Reviewing & Reducing Your Overhead Burden

By Jim Charron

It's cliché to say that most restaurants live with thin operating margins. 2021 is a uniquely challenging time for restaurant operators. Uneven covid reopening policies, food price inflation combined with increasing labor costs, a reticent entry-level workforce, etc. all mean that reducing expense wherever possible is essential. The best operators are as good at pencil-sharpening as they are at knife-sharpening!

Technology-enabled automation is behind many effective expense reduction options. Labor cost tops the list. Recently, Dine Brands (Applebee's parent) CEO John Peyton said the new hand-held screens their servers are now using table-side with customers provide a hedge against labor inflation. 3rd-party food delivery platforms like Uber Eats, Door Dash, etc. are popular with consumers (and investors in these companies) but it's driving up costs for restaurants needing it to compete. These solutions often are not available or practical, especially for smaller operators.

There are opportunities in managing virtually every expense in the restauranteur's general ledger of accounts. A good place to start is with cash & payments management. Even with a solid long-term relationship with your local bank, there's no guarantee your restaurant is getting the best rates for handling your money. Take time to examine your bank statements. A better view of what other banks are offering can help you bargain for lower (or eliminating) fees.

Also, changes to laws and regulations affecting payment processing in recent years mean restaurants don't have to pay for credit card transaction processing anymore. Restaurants absorb up to $30,000 for every $1 million of credit-card-processed payments they accept. This expense can be reduced to near $0 almost overnight via "Cash Discounting" or Surcharging. Check on State laws regarding surcharging as it's not legal in all States. With minor adjustments to your operations, and some front-of-the-house training, you can access a quick, permanent boost to cash flow.

Boost Your Energy

Another significant expense category for restaurants is energy. According to the U.S. Dept. of Energy, in the retail food sector, *"each dollar saved in electricity is equivalent to $18 in sales."* Yet most businesses tend to "rubber-stamp" payments for the utility bills they receive. Here's where to look:

You may be able to spend less on the energy you're using. Start with your electricity & natural gas bills; the multiple line-items in these bills divide into 2 broad categories: utility pass-throughs for transmission & local delivery of these commodities, and supply charges for the electricity (kilowatt hours) & natural gas (therms) you use. Utility companies aren't required to keep you informed on multiple rates (tariffs) that may be available, nor are they accountable for keeping your business into the lowest price available. Also, some States have passed Covid-related emergency relief measures, specifically targeting restaurants with lower rates. In States where electricity and/or natural gas supply is deregulated, there may be two different companies – one each for delivery & supply.

You can also significantly reduce the overall amount of energy you're buying. Again, technology to the rescue – everything from the lighting & control systems you use, to the insulation, and innovations in appliance monitoring (think roof-top HVAC) means you don't have to just accept the energy usage the utility companies bill you for monthly.

Many U.S. States have required their regulated utilities to provide customer incentives for these energy efficiency initiatives and others like Renewable Energy Credits (RECs) and Carbon Offsets. Earlier this year, Yum! Brands, the parent company of KFC, Pizza Hut, Taco Bell and The Habit Burger Grill, announced it will decrease greenhouse gas emissions by 46 percent by 2030.

New entrants in the marketplace bring business models which don't require any investment for the business end-user. Concepts like energy efficiency as a service (EEaaS) promise to reduce electricity usage up to 1/3. As a bonus, the carbon offset impact gives you a good-will boost from customers who are increasingly socially & environmentally conscious.

Line by Line

Other expense line-items can also use some focus from time to time. Check your contract & terms for waste removal. Don't assume your invoices are correct; it'll surprise you to see how, over a year or two, new or adjusted charges and fees can appear. Also, don't assume you're complying with local/state environmental laws. Lots of States have introduced or updated more stringent environmental laws which cover not just your dumpster but your recycling (or lack of it) and grease & oil disposal procedures.

If you have maintenance contracts for things like hood & oven cleaning, HVAC & Kitchen Equipment, Landscaping & Maintenance, auditing your latest vendor and contractor invoices can reveal savings in several critical areas such as: routine-service-schedule compliance, billing errors, and questionable or duplicative fees.

Often overlooked is the list of taxes businesses regularly pay. If you own your property, it's estimated that more than 65% of all U.S. commercial real estate is over-assessed. Taxing authorities all have appeals processes which are often used successfully in securing cost reductions on tax bills. The same applies to Unemployment Taxes, Payroll Taxes, and Sales & Use Taxes.

Budget the Resources

A challenge in reducing net expense is assigning responsibility for doing the analysis. Distributing it among current staff members can mean other priorities suffer, and results can be mixed if these folks don't have experience dealing with vendors or reviewing contracts. Owners & Managers usually have bigger fish to fry. Ask your CPA or any administrative service providers you use to see if they can help. Also available is an ecosystem of companies offering expense reduction services. These companies offer no-cost and shared-savings business models which can be an attractive alternative.

The conventional thinking seems to be that there's lots of pent-up demand among consumers anxious to return to restaurants to reengage socially and just get out of their own kitchens. But with Covid variants expected to hang around indefinitely, and retail inflation ratcheting up, this isn't a certainty. Restaurant business models are adapting, and traditional market share is up for grabs. Time to make sure your expenses aren't eating your lunch!

Jim Charron is the CEO of Avion Business Services and its subsidiary, Ensure Payment Solutions.