Foodservice CEO

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Deciding to buy or sell

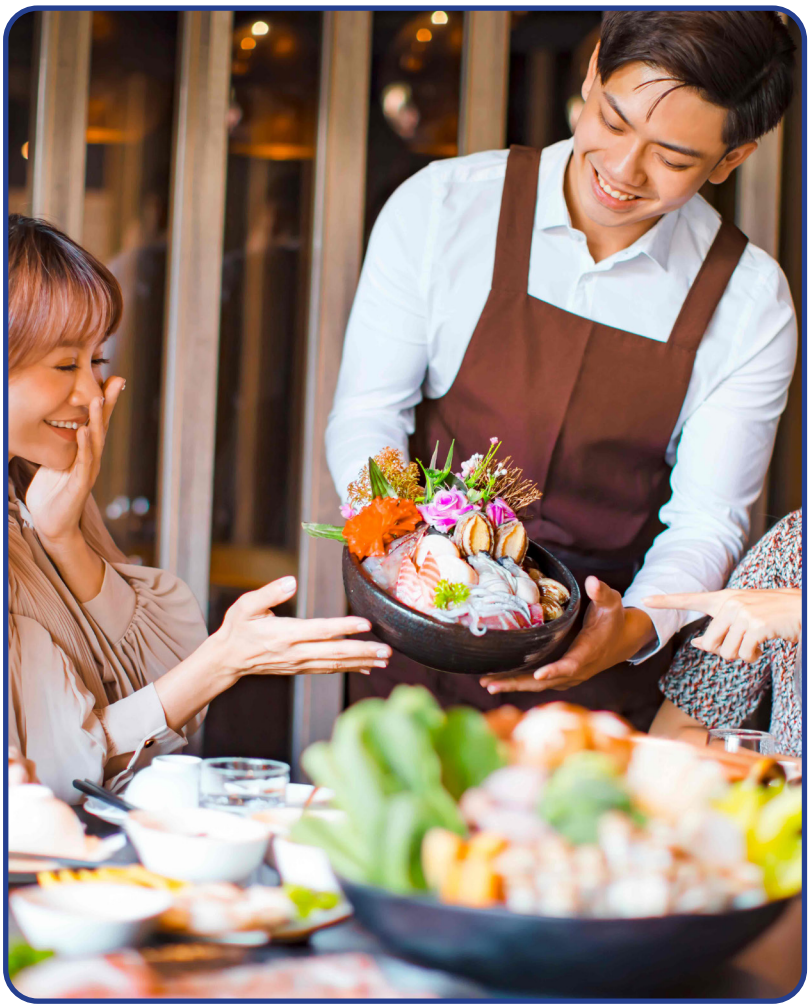
The ongoing difficulties of the restaurant operating environment are paving the way for some movement in the market. While the high costs of construction are apt to dissuade restaurant companies from developing new projects, growth through acquisition is likely to rise. Potential sellers who have grown weary of pandemic-era supply chain problems, ongoing inflation and labor shortages may be more open to negotiation -- perhaps providing financing options to seasoned, qualified buyers eager to expand but balking at bank financing amid rising interest rates.

In the third quarter of this year, the median selling price of a restaurant dropped nearly 7 percent over the previous quarter. But as a recent article by the CEO of the restaurant brokerage We Sell Restaurants noted, that decline reflects a decrease in restaurant asking prices in recent months. Buyers are still paying close to asking price.

If you're in the market to sell, that makes it especially important to price your business well in light of fluctuating economic conditions. Have a restaurant business broker conduct a valuation of your business so you have an indication of what your business is worth in the current market. Ensure you have the past three years of your restaurant's income, balance sheet and cash flow statements – and be transparent about how your business has weathered the pandemic. Have a carefully vetted business plan, particularly if you're seeking possible seller financing. Finally, keep your talks confidential so as to keep current staff from becoming disinterested in providing great service (or guests from disengaging from you). Both can impact sales and discourage a potential buyer from completing a sale.

Buyers looking for opportunities to expand through acquisition will need a thorough understanding of what they need to maximize efficiency. That includes what construction will be required to bring the business in line with the needs that emerged during the pandemic. There is likely a lot of inventory on the market that will need a revamp to accommodate the changes to restaurant footprints, layouts and features that will be necessary going forward.

Know and prove your value



Does your restaurant provide a good value to guests? If it seems like the term has become the buzzword of the moment, it is only gaining momentum: The market research firm Innova Market Insights ranked value as its top trend heading into 2023, replacing sustainability, which was this year's prevailing trend. In the midst of the high inflation we've been experiencing throughout the year, an Ipsos poll of more than 2,000 U.S. consumers found that more than half of respondents are forgoing or limiting impulse purchases, 47 percent are choosing less expensive brands and 33 percent are buying less.

While this means many consumers are leveling down when it comes to their spending – and likely opting for more economical menu options and restaurant categories when they eat out – there is still room for higher-end meals that feel like worthwhile experiences. Indeed, a recent Restaurant Business report cites the example of Papi Steak, the Miami restaurant that serves an off-menu, 55-ounce tomahawk steak. The meal, which is accompanied by a throng of dancers and its own entrance music, is presented to guests in a bejewled briefcase and branded at the table with the restaurant's logo. The cost: $1,000.

Granted, most restaurants can't go to these extremes to provide a memorable experience that guests can share with friends – or with the world on social media. But in every restaurant category right now, operators need to define clearly what providing value means to their guests. A fine-dining restaurant may need to create their own version of the Papi Steak experience. A quick-service brand where guests expect deals may face some extra pressure to make elevated prices feel more worthwhile to consumers than preparing food at home.

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Keep your business in compliance in 2023

What legal changes are in store for your business in the coming year? In California alone, 2023 will usher in changes to laws about such topics as pay transparency, family leave, gig workers, non-compete clauses, employee privacy and Covid-related issues. This naturally impacts what restaurants must do to remain in compliance with their state's new laws, as well as how they manage employment postings, staff compensation, and medical and family-related issues that arise with employees day to day.

As the year comes to a close, businesses and employees in many states can anticipate coming changes to laws that dictate how business must be conducted and managed. (At the same time, the recent announcements of large waves of layoffs at Meta and Twitter have also cast a brighter spotlight on the laws that regulate businesses, as well as the rights employees can exercise.) The Littler Workplace Policy Institute publishes an annual state-by-state summary of the more significant compliance obligations employers will face in the coming year. In your state, you can determine the applicability of new laws to each restaurant location by reviewing your state and city Department of Labor websites.

As you prepare your business for any changes coming to your state and anticipate regular audits to stay on track, also ensure you have a plan to communicate with staff in advance about how the changes will affect them – both personally and with regard to any new tasks they must complete on the job. Finally, remember there are tech tools that can help people at each level of your organization automate any unfamiliar tasks your business must now complete to stay in compliance. New regulations may provide a good excuse for retiring any existing manual processes that could be made more efficient.

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Value

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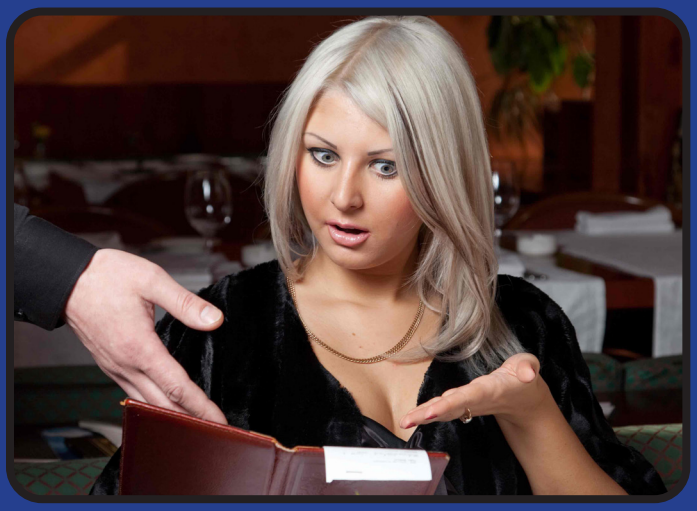
A recent Restaurant Dive report likened restaurants' management of prices to a tightrope walk – operators must charge prices high enough to protect the bottom line without turning guests off and potentially losing traffic to competitors or even grocers. Consumers are showing resilience so far when it comes to spending. Still, according to Paul Westra, managing director of restaurant investment research for Capital One, input cost inflation has been surpassing menu pricing. So while average menu increases have hovered around 6 percent in the past 18 months, they would need to rise to 11 percent to protect profits. The math seems to be working out at McDonald's, for one, which reported a 6 percent sales increase in their latest earnings report despite year-over-year menu price increases of 10 percent. Restaurant operators may even get some financial relief if inflation levels off further. Still, knowing where your guests draw a line in the sand on cost – and at what point the experience you provide no longer feels worthwhile – will continue to be important to determining how you can provide value.

New service charges? Consider staff safety



As sky-high inflation impacts food prices – all while restaurants are trying to attract and retain labor – operators have had to adopt new ways of passing costs on to guests. But as you contemplate added charges of various forms, whether to level the playing field for back-of-house staff or to fund new benefits you're offering, consider how they will impact the daily working experience and general safety of your staff. When there is a surprise service charge tacked on to a bill as opposed to higher prices across the menu, your staff is in the position of having to explain the unexpected expense to a (possibly confused or exasperated) guest. The employee's tips and overall satisfaction with the job may suffer as a result. There is no magic formula for spreading out costs right now, but whatever structure you land on, talk about it with your team to better understand their concerns and protect their safety on the job.