



The Advantages of Ghost Kitchens

By Mark Kelnhofer, CFBE, CTA, MBA

Over the past year one of the hottest industry concepts being written about and discussed is that of ghost kitchens. In terms of cost controls, it is an excellent concept that will allow the operator to reduce two of the components of cost significantly: labor and overhead. Going forward, the idea of reducing the exposure to these costs becomes highly attractive and enhances the bottom line. There are many advantageous reasons for creating a ghost kitchen concept, but you do need to realize what they are before you actually plan and execute one.

General Ghost Kitchen Concept: The concept of a ghost kitchen is that you create a restaurant concept that is delivery and/or pick up only which results in no front of the house. It becomes a concept with a smaller footprint that only has a back of the house kitchen to execute the recipes with no real access to the general public. They become in essence a food manufacture that is producing menu items that can be delivered or picked up. You eliminate exposure to those costs associated with the front of the house operation (i.e. host and hostess, wait staff, tables, tableware, etc.) and you greatly reduce the footprint of the operation (decreased rent and other overhead). There will still be a need to take online or app orders and have an food/order expeditor to assist in the execution and final quality control check.

Labor Reduction: The industry has been struggling not only with the increased costs of labor through minimum wage increases and higher cost benefits, but there is a challenge finding quality employees as well. In

the case of ghost kitchens, the goal would be to eliminate the complete front of the house labor and benefit costs (reducing wait staff, host or hostess, and front of the house supervisors, etc.). You labor would consist of prep cooks, line cooks, executive chef, and possibly an expeditor. The reduced costs of not only the wages you pay but also all the various benefits you may pay now can propel you to a greater profitable concept. Think about all the expenses related to the front of the house labor you may incur that could potentially be eliminated: wages, overtime, training, health insurance, dental insurance, vision insurance, employee meals, uniforms, workers' compensation, payroll taxes, etc.

Reduced Overhead: By having a smaller footprint, there will be a wide array of overhead expenses that will be eliminated as a result. Smaller square footage of the location immediately translates into low insurance rates, utilities, maintenance, and even property taxes. General operating expenses such as linen/napkin rentals, flower and decorations, furniture, front of the house supplies, janitor supplies or services, all are reduced and possibly eliminated.

Delivery Services Impact: With the trend of delivery not slowing down, the impact of the labor and overhead expense savings may actually make the fees the delivery services are charging turn losses into gains. The reality today is that although sales may increase because of the operators' use of delivery services, the reality is that the large fees they charge causes losses on all the items. The fees for delivery can range from 18% to as high as 30% of the menu item price. With fees this high, the delivered menu items are sold at a loss with the hope that the guest may come into the restaurant at another time where we can possibly make a profit. As a ghost kitchen, if you significantly reduce labor and overhead costs, it may make menu items delivered by a service profitable.

Third Party Ghost Kitchens: There have been also ghost kitchens popping up that are providing their kitchen and staff as a resource. Think about having a restaurant concept that is being serviced by a third party ghost kitchen where the only expenses you may have is paying for the service and marketing your concept and menu. You could technically have a restaurant concept that you market but not have the expense of kitchen equipment, maintenance, and staff. Even your back of the house costs would be reduced with this model.

Quality Concerns: If this a concept you want to pursue, the one thing to keep in your plan is that the menu items need to be designed to be delivered with high quality (i.e. proper temperature, appearance, flavor profile, etc.). The ghost kitchen concept, although can give you an operation that has greatly reduced cost, will fail if the menu items being delivered are not meeting the expectations of the guest. By not providing a quality product the ability to retain repeat guests and referrals goes down dramatically. When cold or substandard menu items are delivered, it could kill the concept totally.

Any entrepreneur should have a plan regardless of concept. The advantages to the ghost kitchen concept can assist in a more profitable model. In the future, you will continue to see more articles regarding not only ghost kitchen concepts, but also the continued pressure on cost controls. The industry is always under pressure to response to various cost increases whether it is ingredient commodities, labor, or overhead. The more control, the better the result!

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