

IN MARCH 1996, some five years into an economic recovery, the *New York*

Times ran a series of front-page articles entitled, “Downsizing in America.” The stories chronicled the fortunes (and misfortunes) of American workers recently downsized and restructured out of their jobs. The series fueled ongoing concern and public debate about the changing prospects for U.S. workers, particularly those with less education and low skills.

In the past, large U.S. businesses provided entry-level workers with opportunities for skill development and advancement. Workers starting out with few skills had a chance to move into “good” jobs via a long-term employment relationship with on-the-job training and job ladders with the possibility of promotion and higher pay. Firms were able to offer these opportunities in part because they brought together a large and varied set of jobs under a single roof.

Many observers, pointing to the *Times* series and other similar examples in the media, concluded that these traditional arrangements had largely been scrapped. And they often cited two distinct but related

Too many COOKS

Changing wages
and job ladders in
the food industry

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Food-prep workers are now more likely to be located in food manufacturing firms than in restaurants and cafeterias

changes—both dramatic—as reasons. The first was a change in the relationship between firms. Companies began to look to outside firms to provide many tasks previously done in-house, becoming embedded in a stable network of outside firms hired to perform the outsourced functions. The second was a change in the relationship between workers and firms. In this shift, increasing competition in both product and labor markets drove firms to abandon their traditional way of dealing with employees in favor of a relationship conducted more like an arm’s-length market transaction. Both changes created firms that were less vertically integrated and that relied on outside firms for all activities, save a few “core competencies.”

The end result: the replacement of traditional long-term employment relationships with McJobs—low-skilled jobs with high turnover rates and little opportunity for training. Flipping burgers became a potent symbol to those worried that the U.S. economy was increasingly creating more and more jobs with diminished prospects for advancement.

Yet, others pointed out that most aggregate indicators of internal employment practices have changed relatively little since the 1970s. Declines in the length of time the average employee

stays with an employer are small (although declines are larger for certain groups, such as less-educated young men). The difference in employee tenure between large and small firms, which one might expect to narrow over time as larger firms move away from long-term employment, shows no such change between the 1980s and 1990s. Estimates of the portion of wages that represent the investment in skills useful to the current employer also show essentially no change.

Inspired by the image of the burger flipper as the prototypical job of the future for low-skilled workers—and as part of a larger research project—we visited ten firms in the food industry that ranged in size from a few dozen employees to tens of thousands. We focused on food preparation—warehouse workers, food preparation workers, food machine operators, and drivers. We also studied supervisors and managers, as they constitute key points on the mobility ladder. And we supplemented this with statistical analysis using a dataset developed by the U.S. Census Bureau.

We find both good news and not-so-good news. In the firms we visited, shifting functions from food service providers (restaurants, institutions such as schools, hospitals, and busi-

nesses, and firms that contract to provide food services) to suppliers—in particular, food manufacturers—may actually create higher-quality jobs and more extensive job ladders. However, this may be a mixed blessing for lower-skilled workers, as we also find evidence that the bar for entry-level jobs has been raised. In addition, promotions into management may now require greater credentials than before, curtailing mobility and advancement for workers with the least skills.

CONSOLIDATION AND OUTSOURCING

All segments of the food industry that we examined—food service providers (such as restaurants, company cafeterias, schools, and hospitals), contracted food service providers (such as Aramark and Sodexho), food distributors, and food manufacturers—have experienced significant consolidation over the past two decades. Thirty-five years ago, the food service contracting industry barely existed. Today, the top four food service contractors account for more than 50 percent of sales and dominate the market for institutional food service. Aramark began as a vending machine contractor providing food service at sporting events. Sodexho, Inc. (which includes Marriott, International) was founded in 1966 by Frenchman Pierre Bellon in a borrowed space within his uncle's Marseilles anchovy factory. Compass Group, currently number one, has sales of over \$17 billion. "Our business is about economies of scale," a Compass executive told the *Wall Street Journal* in 2002. "Frankly, the bigger you are, the more money you can make."

As food services companies grew larger, they demanded larger, more stable distributors to supply them. "Years ago. . . you'd have 15 different companies," explained a manager. "One would just deliver your eggs. One would deliver your lettuce. One would deliver your cheese. One would deliver your meat. Now, you have these big companies that pretty much deliver everything." Consolidation is particularly evident among the food distributors that supply a broad product line. The top three—Sysco, Alliant, and U.S. Food—grew from a 32 percent share of industry sales in 1995 to 43 percent in 2000; the following year, U.S. Food acquired Alliant.

Larger distributors, in turn, sought ways to increase the size and stability of their customers, bolstering consolidation in chain restaurants, food service contractors, and supermarkets. They also spurred manufacturing consolidation. In salad manufacturing, for example, "people are starting to buy each other up," noted one executive. The top four food manufacturers account for 14 percent of overall food sales, but the share is much higher in particular segments such as meat products (35 percent) and baked goods (29 percent).

This widespread industry consolidation was accompanied by increased outsourcing at each stage of the food production chain. Contracted food service firms increasingly served more

THE FOOD CHAIN

We focus on three segments of the food service industry which accounted for nearly 10 million jobs in 2000:

FOOD MANUFACTURERS buy raw produce and meat from farms and fisheries and produce food products. They employ about 1.5 million workers in the United States, or about 1 percent of the U.S. workforce. In the U.S., they include giants such as Kraft, ConAgra, and Tyson, but also thousands of smaller firms (22,000 companies nationally).

FOOD DISTRIBUTORS buy food products from food manufacturers and deliver them to food service providers. Broadline distributors provide all types of products to all types of customers; specialty distributors specialize in a food class or customer type; and system distributors cater to chains with centralized purchasing. All together, distributors employ about 670,000 workers in the United States.

FOOD SERVICE PROVIDERS are the firms that serve meals to customers. These include chain and independent restaurants, and also schools, hospitals, and businesses that staff their own cafeterias and contracted providers like Sodexho and Aramark which are hired to staff institutional cafeterias. In the last 20 years, food service providers increasingly did less food preparation, as food-prep jobs shifted "upstream" to distributors and food manufacturing firms.

and more of the meals consumed in private firms, schools, hospitals, and other institutions. Contractors can achieve economies of scale in buying food, machinery, and off-site food preparation that improve quality and lower costs in ways that are impossible for independents. In addition, by contracting out, firms shed the costs of recruiting, training, and Workers' Compensation insurance for food-prep workers, and they do not have to worry about pay equity with their employees with greater skill or longer tenure.

Consolidation has also helped shift food preparation "upstream" from cafeterias and restaurants to food distributors and, especially, to manufacturers. "There [are] more and more foods being done [by] the manufacturer," a manager told us. "The reason for that is quality. . . . You can pretty much buy anything prefabricated now . . . even entrées. I know folks that run hotels. . . they're buying their chickens—chicken cordon bleu—already done, and they're just baking them. And this is a hotel getting \$50 and \$60 a plate [for catered banquets]." Restaurants also report significantly lower Workers' Compensation costs since they have fewer lower-skilled workers wielding sharp knives.

This shift has occurred in smaller independent restaurants, too. A line cook at one upscale restaurant told us that all meat now comes into the restaurant precut and all salad greens arrive



One seafood manufacturer trains and pays workers to sort by quality, so it can offer a premium grade at a premium price

prepackaged. The pastry chef noted that improvements in production technology, such as flash freezing and automated cake design, increased the purchase of cakes and pastries by all but a few high-end restaurants, and increased the range of baked goods and dessert offerings of many mid-range restaurants. New York cheesecake and flourless chocolate cake are now staple items at restaurants (and diners) across America.

Large distributors have been at the forefront of many of these changes. Selling prepared salad lowers transportation costs compared to shipping component ingredients separately; prepared food weighs less and takes up less room. Prepared food is also better preserved, which reduces spoilage and allows greater latitude in delivery times.

Even food manufacturers have farmed out tasks. At one manufacturer of potato salad, a vice president contrasted operations in the late 1980s with today. “Back then, we brought the potatoes in, dumped ’em, peeled ’em, washed ’em, and made salad. Now, a guy in [a nearby area] peels and washes them—all we do is cook. We don’t want to bring bacteria into the plant. . . . Our philosophy is to do what we do best, and let other people do what they do best.”

However, not all activities are equally likely to be purchased outside the firm. We also find evidence of limits to this practice, mainly the result of tradeoffs with quality, cost, and timeliness. One manager noted that fresh fruit preparations are rarely outsourced. He also said that his kitchen buys fresh bagels from an independent local distributor, not because the frozen bagels supplied by the national distributor are inferior, but because the site sells so many bagels that they would have to significantly increase oven capacity in order to warm them.

And decisions to outsource are not irreversible. One warehouse manager reported bringing the sorting and repacking of produce back in-house because of concerns about quality. He was also considering bringing back certain meat cutting and fish processing to reduce the time it took the firm to fill customer orders.

THE IMPACT ON JOB QUALITY

In contrast to the public image of the low-wage burger flipper, we find that consolidation and outsourcing in the food industry has led to the creation of higher-paying jobs—for a number of reasons. First, jobs are shifting to larger enterprises. Second, jobs

Consolidated Comestibles

Consolidation in the food industry has created larger firms offering higher pay. Big companies also have more extensive job ladders, increasing the potential for promotions and advancement. But entry-level workers often don't have the credentials required for the highest-paying positions.

are moving toward higher-paying industries. And third, jobs that once were done informally, such as menu planning and inventory management, are becoming increasingly specialized and professionalized.

Economic research indicates that, on average, larger firms pay better, and this is evident in the firms we studied. The school district that staffs its own cafeterias pays lower wages for food-prep workers than does the large food contractor at a nearby location (see table). Another large contractor in the same area also pays higher wages for cooks (\$10+ per hour) and sets a higher wage ceiling for prep workers. Likewise, warehouse workers at a regional and national distributor start at the same level (\$8 per hour), but employees at the national distributor pull ahead within a short period of time—\$16 after three months—compared to a maximum of \$12 at the regional firm. Drivers at the national distributor also receive significantly better pay (\$56,000 versus \$35,000–\$40,000).

In addition, jobs shifts from restaurants and other food service companies to distribution and manufacturing firms tend to be accompanied by increases in skill requirements, pay, and better working conditions. According to the U.S. Bureau of Labor Statistics, in 1999 food-prep workers in food service firms averaged \$7.25 an hour compared to about \$8.70 for food-prep and food machine operators in distribution companies, and \$10.88 for machine operators in food manufacturing. Even for the same occupation, wage differentials are striking: Bakers in restaurants have a median wage of \$7.60 an hour compared to \$10.20 for those in food manufacturing. Supervisors of food-prep workers also earn more in manufacturing (\$16.29) and distribution (\$16.47) than in food service (\$11.46).

Moreover, statistical analysis suggests that employment relationships have not become looser and more tenuous. Although we find that firms shed workers disproportionately at the low end of the skill and income level, this tendency has not increased over time. Instead, median earnings and turnover at a given firm tend to be persistent over time, although there is great variation across firms—indicating that businesses have not, on average, dramatically increased turnover. And, in food manufacturing, we find decreased turnover for low-wage work-

ers, along with slightly higher turnover for the highest paid.

Higher wages are possible in part as firms in the food industry develop innovative ways to expand their business, increase the skills required of workers, and even create new classes of jobs. One manufacturer was able to develop a premium market by partnering with one of the large distributors with national reach. The firm trains its own workers to separate different qualities of seafood, so it is able to offer a premium grade at a higher price; it trains salespeople from the distributor, so they can promote the premium products to their customers. And it increased average pay by moving to a piecework system where workers are rewarded for both quantity and quality.

Similarly, at large distributors, drivers not only provide transportation, but are also a strategic point of contact with customers. Consequently, they now have more responsibilities and receive more training. Drivers at one distributor receive extensive training in customer service, computers, and accounts receivable. At another company, they now take responsibilities for sales and account management.

Larger distributors have also started to offer new services—general management consulting, menu planning, marketing and pricing, inventory and purchasing control, and training in safety and food handling—all of which help smaller customers

Local school district

| Position | Hourly wage or salary | Requirements |
|--------------------------------|-----------------------|--------------------------|
| Assistant cook / food preparer | \$7.33 – \$7.48 | < High school diploma |
| | \$7.62 | < 5 years' experience |
| Cook | \$8.05 | 6 – 12 years' experience |
| | \$8.90 | > 12 years' experience |
| Supervisor | \$17,000 | < High school diploma |

Large institutional food contractor

| Position | Hourly wage or salary | Requirements |
|--|-----------------------|---|
| Dishwasher | \$7 – \$8 | < High school diploma |
| Prep cook, entry-level cook, part-time cashier | \$7 – \$9 | < High school diploma |
| Cashier | \$9 – \$12 | < High school diploma |
| Cook and senior cook | \$9 – \$13 | < High school diploma |
| Supervisor | \$13 | < High school diploma |
| Assistant manager | \$25,000 – \$33,000 | 5 – 7 years' experience |
| Chef manager | \$33,000 – \$45,000 | Experience as chef; some college increasingly preferred |
| Foodservice director | \$36,000+ | Bachelor's degree increasingly preferred |
| General manager | \$50,000 – \$60,000 | Bachelor's degree and outside experience increasingly preferred |
| Resident district manager (multiple sites) | not available | MBA increasingly preferred |
| District manager | not available | MBA increasingly preferred |

SOURCE: Authors' calculations



The best jobs with ladders into management require more formal training than is typical for the average entry-level worker

and attract new business. For example, one distributor employs a chef to demonstrate new food preparation ideas to clients. This type of innovation creates new job categories that previously were done either informally or not at all. The result is expanded opportunities and a new set of more professional and specialized positions.

But these events have also raised the initial hurdle for some entry-level workers. As distributors service larger and more varied accounts, and customers increasingly demand zero errors in order delivery (a “perfect pallet”), workers must pay closer attention to detail. And as clients expect new types of service, such as the guarantee that delivered products will have a certain shelf life, warehouse workers must now have the skills to use the computer system that tracks product expiration dates.

PROMOTIONS AND MOBILITY

While consolidation and the movement of food-prep jobs seems to have improved job quality, the impact on mobility is mixed. On the one hand, larger companies tend not only to offer more rungs of management within a single operation, but they also generate a whole range of possibilities—district manager, vice

president of operations, all the way up to CEO—which have no parallel in smaller companies or independent restaurants. Thus, the shift to large national firms provides more potential mobility.

On the other hand, large national food contractors and distributors tend to adopt corporate human resources practices and seek managers from outside the firm with more education than is typical of their line workers. Positions are usually partitioned into three segments: line workers, facility-level managers, and managers above the facility level; and it is difficult to penetrate the top two segments from below. Two managers we spoke with who work at large food contractors hold bachelor’s degrees in food service management. When we asked one of them whether a college degree was the route to management, he gave a blunt reply: “That’s probably the easiest, probably the most common [way]. [Although] it’s probably not the fairest.” Even in manufacturing, it has become more difficult to move up without a college diploma.

Chances of promotion to management are greater at smaller independent or regional firms. These firms are more likely to choose managers from among shift or station supervisors, per-

haps in part because the current managers who are in charge of these decisions have themselves been promoted in this way. In tight labor markets and in industries where specialized knowledge is very important, firms are also more likely to train and promote workers from within their own ranks (as opposed to hiring workers from outside the firm with college degrees or other outside credentials).

Statistical investigation confirms that moving from the bottom has become somewhat more difficult, although not greatly so. One-third of workers are no longer in the industry five years later. Of those who remained, just under 50 percent of those hired in 1991 and starting among the bottom quarter of earners in their firm were able to move up out of this quartile after five years; this figure is down slightly from 60 percent for those hired in 1985.

Shifting employment to large distribution and manufacturing firms also altered the geographic location of entry-level jobs. When a distributor buys vegetables prepared near the farm—rather than selling unprocessed vegetables to be prepared by the restaurant—jobs shift from urban to rural areas (and presumably to the south and west of the country). For other prepared goods, ranging from pastry to prepared entrées, jobs gravitated to low-wage and low-rent locations in and around cities. That is, food-prep jobs are being pulled from restaurants scattered throughout urban areas to larger factory settings separate from the restaurants that serve their products.

This pattern of job migration may mean that workers are no longer in settings that provide a chance for them to learn informally and advance their careers. Food service positions are often important first jobs through which workers gain skills and establish an employment history, particularly for non-English-speaking workers, since the jobs often do not require extensive communication or writing skills. But this kind of job-to-job mobility requires geographical proximity to other firms and industries with better job opportunities.

CONCLUSIONS

The dramatic restructuring of the food industries, from preparation to distribution to service, parallels restructuring that has occurred in other industries over the past several decades. The increasing dominance of large firms is leading to a battle of titans over who does the chopping and baking, how many middlemen there are, and where the highest profits will be made. In this shuffle, jobs are shifted between firms and around the country. For the moment, at least, this is leading to mixed outcomes, especially for less-skilled workers.

Food preparation job ladders may be disappearing in restaurants, cafeterias, and food service contractors, but our research suggests that employment is being shifted to food manufacturing firms with job ladders of their own. It also suggests one ex-

planation for the puzzle about why the media reports individual firms downsizing, while aggregate data exhibit no change in average job tenure and related measures: Media examples may reflect only a subset of firms. Processes that dismantle job ladders in one set of businesses may create new jobs and job ladders elsewhere, averaging to little change overall.

But the story is not simply one of outsourcing a fixed set of food preparation activities or of simply cutting costs. Food service managers weigh the tradeoffs between reducing cost and adding value. Food distributors invent markets—for chopped vegetables, soups, sauces, pastries, entrées—where none previously existed, as evidenced by the near ubiquity of New York cheesecake in restaurants throughout the country. This can expand the range of jobs and improve both pay and access to career ladders. In addition, consolidation grafts the management ladder of local operators onto national or international management structures.

However, this does not mean that the changes have improved the outlook for all workers. The small gains in job stability for employees in food manufacturing operations do not reduce turnover for workers at the low end, and firms' tendency to add and shed workers at the low end translates into a higher risk of layoff. The most common five-year mobility outcome for low-end workers is stagnation (remaining in the lowest quartile) or leaving the firm, not moving up.

Moreover, consolidation in the food industry has erected new barriers to the least-educated workers. The professionalization of management in large national companies means few opportunities for less-educated workers to advance to management, as these jobs now require more formal credentials. And the geographic relocation of less-skilled food preparation appears to have diminished entry-level job opportunities in some urban areas. While chances to move up in the food industry have not disappeared, they have shifted to new sub-sectors and new locations, and are subject to new rules. As in other industries, job-seekers, educators, and policy-makers must develop new ways for low-wage workers to gain the skills and experience necessary to move into good jobs. *

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