Foodservice CEO

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Reasons for optimism amid the bumps

As we were preparing this newsletter for publication, the Federal Reserve announced plans to raise interest rates by three-quarters of a percentage point – its biggest interest rate increase since 1994, following an increase of half a percentage point in May.

No doubt, the recent announcement of inflation hitting its highest point in 40 years contributed to the significant action. A recent survey of economists found that two-thirds of economists believe a recession is on the horizon in 2023. However, the forecast isn't entirely gloomy. Morgan Stanley CEO James Gorman predicted that while investors could be in for a bumpy ride, fundamentals remain strong and the downturn is not likely to be severe. Bank of America echoed that optimism, reporting that its corporate clients continue to borrow, that credit quality in the travel, restaurant and hotel sectors is improving, and loan growth is expected in the high single digits. Some experts are saying that a two-speed consumer economy could even emerge from this, with the households that were able to save large sums of money during the pandemic continuing to spend.

Still, the mounting uncertainty will make it all the more critical for restaurant operators to not only be nimble, but to also run business with greater control by monitoring and managing fluctuating costs from a range of sources. If you're looking for help with these issues, contact Team Four Foodservice today. Team Four has experts in every aspect of the foodservice industry. The company can assist in navigating everything from the impact of rising inflation to suggestions on how to manage labor shortages.

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Striking the right balance on price

The record-setting inflation and supply chain strains of recent months have forced restaurant operators to make some uncomfortable choices: raise menu prices (repeatedly, and with no end in sight), remove a menu item altogether if a suitable substitute is unavailable, or absorb some of the excess costs of increasingly expensive menu items. You're likely making these choices on an all-too-frequent basis right now. If you're assessing menu items and struggling to determine which bucket is the right place for a menu item, ask yourself if the experience you're providing – to include the food and other less tangible qualities about dining in your restaurant – justifies the price you're charging. How central is an item to your menu – or to the reasons guests are motivated to order from you? Where is the point at which the costs you're charging exceed the quality of the experience? The tipping point is likely to fluctuate as consumers feel the pinch of inflation (or the pace of inflation continues to set records): According to a survey conducted for The International Council of Shopping Centers, 64 percent of respondents said they're expecting to reduce their restaurant expenditures because of rising prices. The survey found that dining out, specifically, is one of the activities that will be most affected if inflation hits a tipping point. Restaurants that can find ways to support consumers' efforts to cook more meals at home – with side dishes, meal kits and other value-added items – may be able to minimize some of those concerns.

Justin Shoener, a financial operations leader for The Indigo Road Hospitality Group, recently told Nation's Restaurant News that due to current economic pressures, he and his team are evaluating individual menu items constantly and rebalancing the mix on a weekly basis right now, with an eye toward preserving value: "We are constantly being very mindful of guest perception and value in our restaurants," he said. "We want to make sure our guests feel an appetizer or entrée price is justified by the quality, portion, and price on each item. We look at our menu items individually to make sure it all makes sense."

Of course, your food costs are only one part of the equation – rent, labor, gasoline and other operating expenses are climbing too. If you're needing to pass additional operating costs on to guests right now, be transparent about them. While consumers are seeing their own food prices climb at the grocery store and they generally understand the need for price hikes, they also need to understand what they're paying for. If you're adding a blanket charge to guest bills, mention this on your menu, or directly when guests are ordering, so you can avoid giving guests an unfortunate surprise (and a negative final impression) as they walk out the door.

Could your menu be more labor-friendly?

Labor – while it's a perennial challenge in the hospitality industry, it's become an especially tough one to manage when inflation and supply chain problems are making so many other aspects of running a restaurant more difficult right now. According to the most recent data available from the Bureau of Labor Statistics, there are about 1.5 million positions open in the hospitality industry.

Hopefully, your menu is looking different as a result. Labor costs could be lurking in many of your menu items and posing problems not only to your profits but also to your product consistency. Speed-scratch ingredients can help – and while they may have been around for a long time, it's only now that they are becoming a must-have, labor-saving tool in restaurant kitchens. U.S. Foods, for one, developed its Scoop program to address the labor challenge. Products in the Scoop range, which include produce, sauces, bread products, animal- and plant-based proteins and more, are tested for their labor savings and labeled with a quantified number of the labor hours they save. So their cilantro lime riced cauliflower, which eliminates the need for washing, trimming, ricing, mincing, zesting, blending and portioning, also eliminates 60 minutes of labor per case in the process.

To be sure, scratch cooking is revered, regardless of the economic conditions. But while speed-scratch ingredients are designed to cut back on labor hours, they can actually leave room for restaurants to develop signature dishes – through a special sauce, for example, that is memorable and unique to your restaurant (but faster and easier to prepare than the protein or vegetables underneath it). They can provide a competitive advantage through financial savings, so don't be surprised if they outlast this period of high inflation and supply chain struggles.

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Claim this tax credit

Restaurants could use a break right now, so don't miss this one: The Employee Retention Credit is a refundable tax credit for employers who experienced difficulties in 2020 and 2021 as a result of Covid-related lockdowns and related economic disruptions. As Modern Restaurant Management reports, not many restaurant owners are taking advantage of the credit, even though they may be eligible for up to $26,000 per employee. Even if you received funds through the Paycheck Protection Program, you can still qualify for the Employee Retention Credit. Ask your accountant about claiming the credit now before it phases out in April of 2023.

Stay safe this summer

If you're taking part in outdoor festivals this summer or are otherwise serving guests outdoors, take steps to avoid creating the conditions for bacteria to multiply. Make sure you keep cold foods cool (41°F or colder) and out of the temperature danger zone. Store ready-to-eat foods like fruit in separate coolers from raw meat to avoid cross-contamination, and have separate utensils, plates and cutting boards on hand when preparing and serving raw and ready-to-eat dishes.

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