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

Alameda County SBDC
6 Keys to Operating a Successful Restaurant in a Rising Cost Environment

• 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...

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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

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Service Models

- 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
• 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 an 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.
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

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

• 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
Leveraging Sales

- Increase sales opportunities
  - To-go items
  - Catering
  - Groups
  - Buy-outs
  - Simply remind people that you exist
Smart Leasing Terms and Needs

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