Foodservice CEO

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February 2023

Build revenue through the kitchen

Bank of America's recent State of the Restaurant Industry report pinpointed a major shift in how restaurants are operating – and where challenges exist in light of both the Covid-19 pandemic and inflation. "We have a new cost structure and paradigm where 85 percent of sales go through a window," says Ted Lynch, senior relationship manager for the bank. "In the past, the dining room was the bottleneck," added Roger Matthews, vice chairman of investment banking for Bank of America Securities. "Now it's the kitchen, and that usually has higher capacity. Restaurants can do more sales than ever before, and that's a good thing."

The potential of the restaurant kitchen as a growth engine makes it an area especially ripe for investment this year. That could mean using restaurant kitchen space in new ways, such as by sharing real estate – and expenses – with other operators. Or maybe you're investing in a new technology to make your kitchen operations more efficient, such as a kitchen display system that brings greater efficiency to your management of growing sales streams and new staff.

Such changes may give restaurants more room to absorb ongoing food inflation (not to mention labor inflation, which isn't levelling off anytime soon). As of this writing, overall inflation appeared to be on a downward pitch, if still much higher in absolute terms than it had been in 2020. But food inflation still faces some obstacles to easing. In addition to the crop disruptions caused by extreme weather, the war in Ukraine continues to impact current crop distribution, future planting and the supply of animal feeds and fertilizers to support a range of livestock and crops.

As for labor, Matthews feels the current cost structure is permanent as other major employers competing for restaurant staff move to a $15 wage. But here, too, greater efficiency in the kitchen may at least partially offset needed wage increases by minimizing the need for paying overtime.

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A second-half M&A pickup?

It’s challenging to buy – or sell – a restaurant in the current climate. The volatility has made it difficult for many operators to reliably pin down costs, sales and margins for the next few years – or even the next 12 months, according to James Short, senior vice president in Global Commercial Banking for Bank of America. As a result, there have been large gaps between sellers’ asking prices and buyers’ bids. “This is the first time in my career where buyers are negotiating the purchase price more on varying EBITDA than the price multiple,” he says.

Restaurant lenders have been responding with hesitation to these conditions – particularly if the restaurant brand doesn’t have the backing of a strong multinational brand. Erik Herrmann, partner and head of the restaurant investment group at CapitalSpring, told Restaurant Dive that a combination of challenges is making many lenders hold back: performance and operating challenges at the company level, as well as the repricing of risk amid higher interest rates.

At a time when the cost of borrowing has effectively doubled in two years, many would-be buyers have been forced to sit on the sidelines in the current market. However, smaller restaurant brands may still be able to secure financing, if not from their traditional lender, then perhaps from an experienced one they haven’t considered before.

And of course, restaurant businesses with capital could be in a position to find some favorable deals right now. Cristin O’Hara, managing director and restaurant group head at Bank of America, is optimistic about the second half of 2023 in terms of the landscape for deals. Once we get past the weaker winter months and lenders see some additional signs of economic recovery, they may be more likely to support restaurant brands seeking capital.

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Create a cross-functional team to protect against evolving cyber threats

As restaurants adopt more technologies to boost efficiency and monitor how a host of equipment across their operation is functioning, they also, unfortunately, open new portals to cyber threat actors. Cyber attacks are becoming increasingly common for restaurant brands. As a result, being able to manage your cyber risk, internally and across your supply chain, is now a task for not just the IT department, but for every department across your business.

That can be an intimidating task at a time when cyber risk is evolving faster than the controls available to manage it. But in a recent webinar from Food Safety Magazine, Stuart Wright, head of governance, risk and compliance for the cybersecurity services firm Nettitude, put it this way: Start not with the technology you think you may need, but with the asset you are trying to protect. Your guest data, your food safety record, your supplier relationships – these business assets are best understood by people across different departments of your organization. Developing a cross-functional team, including but not limited to IT, can help you get the context you need to protect your assets before, during and after a cyber breach.

Cyber risk is a moving target and fortifying your protections requires regularly testing your operation's ability to manage evolving threats. Each time you upgrade your systems, change suppliers, experience an environmental threat, alter other key aspects of how you conduct business, or learn about a competitor who has experienced a breach, test your potential business impacts and develop a dynamic playbook to guide your response. These tests can help your overall business recognize the warning signs of a cyber breach, understand the potential impacts of an attack, and identify new vulnerabilities to protect.

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Making inspections better for morale

They don't have to be intimidating, but they can be received that way. In fact, an uptick in surprise inspections, and the enforcement of stringent new operating standards, have been contributing to a "toxic" environment for franchisees of a certain global restaurant brand in recent months, according to news reports. Operators say the more frequent inspections have been distracting managers and staff and have resulted in managers departing for competitors – all despite a strong pandemic performance from the brand.

To be sure, restaurants are under increased pressure to prepare and serve food safely and at faster speeds than before. But making the competitive pressure not simply nonpunitive, but also motivational, can help you retain labor at a time when so many restaurants are vying for it. It can also help you set a foundation in which higher standards become embedded in your culture and don't get diluted in repeated waves of new staff. Across your operation, how can you make inspections and the enforcement of new standards feel more like a reward and less like a reprimand?

Take the intimidation out of your safety audits

At your restaurant, do in-person safety audits feel like a relic of the pre-pandemic era, or have you reverted back to those routines? In a recent report from Modern Restaurant Management, Kari Hensien of RizePoint says the shift to remote audits and self-inspections may be one of the best things to come from the pandemic: It has made it possible for restaurants to audit more frequently and with a combination of tools. As a result, audits may feel less like intimidating events and more like ongoing check-ups designed to support continuous improvement. While an in-person presence has its benefits too, taking full advantage of technology as an auditing tool can help you spot small problems more quickly and with greater precision. When the required course-correction is minor and feels less punitive, staff morale is likely to benefit too.