What Restaurants Must Fix Operationally in 2013
by: John A. Gordon, Principal

Restaurant sector challenges of negative same store sales comparables, consumer unease, rising food commodity costs and some magnitude of increased heath care costs emanating from Obama Care appeared in 2012. The same issues will be present in 2013.

But all is not lost. There are initiatives that can offset the negatives. Here are thoughts of what restaurants, both chain operators and independents, of all stripes, simply have to fix in 2013 operationally to meet these challenges. None of these opportunities are new news.

Restaurants have been working on reducing food and labor costs since the 1970s. It's time now to look at other areas of the P&L as well as revenue maximization beyond price increases.

Revenue enhancement related:

•**Unique Store level pricing:** US national. zone, region or even DMA level pricing is a relic of the past, representative of a 1960s-1970s more suburban, homogenous US restaurant mindset. With development everywhere and a vastly stratified and diverse US society, why does the price in suburban Philly Bucks County PA need to be the same as in south Philly? It doesn't. The rub comes in with massive television driven campaign single price points. YUM/Taco Bell has just rolled out its $1.49 grillers on television. Is that really the only price point that will work? Rarely does the promoted item mix exceed 20%, so 80% of the mix remains to be influenced by store level pricing. This route provides for revenue management upside and I'll have a whitepaper on this topic out soon.

•**New beverage and dessert options needed:** the rise in water only customers and the falloff of soda sales s is epidemic. This is very noticeable at your local Chipotle (CMG), go in and check out how many customers just get water. But the industry is to blame, as there has been little to no change in carbonated sodas for years other than the new Coca Cola mix machines. What about: flavored waters and drinks around $1? Could a carbonated cranberry, cherry or vanilla fizzy drink be prepared with existing soda/drink/bar equipment? Yes. Could it be sold profitably for $1? Yes, especially that is aimed at water customers who now carry zero gross profit. **Smaller desserts:** Jack in the Box (JACK) has recently figured that out with its $1.00 brownie bites, for example. This might not work at a Cheesecake Factory (CAKE), with a $7 flagship dessert that is split anyway, but it could work in other concepts.

•**Suggestive sell/upsell:** in almost every restaurant type, but especially in chain operations, the order taker generally ends the transaction by asking "would you like anything else? This happens in QSR, fast casual and casual dining operations. Ban the phrase "anything else", and replace it with…."apple pie?" (for QSRs) or "glass of wine?" (for casual dining operators). Bar operators have it covered with…"would you like another", and is often used. The trick is to get new customers.

Cost Containment related:

•**Obama Care Health Care impact: adapt, stop whining. It's here.** The estimates from McDonalds, Wendy's,

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Dominos, CKE restaurants and the like are in the $15,000 to $20,000 additional expense per store zone. Papa John's was the high outlier, up to $100K per store. Perhaps John was on a carbo high when he mentioned that. Of course, small pizzerias and huge casual dining restaurants will have different costs per unit. The effect will vary based on many other factors. **Test something.** We wonder if a two track wage scale might work: one higher base wage for no benefits due, or a lower wage for where payable. To foil the invariable Fair Labor Standards Act (FLSA, 1938) challenge (The FLSA does allow for differential wages for medical so long as it isn't workers comp medical expense involved), sweeten the pot for the lower wage tier employees that they get first dibs to higher hours and overtime since they are covered and won't affect the 30 hours/week calculation. Or what about a registry to share employees to keep employees engaged and working but under the hours threshold? I've have an additional whitepaper on this later.

•We've mentioned before restaurant utility costs, especially electricity; too few HVAC thermostats and overly cooled dining rooms (since kitchens are hot all day). Could not a second rooftop AC unit and thermostat be added for the front of house that would be amortized quickly? Utility company experts say the payback could be less than two years.

•Stop discrimination and avoid legal costs: it's amazing the number of chain restaurant operators, franchisees and independent restaurants that get caught in EEOC/Title 7 discrimination situations. Two multi-unit franchises (BKW, PNRA) in December 2012 alone. Big settlements, big legal costs, diversion of management time and attention. The federal anti-discrimination laws have been on the books since 1965, and the Fair Labor Standards Act has been on the books since 1938. Management must enforce fair and equal treatment of all customers and employees. For every dollar in legal costs, twice as many restaurant sales dollars must be generated just to offset the direct cost.

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