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An Industry Responding to a Pandemic

The initial numbers from the National Restaurant Association (NRA) were sobering. Over 3 million jobs were lost in the three weeks after March 1st. The sales impact from the same time period was a reduction of \$25 billion or 50% of all industry sales. Many restaurants have either closed temporarily or in some cases permanently. The longer the COVID-19 pandemic goes into the future, the larger the impact will be for the industry. There is a lot of fear and worried operators as we look into the future. Even if the approval was given to open the commerce doors, it takes restaurant operators weeks and possibly months to reopen a location. How we respond and plan now will greatly affect our ability to survive this pandemic. We may, in some cases, need to change our model and pivot as a different type of operation.

Cost Identification & Controls. As an operator, we may now have a need to be more methodical about determining our true costs for menu items and ensure that the pricing we have in place truly increases profits and in the end, cash as well. What this pandemic event does is cause operators to realize that they may need to change their cost identification menu engineering, and cost control processes. When the economy is good and booming, it seems that cost controls in many cases is lacking or not given the proper priority. When an event of this nature hits, operators then all of sudden want to manage every penny carefully. The reality is the even in good times, as an industry, we should always give cost management priority. Operators may have enough cash on hand to ensure events like the one we are in now doesn't close their doors. Many do not. If you find yourself still in operation on the other side of this pandemic, make a resolution to review existing and plan for new cost controls to better

prepare for the next crises.

The Increased Cost of Food Safety. As we move forward, it is very possible that we will see an increased level of food safety training, testing, and certifications. As an example, some states have some requirements in place for Food Handler, Person-In-Charge (Level 1) Certificate, and a Manager Certificate (Level 2). The number of employees that need to be certified in certain areas could easily increase as a result of this global pandemic. There will be a cost to train and test personnel in various areas. There will be a larger cost if operators are not in compliance and possibly cause harm to their employees and guests. Plan today to increase the level of training and compliance in this area. It is almost certain that the requirements will be increased and may even be mandatory to reopen your business fully.

Delivery Services and Fees. Many states have allowed restaurants to provide both in person pick up of food and beverage as well as delivery. The revenue that to go and delivery sales generates in many cases is only a fraction of what they normally would receive. Although many quick service restaurants (QSR) have always been equipped for to go and delivery services, many restaurant operators were not prior to the pandemic. Third party delivery service fees can be quite excessive to the point where the operator take a loss on the sale of their menu items. In a recent poll conducted by RestaurantOwner.com regarding fee charged by third party delivery services, a stunning 63.7% of respondents stated they were paying fees greater than 21% of sales. Even more stunning, 89.2% stated they were paying fees greater than 11%. At those rates, the sales you are generating are not profitable ones. Operators may need to have a closer look at internal employees providing the delivery services or negotiate lower fees/rates from third party providers like UberEats and Doordash.

Smaller Ghost Kitchen Concepts. Today, there are few ghost kitchen concepts that exist that are quite large and still have quite a bit of overhead expenses to content with. Ghost kitchens moving forward should be smaller in size in order to receive the true benefit of the concept. The smaller the ghot kitchen footprint, the better. In fact, you could possibly benefit to the point where maybe the third party delivery charges discussed above may be an option where you could now make a profit. The goal would have smaller footprint for the kitchen or back of the house portion of the operation and only provide pick up or delivery services. This would eliminate many expenses (labor and overhead) related to the front of the house that create a new model that operators may pivot to. It certainly becomes an attractive model to consider. In Vol. 2 No. 2 of [*FB&L*], an article was published about the benefits of the ghost kitchen concept that you may want to reference.

How The Industry Responds Is Important. In menu engineering, it is not only about the cost identification, but also how we respond to other factors (i.e. food commodity future increases, economic factors; labor market, etc.). How we respond is so critical and in this unique circumstance we are in the middle of now, we need to create a plan to pivot to be better managers of costs and possibly change our concept that we have now into a future vision of something very different. Not all restaurants will make it through this crisis. The ones that do need to be more methodical and leaner than ever. Many aspects of the restaurant industry as we know it today may be changed permanently going into the future. Stay strong! #RestaurantRecovery.

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