



# SUPPLY CHAIN

# DISRUPTION

## Reacting To The Supply Chain Challenges

By Mark Kelnhofner, CFBE, CTA, MBA

Today as we prepare for the new year, one cannot help to think about the pending challenges that we are going to experience in the future. We have reduced capacities, labor staffing issues, commodity price increases, inflation, fuel prices, and supply chain shortages. To start 2022, I do not see this changing a whole lot. In fact, supply chain professionals are now projecting it may be beyond the next year before the supply chain recovers, but not to pre-pandemic levels. The periodic supply chain outages will continue beyond 2022.

**Supply Chain Woes.** I have a speaker lined up for the Food, Beverage, & Labor Cost Management Summit that has been in the food distribution industry for decades. The statement he made to me was “I don’t have good news for you”. From his perspective, he did state that some of the issues related to the supply chain were indeed related to labor, but maybe not what you may think. During the pandemic, there was a record number of retirements related to very aspect of the chain. People left the industry permanently and remained consumers at the same time. If you look at the available workforce, it is mathematically impossible to fill all those positions. This would include anyone who is of age and has the ability to work. In fact, it may be quite a long time before we ever get back to fully recovered supply chain.

**Critical Shortages.** As restaurants continue to pivot to an increase in delivery, prepared foods, and curbside, the demand for to go packaging has also increased dramatically. Operators are now faced with to go packaging that may no longer be available and the cost of what packaging is available has increased dramatically. The supply chain landscape is changing at a pace that we have never seen before. Even on the food side, there is no real notification from the distributors regarding shortages. The operators typically find out when the delivery is at the back door and then they find themselves hunting for the ingredients at local grocery stores, Costco, or Restaurant Depot. Some of the things that are not delivered you would think would be common everyday staples such as certain salts, ketchup, and corn starch.

**Pivoting ... Constantly.** In 2022, restaurants had to pivot for a variety of issues related to the pandemic. In the past, we may have been on a schedule to change menus on a standardized quarterly basis. In 2022 and beyond, I foresee that we may need to change menu items incredibly quickly based on commodity cost issues or availability. The menu may have to change on the fly constantly depending on our ingredient and labor availability. The menu engineering process and window changes dramatically. We may have to pivot incredibly fast and it is important to understand our cost identification and structure in order to respond.

**The Impact to Cost and Capacity Changes.** As the supply chain continues to challenge the operators ability to respond on the changes we are experiencing each week on commodities, there is also overhead related issues as well. It is one thing to understand what the cost impact is when an ingredient's cost has changed or if the ingredient is no longer available and you have a substitute ingredient to consider. It is a completely different scenario when you decide to reduce your own capacity due to labor staffing shortages. Most operators, although they may understand that reducing capacity increases the overhead cost per menu item, do not really have a model or system to truly understand it. Operators need a model that overhead cost increases can be accounting for by menu item (i.e. natural gas cost increases) and what happens to the cost of the menu item when capacities are reduced. Automatically, costs per menu item go up. My guess is that most operators do not know the impact of some of the decisions are made when they are made. It is so easy to lose money in those cases.

**MBE vs. Systems.** I have always been an advocator for cost control systems. In many cases I have stated that Excel is not a supply chain tool and certainly is very labor intensive. Many smaller operators continue to Manage By Excel (MBE) to run their business. However, cost control systems are best tool to respond as quick as we need to going into this year and beyond. The landscape of cost control systems is very large and there are many competitors in the space. As an operator, systems of this nature need to vetted very carefully. The investment in a cost control system is not a small one and it should be evaluated in a very methodical manner. The last thing that you want to have happen is the investment in a system and then find out after the fact that it does not provide either the data or reporting that is desired. There is a listing of cost control systems on the Restaurant Institute website to consider: <http://www.restaurantinstitute.com>. Click on 'Connect' and choose 'Hospitality Technology' to access the listing.

In conclusion, more than ever we have to pivot and make critical decisions faster than ever. We need to be methodical in those decisions. As operators, we should be guess or hope that the decisions we make will have a good end result. If we are leaving it to guesswork, then more cases than not, the result will not be a favorable one. We may then be adding to the high business failure rate that the industry has already, only now it is much greater due to the pandemic and its after affect. We can plan on the supply chain not recovering any time soon and that the constant change in cost and product availability will drive us to pivot quicker. We need to be as methodical as possible to ensure survival and possibly growth!

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