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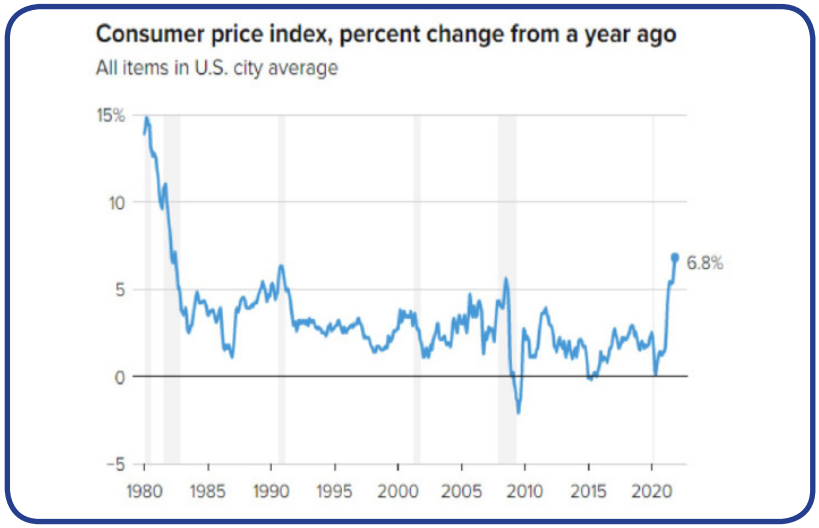
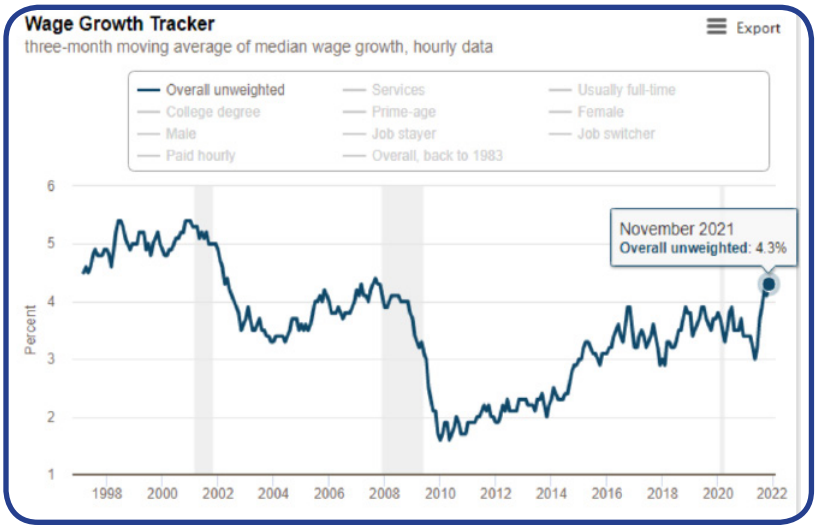
Inflationary Pressures Persist

Still, operators can improve their resilience

The dollar isn't going as far as it once did for American households – and the trend is likely to continue well into 2022. Data released in early December indicated that the Consumer Price Index (CPI), a key measure of inflation, had spiked 6.8 percent for the year through November, marking its fastest climb since 1982. Even the core CPI, which excludes more volatile food and energy components, had increased 4.9 percent. While consumer wages have climbed during this period as well, they haven't increased enough to keep pace with inflation.



Sources: U.S. Bureau of Labor Statistics, Nov. 2021; CNBC
(Shaded areas indicate U.S. recessions)



Sources: Federal Reserve Bank of Atlanta, Current Population Survey and Bureau of Labor Statistics

Meanwhile, restaurant operators have had to pass more of their expenses on to consumers. Econofact reports that food prices have risen at a faster average rate since the start of the pandemic than they did over the previous decade. Specifically, food prices have climbed an average 3.6 percent for store-bought food and 3.9 percent for food purchased away from home on a monthly, year-over-year basis.

Building a better business model

So is there hope on the horizon? One bright spot is that operators have been weathering these many challenges better than they probably would have just (continued on page 4)

Short on Staff

Reinventing restaurant roles

Reports about restaurants looking for labor aren't new: The sector, along with retail, has long been among the industries that experience the highest degree of employee turnover. But the pandemic has made restaurant operators' search for labor more urgent by threatening to make what was once a more cyclical challenge into a permanent one that will push the industry to make some changes. In a September survey of restaurant operators by the National Restaurant Association, 83 percent of respondents said they were at least 10 percent understaffed, while 39 percent were at least 20 percent understaffed. As a result, operators have had to cut staff hours and menu items, as well as reduce seating capacity.

What's added to the challenge is that many of the restaurant employees who have left the industry during the pandemic are not returning. Their reasons for doing so relate to a mix of pre-existing frustrations with the profession, an increase in opportunities outside of the industry that offer better flexibility or benefits, and problems that the pandemic has either created or exacerbated. In particular, former restaurant workers have pointed to struggling with low wages, job insecurity, and a lack of flexibility, work-life balance and employer support as reasons they left restaurant work. They also have more recent concerns about safety – both with regard to protection from the spread of the coronavirus and from customers who have become more combative with staff.

Sources: Quartz, U.S. Bureau of Labor Statistics

New approaches for the times

Operators are addressing the labor problem from different angles – and with short-term and long-term strategies. Larger restaurant brands have been able to boost wages and offer retention and referral bonuses to entice workers to join (and remain at) the restaurant. CNBC reported that brands including Papa John's, McDonald's, Darden Restaurants, Chipotle, Texas Roadhouse, Burger Fi and P.F. Chang's are among the brands offering such incentives. Restaurants are also trying to circumvent hiring and retention challenges by adopting more technology that can automate a wide range of front- and back-of-house

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Staff

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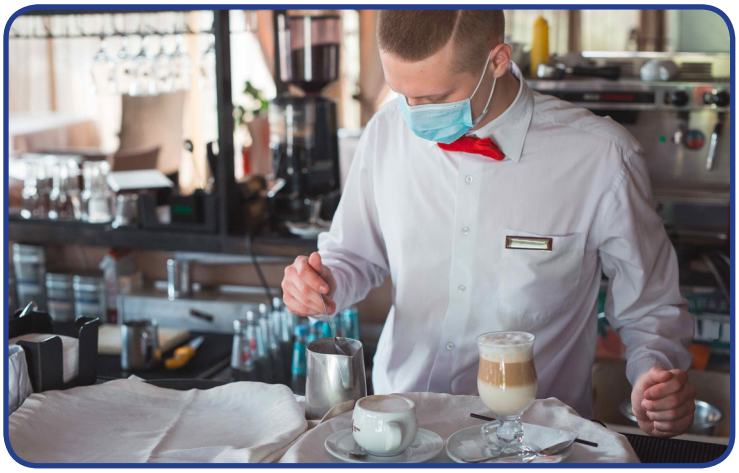
functions once handled by staff – tasks ranging from the streamlining of orders from multiple sources to the management of inventory. To be sure, these actions may be more feasible for larger, resource-rich restaurant brands, but there are solutions for smaller independents. This past summer, for example, New York announced a $35 million aid program designed to encourage independent restaurants throughout the state to hire more workers

– for every new hire, the restaurant could get a $5,000 state tax credit, up to a maximum of $50,000 per operation, Restaurant Business reported. (Learn more about that program at esd.ny.gov.)



Regardless of a restaurant's size, now could also be prime time to recast what restaurant jobs look like – and present them as viable long-term career opportunities as opposed to short-term gigs. For some operators, that could mean restructuring their business model to make employees true partners in the enterprise, with a stake in the success of the business. It may also help to design more robust training programs that could usher an employee through a rotation of roles in different parts of the business, which could offer the dual benefits of increasing retention of skilled team members and better ensuring a business can adapt when it is short on staff.

Whatever you do to make changes, focus on making and sustaining connections with employees. Create incentives for existing employees to refer good people to you when you have openings. Establish platforms and channels for employees to connect with each other and with management, to ask questions, and to openly share feedback and concerns. Employees who feel more connected to the business are more invested in contributing to its success.

Not a ghost but a host

To be sure, the pandemic has kickstarted rapid growth for ghost kitchens: CBRE projects they will account for 21 percent of total U.S. restaurant market share by 2025. But at the same time, we're seeing other new models emerge that are taking advantage of the kitchen real estate that has been left behind as restaurant traffic has retreated from urban locations. Restaurant tech provider Franklin Junction, for one, has created a global host kitchen network that matches restaurants or other hospitality businesses with host kitchens that have similar infrastructure and available capacity. The aim is to generate scale, sales and market share for the partner businesses in the process. As we adapt to the industry's ongoing evolution, pay attention to your excess – whether that is real estate or something else altogether. Chances are there are new opportunities to put it to use and generate new income streams that can be managed and monitored digitally.

Lessons

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a couple of years ago. Fitch Ratings said the industry was on stronger footing as a result of the efforts it has made to keep business humming amid virus outbreaks. In a report released in the third quarter, the agency said: "Increased operating efficiency achieved during the pandemic has enhanced restaurants' ability to manage through the labor shortage, better positioning them to absorb higher compensation and benefit costs where necessary, reducing credit risk for many operators."

Still, there are steps you can take to enhance the resilience of your operation. Menu engineering will continue to be important in helping operators identify and weed out menu items that aren't delivering on profit. If you think you need to raise your menu prices, consider any ongoing changes to your labor costs, as well as how inflation is impacting the prices consumers are paying at the grocery store. Assess your food waste to identify where you might resize portions. Look for opportunities to offer premium brands on items (such as alcoholic beverages) that might help you justify a higher price tag, while decreasing your use of premium-brand ingredients that are more likely to disappear into a dish. If you raise prices, do so in small increments across multiple rounds during the year and apply them to individual items instead of to the menu overall. Track your guest response after each price increase to better understand what people are willing to pay. How are your price increases impacting the size of your average check and amount of customer traffic? This information can feed your promotional offers as well by helping you bundle items with costs that offset each other.

If you look back at how your business has evolved since the pandemic began, where have you removed bottlenecks and made day-to-day operations less labor-intensive, less expensive and more efficient overall? Where is there room to make further improvements in 2022?

Carving out Pandemic Profits

Customers may be returning to restaurants in a big way, but operators are struggling to meet the demand while navigating a tight labor market, unpredictable supply chain and increased pressure to protect profits.

Neuberger Berman analyst Kevin McCarthy told CNBC he's been assuming that restaurant companies are losing roughly 5 percentage points of traffic due to understaffing. Looking into 2022, most publicly traded restaurants said they expect the problem to persist for at least several more quarters.

As you look to increase sales and reduce expenses in the New Year, focus on ways to enhance customer loyalty and tighten controls on your spending:

• Fine-tune your loyalty program: Offer customized promotions and discounts based on guests' past orders and established ordering habits.

• Optimize your upselling strategy: Your online ordering capabilities naturally help boost check total – and they can help you test different offers to determine what works and what doesn't.

• Dissect your menu costs: Make sure you're promoting your most profitable items with prime placement on the menu.

• Use tech tools to manage and minimize waste: That includes having the ideal number of staff on hand at each shift and measuring kitchen waste to help optimize serving sizes.

• Think about how to step up your service: It's a challenge with reduced staff on hand, but with the people and tools you do have at your disposal, how can you make your guests feel like you understand their preferences and care about their experience?