

6 Keys to Operating a Successful Restaurant in a Rising Cost Environment

Alameda County SBDC

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- Rising labor, rent and ingredient costs are pressuring the sustainability of current business models of Oakland restaurants.
- What can be done?

Rising labor, rent and ingredient costs are pressuring the sustainability of current business models of Oakland restaurants

- In this session, we will discuss current challenges in the industry, and how owners can be better equipped to start, manage and grow thriving food businesses
- The goal: give you a new strategy and tools to more effectively thrive in this industry

The 6 keys to a Successful Food Businesses in a Rising Cost Environment

- - Service Models
- - Employee Goals and Practices -
- - Cross Prep items -
- - Cross Menu sales
- - Leveraging in house sales with strategic catering and delivery options
- - Smart leasing terms and needs

Inflation and Change

- They both happen
- Let's look at change and business models rather than an economic analysis per se
- Point being: it's just too easy to say "It's not like it used to be"
- Entrepreneurship is by definition about solving problems, innovating and creating new solutions

How it was.... Or Once upon a time...

Overhead	COGs	Labor	Profit	Prime Cost	early 80s
20%	36%	36%	6-7%	72%	

Overhead	COGs	Labor	Profit	Prime Cost	early 90s
25%	33%	32%	10-12%	66%	

Overhead	COGs	Labor	Profit	Prime Cost	early 00s
28%	30%	30%	12-15%	60%	

Solutions! Tools!

- Business Models- create one that works for you in projections and measure against it regularly
- This is both your responsibility and your privilege
- Enables you to make choices

Overhead	COGs	Labor	Profit	Prime Cost	2018
20%	28%	46%	6%	74%	

Service Models

#1

- Fast Food
- Fast Casual
- Casual Dining
- Fine Dining

- Rule of thumb:
 - Fast Food = low COGs, low labor, high overhead
 - Fine Dining = high COGs, mid-range labor, mid overhead

Talk on the street... or Rumor has it...

- Due to rising labor costs counter service has become quite the norm as it eliminates a lot of FOH labor costs
- It can also reduce ticket average and brand engagement
- Rumor has it that most full service restaurants will soon be a thing of the past

Employee Goals and Practices #2

- Know your business needs- create a mission-
- Hire wisely and strategically
 - Onboard them for real
 - Create a company culture of excellence
 - How do you do that?

Employee Goals and Practices #2

- Retain employees
- Create a work flow balance that makes sense for your business
- Cross train

- Division of Labor and the Specialization of Labor
- Let someone be GREAT at what they do and reduce labor costs at the same time.
- Vendors and purchasing

Cross Prep

#3

- Master Prep list rather than prepping by station.
- Divided by skill set. Creates and inherent desire for upward mobility and pride.
- Creates consistent product = less waste

- Ingredients and components from one item can be used on another menu or in another dish.
- Single use prep items are like single use plastic water bottles.
- Creates waste, spoilage & low profit margin.

Cross Menu Sales

#4

- Example: Menu items can be appetizers and entrée sides etc. Right?
- But this is where great training and mission aligned staff are key
- Think of style of food then think of commonalities while building the menu

Leveraging Sales

#5

- Increase the ticket average
 - How are other menus written?
 - What options do you have?
 - Packages and combos (☹)
 - Smaller flights
 - Smaller desserts or bigger desserts

- Strategic Catering
 - To your target market so they become ambassadors of your business
 - You get to control the menu so it works for your business model (😊)

- Delivery or Curb Side pick-up
 - 3rd party delivery system

- Increase sales opportunities
 - To-go items
 - Catering
 - Groups
 - Buy-outs
 - Simply remind people that you exist

Smart Leasing Terms and Needs

#6

- Read the terms carefully
- Make sure you understand the real costs and limitations
- Negotiate
- Make sure the space works for your financial business model

Smart Leasing Terms and Needs

#6

- Negotiate a broad definition of “Permitted Uses”
- Negotiate shorter base terms with more options (eg 5-year base with two five year options to renew)
- Try to avoid rent raises tied to “comparable lease rates” determined by appraisal - fixed rent raises or consumer price index raises are usually better
- Negotiate limits to increases on charges other than Base Rent (eg. NNN charges) to keep these within a predictable cost range
- If you anticipate getting a loan, negotiate that landlord will agree to a standard “lender subordination” agreement

Summary

- Check your business model and adjust if need be
- Don't assume it will work with hard work.
- Hire carefully and train meticulously
- Purchase carefully and build relationships
- Cross train and cross sell
- Increase sales strategically
- Measure reality against projections and business model
- Smart leasing

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