TRUCKS DELIVER A COMBO MEAL FAST, FRESH, GOURMET AND CLOSE**

Food trucks’ success reflects a combination of many powerful consumer trends.

- **A hunger for quality, value and speed.** Those are the top three attributes consumers look for in quick serve or fast-food restaurants, according to the National Restaurant Association’s 2012 Restaurant Industry forecast. Food trucks often outperform traditional quick-serve and fast-food restaurants in all these areas.
- **An appetite for fresh and local food.** According to the Hartman Group, a food research and consulting group, “fresh is the cultural shift toward all things healthy, real, pure and special.” Most gourmet food trucks use fresh, local food to differentiate themselves from traditional quick-serve, take-out and fast food.

- **An affinity for local.** Consumers increasingly are supporting nearby businesses. Buying from and supporting local merchants sparks a sense of belonging and being part of the neighborhood. The personal interaction between diners and food truck owners often transforms transactions into meaningful relationships.

- **A desire for small and sustainable.** In addition to supporting local activities, the appeal of food trucks counters the conventional wisdom that bigger is always better. Going beyond being a small, local business, most gourmet food trucks stress their use of sustainable food sources and practices.

- **A need for speed.** The fastest-growing part of the restaurant industry over the past few years has been the fast casual or quick-serve segment, such as Chipotle. These restaurants don’t provide full table service, but offer a higher quality of food and a better atmosphere than traditional fast-food establishments. Food trucks also serve this segment, providing time-challenged customers easily accessible, quality food and the fast service they require.

“Food trucks are perfectly positioned to tap the growing interest in unique or novel products and fun experiences.”
GOING MOBILE EXEMPLIFIES LEAN BUSINESS MODEL

The Great Recession changed the economics of the restaurant industry, making it more difficult to start and operate a conventional restaurant. Financing is extremely hard to come by. Industry growth is slower. Competition is more fierce, and the risks greater. In response, many budding restaurateurs choose to launch food truck businesses instead.

Food trucks can be started and operated much like a lean technology startup. For those not familiar with the concept promoted by entrepreneur Eric Ries, lean startups focus on rapid prototyping, business flexibility, conserving cash and resources, and a laser-like focus on customers to quickly adapt to market needs.

Lean startups strive to quickly and inexpensively create and test a product with customers, known as the “minimum viable product.” The goal of the minimum viable product is to verify consumer interest in your product before sinking large amounts of time, energy and money on the idea. After creating the first version, lean startups quickly iterate to create better versions based on customer feedback. The lean startup methodology calls this the “build-measure-learn loop.”

“Food trucks can quickly and easily test new concepts, menus and recipes.”
Lean startup methods are not only used by small companies. Large industry leaders, including Google, Facebook, Intuit and others, have embraced lean startup business practices.

Food trucks operate in a similar manner. The average food truck business generally requires $55,000 to $75,000 in startup costs. This is substantially less than the $250,000 to $500,000 (or more) required to launch a brick-and-mortar eatery. Food trucks can also get to market more quickly and have much lower operating costs than Main Street restaurants.

Food trucks can quickly and easily test new concepts, menus and recipes. They are tightly focused on their customers, getting up close and personal with patrons every day to gain instant insights into menu and food preferences. Food trucks use this information to take an iterative approach to their menus and even location based on customer feedback. “Build-measure-learn” is a daily occurrence with food trucks.

By using these innovative business practices, coupled with their low-cost, mobile delivery platform – the truck itself – food truck owners can compete and thrive in the very tough restaurant industry.
SOCIAL MEDIA MARKETING FEEDS MOBILE DINING SUCCESS

The food truck phenomenon owes much of its success to the explosive growth of social media, smartphones and other mobile technologies. It’s not a coincidence that the food truck boom coincides with the rapid growth of social networking, especially Facebook and Twitter. The gourmet food truck owners’ savvy use of social media serves as a classic example of how entrepreneurs can harness technology to promote their business and communicate with their customers in an authentic way.

All the food trucks surveyed use Facebook and Twitter to build relationships with their patrons, alerting them to their location and updating them on menu changes. They also take advantage of other forms of online marketing, such as online directories, review sites and online coupons.

Other mobile technologies also have played an important role in the food truck boom. Mobile payment systems, such as Intuit’s GoPayment, enable food trucks to easily and affordably accept credit cards. Owners use tablets and other handheld computing devices to take orders and manage business operations. Cellular data networks connect food trucks to their suppliers and, of course, smartphones help food trucks communicate with their customers.
FOOD TRUCKS GENERATE NEW DEMAND WHILE DISRUPTING THE ESTABLISHMENT

While food trucks encourage more dining outside the home, they also compete with other eateries — primarily quick and fast-food restaurants and take-out food. Almost half (48 percent) of all food truck patrons surveyed said they would have dined at home or brought food with them if they hadn’t visited a food truck. But the remaining 52 percent said they would have eaten at a restaurant or had take-out food. Dinner customers were more likely to say they would have eaten at home or food from home (59 percent) than lunch customers (42 percent).

Lunch customers were much more likely to eat at a quick or fast-food restaurant or order take-out food (47 percent) than dine a full service restaurant (11 percent). Their reason: time. Few food truck lunch patrons want to take the time required to eat at a full-service restaurant.

Dinner customers were much more likely to see a full-service restaurant as the alternative to food trucks than quick, fast or take-out food. About one-third (34 percent) said they would have gone to a full-service restaurant and only 7 percent said they would have chosen fast, quick service or take-out food.
While food trucks operate all day and late into the evening, we estimate they generate about two-thirds of their revenue during the day and before dinner. This, coupled with the results of the lunch customer survey, indicates that food trucks compete primarily with fast, quick-service and take-out food. Relatively speaking, they do not have much market impact on traditional full-service restaurants.

“...food trucks are not a fad, but a viable market segment with significant competitive advantages...”
ROLLING INTO A NEIGHBORHOOD NEAR YOU

Competition will increase as large brands and existing restaurants launch food trucks. About 26 percent of quick-service chains are interested in getting in on the act, according to the National Restaurant Association. Major brands such as Chick-fil-A, Burger King and TCBY have already added food trucks with a growing number of brick-and-mortar restaurants expected to hit the road.

Over the next several years, food trucks will expand geographically. Today, most operate in major cities and college towns. Over time their range will expand to suburban locations and smaller communities. Food trucks will also gain share in catering and special events, such as weddings, corporate gatherings and sporting events.

Conversely, successful food trucks will also expand by opening brick-and-mortar locations. This is already happening and the numbers will accelerate as more entrepreneurs and businesses use food trucks as incubators to test and develop new food and restaurant concepts.

Food trucks are also the leading edge of a broader trend toward mobile, truck-based commerce. Entrepreneurs in a wide range of other product and service categories, such as clothing, personal services and even business to business goods and services are recognizing the economic advantages of food trucks and applying this approach. These include mobile dress shops, beer canning factories, shoe shops, tool services, dentist services and myriad of others. Emergent Research expects the broader mobile commerce segment to also rapidly expand over the next five years.