Reacting To Increasing Costs ... All of Them!

By Mark Kelnhofer, CFBE, CTA, MBA

The restaurant industry is in a very unusual, historic time. During the pandemic over 90,000 restaurants permanently closed, the equivalent that we would typically see in business failures over tens years. Now as we look into late 2021 and into 2022, there is some real concern for the industry specifically in regard to the incredible increased costs that they are experiencing combined with other issues such as inflation, fuel cost increases, supply chain issues, and labor shortages with no real end in sight. It is causing the industry to pivot on multiple fronts.

Pivot and Change the Model. The days of large footprint locations are now done. The model today should be a much smaller footprint with incredibly low seating or possibly even no seating. The focus shifts from managing front-of-the-house labor to efficient execution of menu items for grab and go, curbside and delivery options. I assisted in a recent new store opening for a small company. It was their second location and the total number of seats on the location was three. Perfect scenario to reduce both labor and overhead costs. Although we cannot just change an existing location, we must think in those terms as we grow into 2022 and beyond.

Food Costs and Menu Prices. The supply chain issues we are seeing today are affecting nearly every industry and the restaurant industry is not exempt. Today, we may find operators turning to more regional or even local suppliers as the traditional large supplies are paring down their customer bases as a result of labor shortages in delivery drivers and warehouse workers. Due to this, not only are costs up to inflationary issues but also utilizing these smaller distribution options. In the past, we would react in a variety of ways but today we need to potentially react in multiple ways including increasing menu prices. According to the recent National Restaurant

Association 2021 mid-year state of the industry report, menu prices have increased at their fastest pace in seven years. In addition to increasing pricing as a method to respond to cost pressures, we need to also evaluate all potential costs and if possible, reduce them.

Labor Shortages and Costs. With the cost of labor going up due to increased demand combined with the challenges of short supply, the goal would be to ensure that the right people are hired and retained. The last thing we need to be tied down to is constantly rehiring and training new personnel. It's more than just pay and benefits but also training and paths for promotion. By implementing formal training, even if it is an third party vendor, may be the difference in a quality employee being retained or leaving.

Overhead and Reduced Capacities. In 2020 we all experienced a shutdown of the United States economy. Going forward in 2022, at a minimum, we will still see self imposed capacities. We see it now as we approach restaurants and signs on the door stating "we are closing early' or "the patio is closed or limited seating". Self imposed capacities are not going away near term. As an operator, we need to understand that as volumes drop due to these restrictions, our costs per menu item increase to cover the fixed overhead costs. All operators, should have even in Excel, a way to review the impact that reduced volumes have our business.

Menu Prices. In the mid-year state of the industry report by the National Restaurant Association, it clearly shows that menu price increases is the current trend. In the past, the recommendation may have been to not look at price increases on the menu as the primary method to fight cost increases, but take a hard look at method to reduce our cost structure. Today, it has shifted from only looking at cost to also accepting that we need to take menu price increases as well. Taking menu price increases will certainly assist in covering the pressures we have now on every aspect of cost. We also need to be vigilant in constantly looking at ways to reduce our cost structure which includes ingredients, labor, and overhead.

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