Fast Food Outlets in Tower Hamlets
and the
Provision of Healthier Food Choices

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1. INTRODUCTION

In 2008 the London Borough of Tower Hamlets was awarded "healthy town" status as part of the government's national Change 4 Life initiative to tackle declining levels of activity and unhealthy eating that have led to the current obesity epidemic. The Tower Hamlets Healthy Borough Programme (THHBP) is funded and runs until March 2011 to pilot environmental approaches to make it easier for children and families to be more physically active and to eat more healthily.

A food study carried out by City University in collaboration with Tower Hamlets PCT (THPCT) in 2008 revealed that 97% of Tower Hamlets residents live within 10 minutes of a fast food outlet. A Food for Health award scheme has been developed to encourage fast food outlets and other businesses to offer healthier choices. This award scheme is managed by THHBP.

Research Brief

In April 2009 London Metropolitan University was asked by the THPCT to undertake research into independently owned fast food outlets to:

a) Provide an understanding of fast food outlets from a market and financial perspective.
b) Provide information on fast food outlets to inform a team of Environmental Health Officers and Dietitians on market and financial issues that might have a bearing on the implementation and development of the Food for Health award scheme.

The research project initially had the following objectives which were to:

1. Identify the sales, cost of sales, gross margin, overheads and profit of a typical fast food outlet in order to have baseline data on its financial performance.

2. Consider the sales and profit potential of "healthier" fast food in comparison with the sales and profit performance of "unhealthy" fast food.

3. Explore whether higher quality ingredients through shared buying arrangements could be bought at competitive prices that might improve the gross margin in favour of healthier fast foods.

4. Investigate whether there were alternative food and non-food retail businesses capable of generating sales and profits equivalent to selling fast food.

5. Examine the financial management capabilities of fast food operators and identify gaps in their knowledge which if addressed would improve profitability

6. Identify a simple financial toolkit to address the gaps identified in 5.

7. Track the financial performance of an "unhealthy" fast food business, a "healthier" fast food business and a "non-fast" food business over two years and compare the results.

Changes of Emphasis to the Research Brief

It became apparent early on in the research that the financial management of fast food outlets was much simpler than anticipated because they are cash businesses without creditors or debtors that hold little inventory. This meant that investigating a broad range of financial management skills that owners and managers usually need to run small food businesses and the identification of a financial toolkit to address gaps in their financial skills were not needed.

The research team was then asked to widen its investigation into alternative non-food businesses that had common characteristics with fast food outlets but which might provide opportunities for owner/managers seeking to change industries. This research was presented to representatives of THHBP in an interim report delivered at the end of May. The interim report contains far more information and detail than this issue receives in section 2.16 of this final report.

The research team was then asked to focus its recommendations on schoolchildren in this final report because they are the principle target group of THHBP's Change 4 Life initiative.

Methodology

A questionnaire was designed and used as a semi-structured interview checklist with the owners and managers of fast food outlets in Tower Hamlets. The thirty outlets surveyed were chosen to provide a representative sample of the range of fast food outlets by type of food sold and location across the borough. A second questionnaire was designed and used with fast food outlet customers. Fifty one customers were interviewed. More in-depth interviews were held with five owners representing the three business types of fast food outlet identified in the research: "basic", "mixed" and "specialist". Meetings were held with key stakeholders in the Primary Care Trust, the council's Environmental Health Department as well as local business support organisations. Desk research was conducted on the web and in the Business & IP section of the British Library.

2. RESEARCH FINDINGS

2.1 The Market and Trends for Fast Food in the UK

The market for fast food takeaways, restaurants and cafes including home delivery in the UK in 2007 was £9.3 billion per annum in 2007. If coffee shops are included, this figure rises to £11.6 billion (Key Note[1]). From 2003-2007 expenditure in this "eating out of the home" market grew by 15.9% and an annual growth of 4% per annum is predicted to continue until 2012.

Nationally, the fast food market is being driven by new store openings and high levels of advertising and promotion from the major fast food chains such as McDonald's, Burger King and Kentucky Fried Chicken (KFC). There is considerable pressure on margins as the costs of poultry, beef, fish, cereals, vegetable oils, gas and electricity have increased well above the rate of inflation. In the current economic climate there is little scope to pass on these costs by increasing retail prices.

The relatively low price of fast food, particularly of fried chicken and chip outlets, in comparison with other casual dining outlets, gives fast food retailers a degree of competitive advantage in the current recession. In one survey mentioned in Key Note[1], 47% of consumers were found to be trading down in price when eating out of the home as they seek to economise.

In 2007 The UK market share of the various fast food product categories was as follows: sandwiches (29.4%), burgers (17.3%), pizza (8.8%), fish and chips (8.5%), chicken (5.1%) and coffee shops (19.7%)[1]. Nationally, the larger chains tend to specialise, which means McDonald's has burgers at the core of its offering, KFC has chicken and Pizza Hut pizzas. In contrast, the fast food outlets in Tower Hamlets sell chicken, burgers, pizza and doner kebab meals, to ensure that regular customers have choice under one roof, thereby maximising sales. That said, various combinations of fried chicken and chips are central to most fast food outlets' menus in the borough.

Although the major chains dominate in terms of market share, the fast food sector is characterised by having a large number of small businesses. In 2007, 77.4% of all VAT registered restaurants, cafes and takeaways had annual sales of less than £250,000. 36% had sales of less than £99,000. 54.3% employed four staff or less[1]. Our research suggested that the size of fast food outlets in Tower Hamlets reflects this national picture with the busiest outlets having annual sales of £156,000 and the quietest outlets having annual sales of £73,000.

2.2 The Demand for Fast Food

Modern consumers, including those on low incomes, lead busy lifestyles. Many work long hours holding down two jobs. Others are busy either bringing up children or caring for dependent relatives. Many households therefore have little spare time to prepare meals from scratch every night and this is compounded by the decline in cooking skills throughout society. There are clearly many consumers in Tower Hamlets, as elsewhere in the UK, who think a hot meal consisting of fried chicken and generous portion of fries costing £1.99 represents excellent value for money.

2.3 Consumers and Usage of Fast Food Outlets – The National Scene

National research shows that the heaviest users of chicken and burger restaurants, nationally, are young consumers, aged between 15 and 24 (see from Table 1 below[2)]. The number of users then declines with age. Men are more frequent users than women. Less affluent consumers in socio economic groups C2 and D are the heaviest users. There is a hard core of regular consumers (16%) who visit these outlets at least once a fortnight.

Table 1: Frequency of Visits to Burger/Chicken Bars by Adults 15 Years Old and Over[2]

	Most Days %	At least Once a week %	About Once a Week %	Once a Fortnight %	Once a Month %	At least Once Every 3 months %	Less Than Once Every 3 Months %	Never %
All	-	2	6	8	15	10	19	38
Men	1	3	7	10	16	10	18	35
Women	-	2	5	7	14	10	20	41
15-19	0	11	13	17	23	11	14	11
20-24	2	4	13	13	24	10	12	23
25-34	1	6	10	9	25	16	20	13
35-44	-	2	7	15	19	15	21	21
45-54	-	1	5	7	14	8	27	36
55-64	-	-	3	2	6	7	21	59
65+	-	-	-	1	2	5	14	77
AB	1	2	4	7	15	12	19	41
C1	-	3	6	7	17	10	21	35
C2	-	4	7	12	15	10	20	33
D	-	3	7	10	16	10	20	33
E	-	1	9	6	10	9	13	52

Source Mintel 2006

2.4 Customers of Fast Food Outlets in Tower Hamlets

Our research of fast food outlets in the borough involved interviewing a total of 51 customers over two time periods – once during the early afternoon and once during the early evening. The results suggested that young men form the vast majority of customers (74.5%). 96% were under 40 years of age with 67% being 25 or under. 43% of those interviewed were school or college students and 47% were in employment.

Over half the respondents bought food from a fast food outlet at least 2-3 times a week with 27% purchasing food every day. (See fig 1 below). The majority of customers spent less than £3 on their meal. (See fig 2 below).

Figure 1: Frequency of Purchasing Fast Food

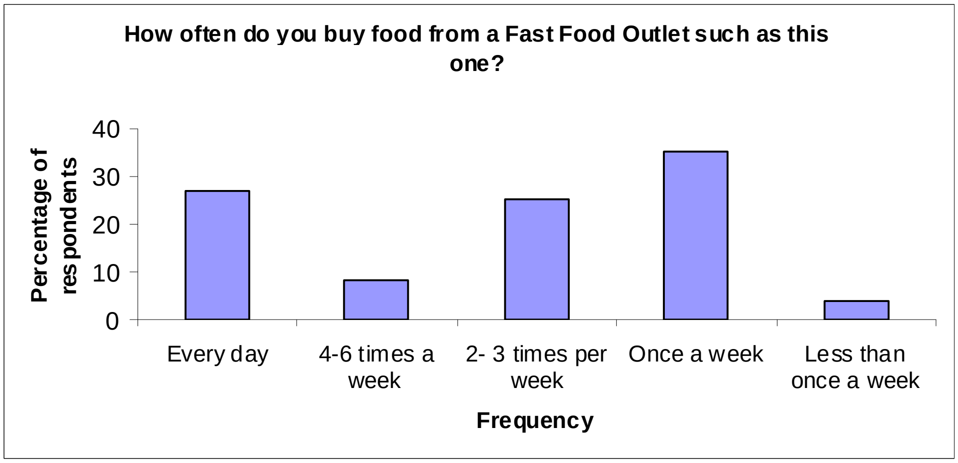
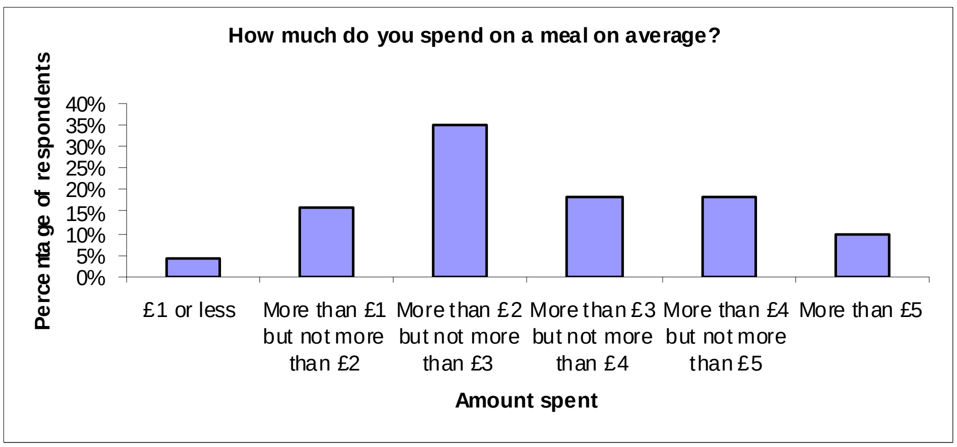


Figure 2: Customers average spend on a meal in a fast food outlet



2.5 Schoolchildren as Customers of Fast Food Outlets

Schoolchildren are an important customer group of fast food outlets. Two of the businesses we interviewed that were located near schools or colleges (Perfect Fried Chicken based on Poplar High Street and Fast Food Corner near Mile End tube station) reported that their weekly sales doubled during term time. Unsurprisingly, small business advisors working for support agencies such as Spitalfields Small Business Association (SSBA), the Ethnic Minority Enterprise Project (EMEP) and the East London Small Business Centre (ELSBC), encourage prospective owners to either open or purchase fast food outlets near schools and colleges because of the significant sales potential offered by schoolchildren and young adults.

A study by Sinclair and Winkler entitled “The school fringe - what pupils buy and eat from shops surrounding secondary schools”[3] revealed that 80% of pupils bought something from these “fringe” shops. Surprisingly, 40% of pupils never buy anything from the school canteen, tuck shop and vending machines.

According to Sodexo’s School Meals and Lifestyle Survey 2005[4], 33% of pupils never visit the school canteen because of long queues (51%), crowded seating (35%), lack of choice (29%), price (27%), portion size (24%) and taste (21%).

Sinclair and Winkler found that secondary pupils shopped for food from the fringe over six times a week. The study found that by preventing pupils leaving the school premises at lunchtime the number of times they shopped for food could be reduced to an average of 3.6 times a week. Sixth formers who had complete freedom of movement shopped from the fringe on average 10 times a week.

Schoolchildren are important customers of “fringe” outlets. The Sodexo survey found that schoolchildren spent on average £1.01 on their way to school and 74 pence on their way home from school. Nationally, £189 million more is spent by pupils on food out of school than in school.

Most fast food outlets in Tower Hamlets, irrespective of whether they are located near a school or college, work hard to satisfy schoolchildren’s needs by selling foods within their price range. During the course of our survey we often found fast food outlets that were offering special deals for children. Examples included two chicken wings for 50p, a small pizza for 99p, and two chicken wings and a portion of chips for £1. These portioned meals are often made and stacked up in advance to ensure schoolchildren are served quickly during lunchtime or on their way home from school.

2.6 Criteria for Choosing a Fast Food Meal

Nationally, 46% of customers decide where to eat based on factors of convenience such as location and long opening hours. When they arrive they want speed of service, and this is rated important by 43% of customers. 39% of customers say inexpensive food and drink is an important consideration in deciding where they shop. This is particularly the case for those aged under 25 (35%) and those in lower social groups C2, D and E (33%)[5].

Locally, our research has attempted to identify the reasons for the popularity of fast food in Tower Hamlets. Customers were asked what had influenced their purchasing decision.

The results are presented in table 2 below. Clearly taste is a key factor. Young people in particular really like the taste of fried chicken and chips even though most of them are fully aware that they are not good for their health (see later section for comments on attitudes to healthy eating). The cheap prices are also an important factor especially as a large number of customers are students and young adults.

Finally, the outlets are also serving a useful social function by acting as a meeting place for young people. All provide a seating area and thus effectively operate as cafes as well as takeaways. This role is particularly important in areas such as Whitechapel, Stepney Green and Mile End where the businesses are catering primarily to the local Muslim community who don't drink and thus do not use pubs as a social meeting space.

Table 2: What is the main reason you have decided to buy food from here today?

Reason given	**Percentage**
The food is cheap	34%
I like the taste of the food	50%
Friends were going so I decided to join them	30%
I don't have much time and this food can be obtained quickly	14%
Other (convenient (6), no time to cook (2), a treat/comfort (2), quick (1), healthy (1)	23%

n.b. Total does not add up to 100% as respondents were able to list more than one reason

2.7 Consumers' Health Concerns and Fast Food

Nationally, consumers are giving mixed messages about their attitude to healthy food as can be seen from the following Key Note findings[6]. 65% of consumers say they are so confused by conflicting advice about healthy eating that they felt they might as well eat what they liked. 77% of consumers say they are prepared to pay a bit more for healthy food and drink but far fewer are prepared to sacrifice the taste of their food for the sake of their health. Understandably, the interest in healthy food is particularly strong for those either with a health problem or on a diet.

Children aged 11-16 have an equally ambivalent attitude towards healthy eating[7]. 51% surveyed said they would eat anything they like. 38% said all fast food is junk. Yet 51% said they try not to eat too much and 63% said they often eat between meals.

In our survey, when asked if they were concerned about the health implications of eating a lot of fried food or food with high sugar or salt content, 70.5% of customers responded yes. 76% said they would have bought healthier food if more were available, either from the outlet they were in or others in the area. There is a known tendency for respondents to this type of survey to give the answer they think the researcher wants to hear, so this figure is likely to be inflated as a result. However, it does suggest that the limited choice of healthy eating places in the area may account for some customers' poor eating habits.

In contradiction to the above, 45% of those who claimed to be concerned about the health implications of what they ate, were eating fried chicken and chips or a burger and chips when interviewed! Thus knowing and understanding what constitutes a healthy meal does not necessarily lead to a change in eating habits. The large number of respondents who thought that healthy food was less tasty (31%) suggests that taste is a crucial factor in the decision making process. (see table 3 below).

Table 3: What is the main reason you have not brought a healthier meal today?

Reason	Percentage of respondents
Healthier food is not available at this outlet	31%
Healthier food is not readily available from outlets in this area	25%
I don't think healthier food is so tasty	31%
I can't afford healthier food	19%

There was some interest in grilled food with 52% responding that they thought that grilling meat instead of frying it would improve the taste with just 8% answering that it would not taste as good. However, only 9.8% of customers said that they would be prepared to pay more for a healthier meal.

Taste and affordability are clearly the most important factors influencing customers' purchasing decisions.

2.8 Owners Perception of Customers' Attitudes to Healthy Food

The owners were less optimistic about their customers' willingness to buy a healthier range of food. 37.7% of the owners did not think their customers would buy healthier food if it were on offer. Comments included:

> "Most want a cheap meal as they are students"
> "The current price is cheap and still people moan"
> "They don't even want it (healthier food) so price is not an issue"

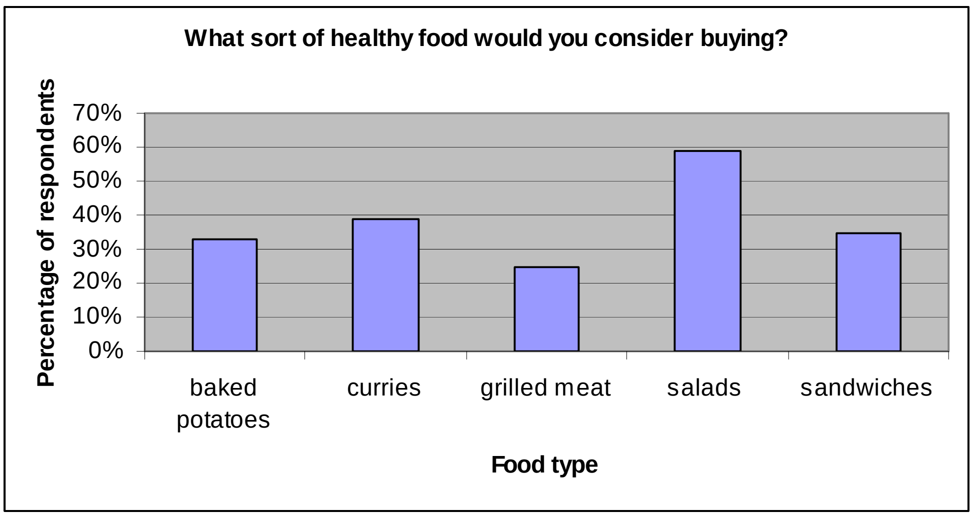
Clearly the owners associate healthier food options with higher prices that they believe their customers will not be willing to pay. Where healthy items were already offered the owners frequently reported that these were not very popular with customers. "I only sell two to four grilled chickens a day" was a typical comment. The owners' views on whether customers would pay more for healthier food echoed those of the customers themselves. 48% of those interviewed, who commented on this, felt that their customers would not be prepared to pay more.

Thus owners and customers are agreed that prices need to be kept low, but customers would seem to be more interested in buying healthier food than the owners believe – as long as it is not more expensive.

2.9 What Healthy Food Options Might Be Popular?

When customers were asked what sort of healthier food they would consider buying salads were suggested most frequently (59%), followed by curries (39%), baked potatoes (33%), sandwiches (35%), and grilled meat (25%). (See figure 3 below).

Figure 3: Healthy food that customers might buy



Other items sold by the healthier outlets and mentioned by owners as being popular with customers, or requested by them, included wraps, yoghurt, hummus and pita bread, or salad and pita bread, and rice. Such requests were most likely to come from vegetarians, women, and older customers.

Bon Appetit was one of the most successful and healthiest outlets we surveyed. This business serves a range of Lebanese based salads and grilled meat wraps that are popular with those working in the area, see case study below.

Case Study: From Lebanese Fast Food Outlet to Online City Catering Firm

Ali Kobar set up Bon Appetit on Leman Street, E1 a year ago. He had previously worked as a chef in major hotels in Lebanon and Cairo and when family members suggested he join them in the UK he came over and worked initially in a Lebanese restaurant on the Edgware Road in London. Bon Appetit specialises in offering a range of Lebanese dishes including kebabs, fish, a wide range of salads and typical Lebanese dishes such as shawarma – meat pieces in a wrap. Prices range from £3.50- £9. The food is popular with local office workers and Ali also offers a delivery service within a 3-mile radius and frequently provides catering for business functions in the City. He is currently setting up an on-line ordering service in partnership with Siemens – a large international firm with offices in the City. Siemens are providing all the necessary infrastructure and support including giving him a computer, photographing his dishes and setting up his website. Their employees will soon be able to order a range of healthy dishes from Bon Appetit without leaving their desks and both Siemens and Ali will be profiting from the arrangement.

2.10 Business Types of Fast Food Outlets in Tower Hamlets

With the exception of the Chinese, Caribbean, Lebanese and Pizza outlets the businesses tend to base their offering around chicken, chips and burgers with some also selling kebabs, pizzas or Asian dishes such as biryani. Even the two fish and chip shops surveyed sold fried chicken as well as fish. Our research suggested that the businesses could be classified into one of three broad groupings depending on the food types they offered. (see table 4 below).

Table 4: Business type of survey sample

Business Type	Number Interviewed
Basic	10
Basic + Grill	2
Mixed Total	11
• Mixed:Curry/Chicken	5
• Mixed:Chicken/Curry	3
• Mixed:Kebab/Chicken	2
• Mixed Pizza/Chicken	1
Specialist Total	7
• Caribbean	1
• Chinese	1
• Fish and Chips	2
• Grilled & BBQ Chicken	1
• Lebanese	1
• Pizza	1

Basic Fried Chicken Outlets

These tend to have ‘Chicken’ in their name with many using the brand name ‘Perfect Fried Chicken’. Perfect Fried Chicken is not a franchise, but rather signifies the particular type of spicy fried chicken these outlets make which caters to the tastes of the local Asian community. These outlets base their menus around fried chicken and chips with some also selling burgers and kebabs. They compete largely on price and portion size, adjusting both cleverly to maximise value for money for all customers including special deals for children.

Such businesses have a relatively low entry threshold in terms of the skills and investment capital required to start-up. This coupled with the popularity and cheap price of the food offered has resulted in a rapid increase in the number of outlets and led to a highly competitive market place. These outlets tend to offer the least healthy food – most food is fried in the cheapest available vegetable oil, chips are generally thin cut, and the only healthy offering is a few lettuce leaves added to burger buns. Twelve of the businesses we surveyed could be classified as basic although two also offered some grilled food.

Mixed Outlets

Mixed Outlets tend to offer a number of Asian dishes, kebabs, or pizzas in addition to chicken and chips. Several had started out as Asian takeaways, kebab or pizza outlets but have recently added chicken and chips to their menus because the recession had led to a drop in demand for the more expensive Asian dishes. These outlets had a mixed pricing structure with chicken and chips meal deals being available from £1.50 to £3 whilst kebabs, pizza and curries cost from £3.50 to £7. Several offered grilled or tandoori chicken within this higher price bracket. These outlets require staff with skills in cooking a range of different foods. They have also had to invest in tandoori ovens and grills. Their menus combine the standard unhealthy fried chicken, chips, and burgers with the healthier more expensive curries, rice, salads, naan, and grilled or tandoori chicken. Eleven of the businesses we surveyed could be classified as providing this mixed product offering.

Specialist Outlets

The remainder of our sample can be classified as specialist outlets as they tend to offer one particular type of food. This group includes Fish and Chip shops, Chinese, Caribbean, Lebanese, Pizza takeaways, and a few outlets specialising in grilled chicken. The dishes sold by these businesses range from £3.50 to £9. Preparation of these foods clearly requires specialist knowledge and skills. With the exception perhaps of the Fish and Chip shops and Pizza outlets they tend to sell a much healthier selection of food including a range of vegetables and salads.

2.11 The Owner Managers

The Bangladeshi community dominates the catering industry in Tower Hamlets. Seventeen of the thirty businesses we interviewed (56.6%) were of Bangladeshi origin. (see table 5 below).

Table 5: Ethnic origin of the owner managers

Ethnic Origin of Owner Manager	Number Interviewed
Bangladeshi	17
Chinese	1
Cypriot	1
French	1
Iranian	1
Jamaican	1
Lebanese	1
Pakistani	5
Turkish	2

Bangladeshi run outlets were more likely to be operating at the lower end of the market – the "basic" or "mixed" type outlets described above, although a few of the better educated younger generation owners were looking to move up market and sell healthier grilled food.

Fifty percent of the total sample had higher-level qualifications. Not surprisingly those operating "basic" outlets were more likely to be amongst the least qualified and those operating "specialist" outlets tended to have the highest level of qualification with the "mixed" outlet operators in between. One or more family members often own the business with others acting as managers. A number of the owners have other fast food outlets elsewhere in the borough or London.

The vast majority of those interviewed had decided to go into the fast food sector because they had previous experience of catering (83%). Their catering skills were usually acquired by working as employees in restaurants or other fast food outlets, until they and their family could amass enough capital to start their own business. Other business alternatives were generally not considered as they had little or no work experience of other sectors. Two of the owners interviewed had previously run businesses in the clothing sector, but following the decline of this industry they had decided to switch to catering. The Bangladeshi community in particular tends to be less well qualified than the population as a whole. The latest census (2001) data found that the local Bangladeshi community had the lowest level of educational attainment out of all the key local ethnic groups; only 10% had higher-level qualifications, and 54% had no qualifications at all. As a result their employment options are limited. Many find that working for family and friends in the catering sector is the only source of employment available to them.

Just over half of those we interviewed (17) had been in operation for five years of less. Seven had been in operation for ten or more years. This suggests a more stable pattern of ownership amongst fast food outlets in comparison with the catering sector generally in the UK where 40% of businesses either cease trading or change hands every three years.

2.12 Simplicity and Privacy of Running a Fast Food Outlet

Fast food outlets have many attractive features to businessmen. The operation is simple to run. The ingredients can be bought from one or two suppliers. Deep frying is an easy, low skill operation which produces a uniform, consistent product. Wastage is minimal because many ingredients are cooked from frozen and the outlet stops trading for the day when all the cooked foods in the hot holding cabinets have been sold.

Fast food outlets are predominantly cash-based businesses. Supplies are paid cash on delivery. Staff are probably paid in cash. Consequently, there may be no need for a bank account and limited need for professional advisors such as accountants and solicitors. Independence and privacy are hallmarks of these businesses.

2.13 Suppliers

Those selling the standard chicken & fries formula rely heavily on one particular supplier - JJ Food Service (JJ). JJ sells a comprehensive range of chicken, oil, burger, buns and packaging, including the “4 Flame Packaging” range as well as disposables, drinks and cleaning products, making it possible for an outlet to buy everything it needs from this supplier. JJ offers highly competitive prices with discounts for ordering in bulk, discounts for ordering online and discounts for collection from their warehouse in Enfield. In addition, there are always special offers on promotion. For example, JJ's vegetable oil in 20 litre tins has a standard list price of £18.89 but in their May-June price list it was on offer at £9.99. Nineteen of our thirty interviewees mentioned JJ as their main supplier. Vatan and Bilat were used to supply kebabs and other Turkish meats, whilst a few of the outlets that were particularly concerned with providing authentic Halal products used specialist Muslim suppliers.

2.14 Profitability of Fast Food Outlets

Our research indicates that fast food outlets in Tower Hamlets are able to break even on modest weekly sales which range between £1,400 and £3,000 per week. These sales figures are in line with national findings which according to Key Note, show that 36% of all fast food outlets, that have registered for VAT, have annual sales below £99,000[1].

Half the businesses surveyed (15) were prepared to provide information on their sales figures. Interviews with local enterprise agencies and the National Federation of Fish Friers (NFFF) suggested that these figures might well be under-estimates because these types of businesses tend to under declare their income either as a means of keeping below the VAT threshold (annual sales of £67,000 for 2008-2009), or reducing their VAT liabilities. However, the figures give some indication of the differing levels of profitability across our three different business types. (See table 6 below). From this we can suggest, if somewhat tentatively, that the basic outlets are generating higher turnovers than the specialist or mixed business types.

Table 6: Average weekly sales

Business Type	Average Weekly Sales
Basic	2,950 (6)
Mixed	1,400 (6)
Specialist	2,500 (3)
Overall average	2,473

n.b. numbers in brackets give the sample size

Using a variety of sources of information from fast food franchises and HM Revenue Customs it has been possible to produce theoretical profit and loss accounts; one for a small fast food outlet and another for a busier outlet.[8,9,10,11,12,13] An assumption has been made that the smaller business purchases the cheapest ingredients available and takes advantage of every price promotion offered by suppliers. This should enable a food and packaging cost of 30% to be obtained, and providing the outlet keeps a tight control of labour and overhead costs, then break even is reached on annual sales of £73,000. (see fig 4 below).

Figure 4: Small fast food outlet profit & loss account

Sales	£73,000 or £1,400 per week
Food Cost	£21,900 (30%)
Wages	£21,900 (30%)
Overheads	£14,600 (20%)
Rent	£14,600 (20%)
Breakeven	£0 (0%)

The profit and loss account, in figure 5 below, is for a busier fast food outlet. The assumptions are conservative and based on information given to us during the survey. The food cost has been increased to 40%. This outlet is likely to employ four staff and pay either a salary to a manager or provide drawings to the owner.

Figure 5: Busier fast food outlet profit & loss account

Sales	£156,000 or £3,000 per week
Food Cost	£62,400 (40%)
Wages	£39,000 (25%)
Overheads	£23,400 (15%)
Rent	£23,400 (15%)
Profit	£7,800 (5%)

All the outlets surveyed open for a minimum of twelve hours a day seven days a week. Some outlets on Mile End Road have late night licences and trade until three o'clock in the morning. An outlet would achieve daily sales of £430, weekly sales of £3,010 and annual sales of £156,520 providing it serves eighteen customers each hour for twelve hours (216 customers per day) and every customer spends £2 per head.

In summary, fast food outlets are flexible cash businesses capable of breaking even from quiet locations and generating reasonable profit from busier locations near secondary schools, colleges, hospitals and tube stations. This ability to break even and make profits on modest sales is the reason why there are so many fast food outlets in Tower Hamlets.

2.15 Impact of the Recession

Several outlets commented that the recession was forcing them to focus to a greater extent on selling a cheaper range of food. For example one outlet, which had operated as an Indian takeaway for many years, had recently added chicken and chips to his menu. Customers who had previously bought an Indian takeaway once or twice a week were now only buying one once a month. In contrast, there was a steady demand for chicken and chips as described in the case study below.

Case Study: The impact of the recession on a traditional Indian takeaway

Mr Ali set up the Eastern Tandoori fast food outlet in Burdett Road, E14 fifteen years ago having previously spent three years working as a chef in an Asian restaurant. He takes pride in offering a wide range of good quality Asian food including several vegetable curries, salads and tandoori dishes. Until recently he has had a loyal following of local customers many of whom would come in once or twice a week for an Indian takeaway. Over the last year, however, the recession has meant that his customers have started to cut back on their expenditure and many now only come to buy a takeaway once a month. As a result Mr Ali has started to sell fried chicken and chips as well as the traditional Asian dishes. The former offers a smaller profit margin but is now in greater demand. At lunchtime and in the afternoon he gets a steady trade from school children that spend 50p or £1 on carefully priced and portioned meal deals.

2.16 Profitability of Alternative Food Businesses

Food retailing in cities has changed dramatically over the last thirty years as the number of small independently owned grocers, green grocers, butchers, delicatessens and bakers has declined, primarily because consumers chose the range, price and convenience offered by all the major supermarkets. This trend has continued with the supermarkets developing small store formats suitable for inner city high streets. Examples include Tesco Metro and Sainsbury's Local. The small business sector has responded by selling fast food in order to survive.

After the supermarkets, existing small food businesses, and street markets have claimed their market share, there is little scope for any new grocers, green grocers or butchers to establish a viable business

Shane Brennan of the Association of Convenience Stores, in a telephone conversation said that the simplest alternative food business to run would be a convenience store selling tobacco, sweets, alcohol, milk, biscuits, pet food and confectionery all sourced from a cash and carry. This business would only make at 25% gross margin at best.

A fast food outlet with a 60% gross margin and overheads of £50,000 would need annual sales of £83,333 to break even whereas a convenience store with a 25% gross margin would need to generate annual sales of £200,000 to break even. This demonstrates why fast food outlets are more profitable small businesses to run than grocers, green grocers, newsagents and cafes.

Case Study: The profitability of fast food retailing

The Pervaze family has owned and run a variety of businesses at a location near Mile End Tube Station since 1984. They have operated a stationery shop, a dry-cleaners, a shoe shop, a café and a tailors from the site over the years. The landlord had previously refused the family permission to run a fast food takeaway. However, when the landlord increased the rent substantially about a year ago he relented in his opposition to a takeaway as the family claimed this was the only business they could run that would provide them with a living and enable them to pay the higher rent.

It is rare for entrepreneurs to move from one sector to another. 80% of entrepreneurs from ethnic minority groups only ever work in the business they are running[14]. And 25% of all ethnic minority businesses have annual sales of less than £25,000[15]. Ethnic fast food outlets with annual sales greater than £73,000 and employing three staff or more should therefore be seen as business success stories.

It is highly unlikely that an owner of a successful fast food outlet would want to set up another small business in a new industry in which he or she has no knowledge of the suppliers, customers' buying habits, margins and regulatory requirements.

2.17 Key Issues of Concern to the Businesses

Eighteen of the businesses surveyed highlighted issues that were of concern to them. (see table 7 below). Competition was cited the most frequently. The owners complained that there were too many businesses selling the same thing (fried chicken) in close proximity and that planning permission for so many food outlets should not have been granted so readily. Outlets were trying to undercut each other as a result. Crime and disorder was an issue for some, particularly those that open late at night around Whitechapel and Cannon Street Road. The increasing cost of supplies was mentioned by three businesses. The weak pound has resulted in a significant increase in the price of imported chicken. The highly competitive nature of the market means that it has not been possible to pass on these price increases to customers.

Table 7: What issues are of concern to you and your business?

Issue	Number of businesses
Competition	10
Crime and disorder	4
Price of supplies	3
Credit crunch/declining sales	1
No problems	6

n.b. businesses could cite more than one issue

2.18 Perceived Barriers to the Sale of Healthier Food

The owners interviewed highlighted a number of reasons why they would find it difficult to offer a healthier range of food.

a) Resource constraints

Seven businesses felt that they would need additional equipment or staff to provide a wider and healthier range of food. The type of resources listed included:

- A tandoori oven and/or grill and possibly additional extractor fans would be needed to grill/roast chicken. A grill with eight burners was estimated to cost around £3,500 by one outlet, an oven £1,500 and extractor fans £2,500 i.e. a total investment of £7,500.
- Upright fridges for storage and display of finished products cost between £600 and £800.
- Horizontal, chilled merchandising units for salad and meat ingredients cost between £1,200 and £2,100.
- Industrial juice machines cost between £1,000 and £1,600.

b) Space and staff constraints

Four of the outlets stated that they did not have the space for the extra equipment or staff that would be needed to grill food or prepare sandwiches for example.

c) Brand image and customer expectations

Customers have learnt to associate particular types of food with particular types of outlets and the owners felt that it would be difficult to change customers' attitudes in this respect. This was important for three of the specialist outlets. A typical comment was:

> "We are a fish and chip shop…people expect to buy fish and chips here not sandwiches"

d) Healthy food is not popular

A few also reported that they had tried to sell some healthier options such as sandwiches.

> "We tried to sell sandwiches but we didn't sell any. So we changed to wraps"
> "We do roast chicken, but it is not as popular because it's more expensive"

The businesses also reported that many customers were not prepared to wait the extra time it took to grill food. They were in a rush and wanted to take their food and go.

2.19 Experience of Business Advice

The businesses tended to rely on their accountant (9) and friends and family (5) to provide them with business advice. We did not find a single business that had used a business support agency although one did report that he had attended a course on customer service. A typical comment was:

> "I have 15-20 years experience of this type of business. The boss and myself give each other advice"

Four reported that they had had some advice from an environmental health officer, and of these, two felt that it had been helpful and constructive.

Thus the notion of using external business advisors seemed to be a rather alien concept to these businesses. These findings support those of several previous studies which show business owners from ethnic minority groups prefer to rely on family and close friends for support[16]. A lack of trust of outsiders has been identified as a significant issue affecting the ability of business advisors to build effective relationships with ethnic minority businesses.

2.20 Attitudes towards a Specialist Fast Food Advisory Service

Since the business owners generally had had little experience of using business advice services it was difficult to engage them in discussions regarding the type of specialist advice that might benefit their business. Only seven provided a response to the question, "What in your opinion makes a good business advisor?" Of these, six felt that knowledge of fast food outlets was the most important criteria.

When prompted, and given specific options to consider, only nine thought they might seek advice on reducing energy bills and seven advice on healthier menu planning.

2.21 Suggestions for the Promotion of Healthier Eating Habits

Both customers and business owners were asked for advice on the best way of encouraging people to eat a healthier diet.

Customers' views included:

- Most people are already aware of the health issues;
- There should be more fresh fruit available;
- There should be a wider range of healthier halal food available;
- Healthier food options need to be cheaper;
- There should be more health education and awareness raising;
- Programmes should show how fatty foods are made and what they do to the body;
- Health promotions should include attractive posters, placed in food outlets, next to schools and educational establishments. Another alternative was to show pictures of fat and the results of being obese.

Businesses on the other hand suggested that:

- There should be a major health campaign similar to the anti-smoking campaign;
- The message should be promoted through advertising media, which would reach local people including the Bengali and Islamic TV channels and East End Life – the free council paper;
- There should be adverts on billboards at bus stops
- Leaflets and posters about healthy eating could be placed in the fast food outlets;
- The local Imam at the East London Mosque could be asked to raise the issue in his sermons. The mosque attracts about 4-5,000 people each week and the Imam gives sermons in English and Bengali and is well respected in the community.

2.22 Interest in the Food for Health Award Scheme

Twenty-three of the thirty businesses interviewed were interested in having more information about the Food for Health Award Scheme. Those that showed a particular interest or readiness to apply for the award have been highlighted in red on the attached list of interviewees, whilst those highlighted in orange would also be worth contacting, (see appendix).

3. DISCUSSION OF THE RESEARCH FINDINGS

3.1 Considerable Demand for Fried Food

In a borough such as Tower Hamlets there will be always be a considerable demand for cheap fast food. Customers with little disposable income wanting something hot, quick and filling that is keenly priced understandably find the fried chicken and chips meals on offer attractive. Prices charged for these meals in independently owned outlets are usually £2.49 or below thereby ensuring they are competitive compared to KFC and McDonald's. This value for money proposition is enhanced by serving large portions in general and chips in particular. This formula appears to be working as those outlets we surveyed selling this type of food appeared to be the most profitable.

3.2 A Struggle to Make Profit

The current market is fiercely competitive with owners finding it extremely difficult to increase prices at a time of recession. The owner of one Pizza outlet described how much hard work and how long it had taken him to get customers to accept a 30 pence price increase for higher quality fried food. Ingredient costs and other overhead costs have increased significantly and this has reduced the gross margin and profitability of all the fast food outlets. Some outlets are having to work very hard to break even and all of them are waiting for better economic conditions ahead to either make or increase profits.

3.3 Premium Prices for Grilled Chicken Meals

Healthier food produced in some of the "mixed" and "specialist" outlets is based upon grilled rather than fried chicken. Grilling requires more equipment, more space, higher wages for more skilled staff and longer preparation times, all of which add to the cost of this type of food and make it significantly more costly than frying. Selling prices of grilled food start at £3.50 but are more typically sold at or above £4. Thus making a grilled chicken meal around £1.50 (60%), more expensive than a fried chicken meal.

3.4 Gaining Customers for Healthier Foods Takes Time

The manager of Real Taste near Stepney Green Tube station on the Mile End Road sells both fried and grilled food. It has taken him two years to develop a market for grilled foods by patiently developing a small range of products for which customers are prepared to pay higher prices.

The owner of BBQ BASE near the London Hospital in Whitechapel only sells grilled meats and takes great pride in the healthy menu he has created. It has taken him three years to get product, speed of service and pricing right to meet his customers' needs.

Price is still an important consideration for both BBQ BASE and Real Taste. Both businesses estimate that 40% of their customers make purchasing decisions based on price. BBQ Base had to introduce a grilled chicken and potato wedge meal at £1.99, a loss leading price, and has only recently managed to increase the price to £2.49.

3.5 Healthier Food and Business Location

It is noticeable that operations such as Bon Appetit in Leman Street and BBQ BASE in Whitechapel find it easier to develop a market for higher quality healthier food because there are larger numbers of adult customers with higher disposable incomes in their catchment areas. In contrast, Real Taste which is making great strides to sell healthier food will always be a "mixed" outlet offering fried as well as grilled food because the clientele around Stepney Green consists of more children and students with lower disposable income.

3.6 Variation in Fried Food

The "basic" fried food outlets do not make identical products. They buy different grades of chicken and chips. They try to use different seasonings and sauces. They fry on slightly different pieces of equipment in slightly different ways, all of which creates more variety than is apparent from the window displays and menu boards. Differentiation is attempted by one outlet specialising in spicy chicken wings, another in chicken nuggets, another in chicken burgers and so on.

3.7 Committed Business Heroes

Fast food outlets provide businessmen with the opportunity of running quite large businesses generating annual sales of about £125,000 per annum and usually employing four staff. This compares favourably with many ethnic businesses which often have much smaller turnovers and where the owner is often the sole employee[14].

We were impressed with the strong sense of duty a number of these owners have towards their family, friends and community. One owner mentioned the pride he felt in being able to employ members of his extended family who did not have his educational qualifications or his command of English. Jobs in these independent fast food outlets are for many a first step onto the employment ladder. Another owner supports local community events by closing his outlet and taking the equipment to serve grilled food at such events for lower prices than normal.

3.8 Business Advice

In our opinion, the fast food outlets do not need “normal” business advice. They are expert at buying ingredients as cheaply as possible and taking advantage of any price promotions offered by their suppliers. They keep a tight control of overheads and the owners we met are prepared to play a long game and only take drawings out of the business once it is trading profitably. They understand how to set and manipulate prices and portion sizes for different customer groups that maximise sales, gross margin and profitability.

The business advice needed is for prospective rather than existing owners. We heard accounts of businesses getting into difficulty through either paying too high a purchase price for their business or investing too heavily in conversion or refurbishments costs before understanding the true trading position of the outlet acquired.

3.9 Substantial Long Term Investment

Nobody, quite understandably, was prepared to tell us what they paid for their business. A business advisor at the East London Small Business Centre (ELSBC) whose family is heavily involved in the catering trade mentioned sums between £50,000 and £100,000. One business told us that it had cost him £60,000 to convert a non-food premises into a fast food outlet. Other businesses had spent £50,000 on refurbishing their kitchen and seating area when taking over an existing outlet. The picture this presents is one where the owners, often several members of one extended family, are making a substantial investment and are working incredibly hard to ensure the venture is a success.

We know from Fast Food Corner near Mile End tube station that fast food takeaways have the capacity to make higher sales and profits than alternative food and non-food businesses. Therefore, the obvious conclusion to draw is that fast food outlets are here to stay and will be an important part of the small business sector in Tower Hamlets for the foreseeable future.

3.10 Schoolchildren and Fast Food

Children are the main target group for the Change 4 Life programme in Tower Hamlets and there would appear to be a number of barriers in the way of weaning schoolchildren off fried fast food. These are:

- They like the taste of fried food particularly chicken and chips.
- Fried chicken and chips offers them hot food at low prices in large portion sizes that represent excellent value money.
- Children love chips and seem to have a preference for thinner varieties.
- Fried food is affordable whereas grilled food is too expensive for most children.
- Many children prefer to eat fast food rather than school meals.
- Fast food is convenient because outlets are located close to schools, homes and transport hubs and they are open for long periods of time every day.
- Outlets can make a profit selling fried food to children but will struggle to make a profit from healthier grilled food if it is being sold at prices that children can afford.
- Children are important customers for many fast food outlets and the businesses work hard to satisfy children’s needs as consumers.

3.11 Chips, Chips and More Chips

We note with concern that some outlets are offering very large portions of chips. Many of the outlets use an orange and yellow tray from "4 Flame Packaging" emblazoned with "Hot & Tasty Chicken just the way you like it". The dimensions of this tray are 175 mm long by 110 mm wide by 70 mm high. We purchased a regular portion of fries which came in a paper bag, a large portion of chips in the aforementioned tray and a chicken and chips meal deal in the same tray.

The "regular" portion of chips in a bag cost 75 pence and weighed 298g and if there are 3 kcal per g of chips, as per McDonald's nutritional information, then that portion may have contained 894 calories.

The "large" portion of chips came in the tray and cost 99 pence and weighed 450g and the serving may have contained 1,350 calories.

The £1.99 meal deal in the tray contained 350g of chicken on the bone but with quite a lot of meat and 225g of chips. The chips alone may have contained 675 calories.

3.12 McDonald's Portions of Fries & Independents' Portions of Chips

In contrast, McDonald's "typical" small portion of French fries weighs 80g and contains 230 calories. McDonald's "typical" medium portion of French fries weighs 114g and contains 330 calories. And McDonald's "typical" large portion of French fries weighs 160g and contains 460 calories.

Understandably, the fast food outlets want to offer value for money which is why they offer large portions. This is compounded by filling the large "4 Flame Packaging" tray, which if not filled might look mean. That said, it is worrying that a fast food outlet's regular portion of chips could be almost double the weight and contains double the calories in comparison with McDonald's largest portion of French fries.

3.13 Profitability of Chips

This would appear to be a situation without an obvious market solution. Children want large portions which represent value for money. Fast food outlets make very large gross margins on chips with the result that chips probably make the largest contribution to profits of both "basic" and "mixed" outlets. It has been reported that 70% of the profit of a typical fish and chip outlet is generated by sales of chips, 10% of the profit comes from sales of fish and the remaining 20% of profit comes from the sales of condiments and drinks [17].

3.14 Potato Wedges Instead of Chips

It is possible to compare the margins obtained from selling chips and potato wedges by using prices from JJ's price list for "Ecofrost Extra Thin Julienne Chips" which cost the outlets 45 pence per kilo and "JJ Seasoned Spicy Wedges" which cost them 80 pence per kilo.

100 g chips costing 5p and sold for 50 pence would give a 45p cash margin (90%)
200 g chips costing 10p and sold for 50 pence would give a 40p cash margin (80%)
300g chips costing 15p and sold for 75 pence would give a 60p cash margin (80%)
450 g chips costing 23p and sold for 99 pence would give a 76p cash margin (77%)

100 g wedges costing 8p and sold for 50 pence would give a 42p cash margin (84%)
200 g wedges costing 16p and sold for 50 pence would give a 34p cash margin (68%)
300g wedges costing 24p and sold for 75 pence would give a 51p cash margin (68%)

There would appear to be an overwhelming case for asking the fast food outlets to switch to selling potato wedges because the margin potential on wedges is nearly as high per serving as it is on chips. However, the annual loss of margin from switching to potato wedges if an outlet sells 50,000 portions a year is considerable. The annual loss could be £1,500 on the 100g portion, £3,000 on the 200g portion, £4,500 on the 300g portion and £6,500 on the 450g portion. This could tip a small outlet trading at break even into making losses and eliminate nearly all the profit in a busier outlet.

The switch to potato wedges would be unpopular with many children and those outlets that made this change would undoubtedly lose sales and profits to those outlets that stuck to selling chips. A binding collective agreement which would set a date when all the outlets agreed to stop serving chips in favour of potato wedges would probably be needed to ensure a level playing field.

It is possible the outlets might be persuaded to offer both chips and potato wedges but this adds a level of complexity for possibly a lower return which does not appear attractive from a commercial standpoint.

The loss of margin is much worse when it comes to using higher quality cuts of chicken in fried meals and when grilling chicken for children with little money to spend.

4. RECOMMENDATIONS

The following is taken from a British Retail Consortium report which succinctly explains how demand influences the supply of healthier foods. "Food retailers are businesses. They are reliant on customers wanting to buy the goods they sell and, if there is not a market for the product, it does not matter how beneficial it is, they will not be able to keep it on their shelves. Retailers need to be sure their products will sell. This is also the case when it comes to healthy eating alternatives."[18]

Lasting change to children's eating habits is far more likely to be secured by adopting a market approach which convinces children of the need to eat fewer chips. THHBP will know it is winning this battle when children start asking the fast food outlets for smaller portions of fries and demanding they sell potato wedges.

Supply side changes made by the fast food outlets or their suppliers are unlikely to be successful if those changes are not supported by children's behaviour as consumers. There is also a danger that supply side changes made in Tower Hamlets could force children to shop at fast food outlets in neighbouring boroughs which could have the unintended consequence of damaging the profitability of businesses in Tower Hamlets.

4.1 Funding the Recommendations

The six recommendations we make, that follow, will cost a considerable amount of money. We do not know how much unallocated money THHBP has to support healthy eating, however we are aware of a project specification for a two-year "Healthy Food Business Advisory Service" valued at £240,000. We suggest this sum should be spent on the recommendations in this report which would be a more effective intervention than the introduction of the proposed business advisory service which businesses are unlikely to use.

4.2 Information Campaign on Chips in Schools

An information campaign should take place in schools focusing on chips. This campaign should recognise children are consumers by giving them straight forward information on the reasons why they might want to eat chips less often and consume smaller portions, and why potato wedges are a healthier alternative. This campaign should:

- Make children aware of what THHBP's recommended portion size is for both regular and large servings of chips – what it looks like in a bag or a tray, what it weighs, the calorie content, the fat content and the contribution each make to their daily intake.
- Give children the identical information on potato wedges in order that they can make valid comparisons with chips.
- Give them information on how much energy they need to burn off the calories. If you eat a 200g portion of chips containing 600 calories you will need to walk at a brisk pace for 120 minutes. This is equivalent to walking four times between Whitechapel tube station and Mile End tube station on the 2012 Olympic Way.
- Present children with graphic photographs and video clips of what overeating and fat does to their arteries and other organs.
- Give children the contact details of the Food for Health award winners so when their natural curiosity is aroused some of them might be tempted to try some healthier foods.

4.3 Free Training for Outlets on Frying Chips & Potato Wedges

Chips and potato wedges will always be fried. Consequently they must be fried in line with best practice. We believe Bill Crook, Chair of the National Federation of Fish Friers, who runs courses on good frying is already in touch with THHBP to deliver this training which has proved popular with food businesses in Wandsworth. These courses should be promoted widely and ideally offered free of charge to encourage attendance.

4.4 Working with Suppliers on Chips

Judging by the meeting we had with them and the image they project in their corporate brochure, the supplier - JJ appears to be a responsible business. It ought to be possible to build an effective working relationship with them which deals honestly with THHBP's concerns about children eating too many chips and JJ's possible concerns about the impact of reduced portion sizes on their sales of chips.

JJ should be encouraged to give prominence on their price list and web site to the healthier choices they stock, some of which meet the nutritional standards set for schools. Could the THHBP explore the possibility of persuading JJ to list the calorie content of all chips, potato and poultry products?

4.5 Working Closely with Selected Outlets

We recommend THHBP runs a pilot scheme with the following five outlets, which have all expressed a particular interest in offering healthier menus: Bon Appetit, Perfect Pizza, Fast Food Corner, Real Taste and BBQ BASE. These businesses should be rewarded financially in exchange for them sharing detailed information with THHBP on sales and margins of fried foods, grilled goods and other healthy foods. This information would need to be kept confidential and should not be used to undermine their competitive position in the market if what is learnt is applicable to the other businesses.

This pilot study could also be used to validate whether funding from THHBP of display fridges costing about £1,000 stimulates meaningful sales of healthier foods such as salads, hummus, pita bread, rice, fruit salads, juices and smoothies. How the units are used and what monitoring arrangements are needed to police potential abuses would be determined during the pilot study.

THHBP ought to consider purchasing high quality domestic blenders costing £100 and food processors costing £200 to see if this is successful in developing a market for freshly prepared juices and smoothies in these businesses.

There is a saying in the commercial world that people do business with those they know, like and trust. Altan Ahmet and Michele Sandelson have forged good working relationships with the outlets in connection with the Food for Health award and we believe this puts them in a strong position to offer not only food safety, nutrition and dietary advice but also make suggestions on costing and pricing as well as improving sales through suggestive selling and offering healthier choices as samples for trial.

4.6 Food for Health Award

Gaining the Food for Health award, quite rightly, depends upon meeting strict criteria. The standards required to meet the bronze, silver and gold awards must be maintained in order to protect the scheme from possible criticism by the press. The award must be used to give the winners competitive advantage over less healthy businesses. This position would be undermined if the awards, for whatever reason, were handed out to undeserving businesses.

Interest in the award scheme is likely to increase as word gets out and this will create a demand for more resources from the teams led by Altan and Michele which must be funded.

THHBP needs a number of fast food award winners located in different parts of the borough if the scheme is going to be successful in satisfying the interest and hopefully demand for healthier choices.

4.7 Local Marketing Campaign

Individuals and communities can influence markets through the healthy choices they make as consumers. This transformation in the market will only occur when many thousands of customers purchase healthier fast foods. THHBP has a crucial role to play in mounting a sustained two-year marketing campaign to stimulate demand for healthier foods.

In addition to all the sensible suggestions for promoting healthier eating habits described in section 2.21 THHBP should ask “Starvin Marvin” who writes about restaurants in East End Life to review the Food for Health award winners. Finally, a community judged competition for the healthiest fast food outlet organised and promoted by the Imam at the East London Mosque could prove effective at raising awareness of healthy eating among a large section of the local population that is hard to reach.

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