Much More Restaurant Risk Management Required
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We are in that part of the restaurant business cycle where both forward and backwards introspection is needed. The 2015-2017 restaurant results period is among the first time where US restaurant industry trends aren't following the traditional macroeconomic drivers—employment, disposable income, and GDP are all healthy—but we are not getting our share of spending. There are more restaurants open and fewer available sites. Activist investors lurk. There is much less room for error.

With this backdrop, restaurant corporate strategy and stewardship needs to be startling right on. If not, a social media agent, a competitor, an activist, an angry employee or supplier will react. This makes all the more important the notion of a more expansive risk management profile at both independents and chain restaurants. In days past, chain restaurants had a risk management department, that focused on insurance and store security. In smaller operations, there is no organized notion of risk management. That doesn't cut it now. Risk management needs to be much more expansive, starting from the board of directors on down to the shift manager.

I've compiled a list of documented risks that have been ***recently*** painful to restaurants—in the last two years or less-- costing jobs, big money and guests. Each of these risks could have been prevented and deserves corporate attention, even for the "asset light" franchisors. It takes money to make money.

Data integrity: so many recently, but Wendy's (WEN), Arby's, Zaxby's. Sonic (SONC ,)PF Chang's and Chipotle (CMG) guest data theft incidents come to mind. Risk compounds,because so many operators are building a common big data warehouse with many remote points of sale. Would a Wikileaks type spy dump McDonald's corporate executive staff performance appraisals on line for prying eyes?. They would. Do you really want to have a guest going to a corporate website to see if they had patronized an effected restaurant? Not the best memory or use of the guests time.

Managing guidance and expectations: during the IPO process also is an important needed element of risk management. Can we really open 5000 US units (example, Noodles (NDLS) IPO period?) If we open 5000 units, then what competitors are we going to close?

Putting in place early shareholder activist repellant: this is a board of directors lead responsibility to assess and lay in a plan, but who saw Starboard v.Darden (DRI), Ackman v. McDonald's (MCD), or Marcato v. Buffalo Wild Wings coming?

Merger and Acquisitions (M&A) Risk: there are well documented risks in the past, from Metromedia's loss of $1 billion in acquisition of family steakhouse brands in the 1990s, to the more recent Macaroni Grill acquisition by the now defunct Ignite Restaurant Group, which was purchased at precisely the wrong time and essentially ruined Ignite. Much more thought and due diligence, other than the hope to "get bigger" is required.

Human wearout potential: restaurant leadership roles are high pressure, particularly after a IPO. Talk to Kevin Reddy or Tim Taft. Both good people, but got hit by the IPO express.

And the super factor: real or perceived food safety. Chi-Chi's, Jack in the Box (JACK) in the 1990s ,Chipotle, KFC China chicken ingredients, Chipotle sick employees, Taco Bell mice running around.In the digital age all this hurts.

Opening new markets is a massive use of time, marketing expense, CAPEX and management attention. No one wants to close new stores. But where does company pride and over confidence outweigh people and mathematics? Why did Qdoba, Fiesta and Noodles have large new store closures over the last two years? Could it be there are too many new restaurants in Dallas? The risk management system should catch that.

People Culture and Deportment. In 2017, it is still common to see wage and hour payment mishaps, sexual harassment and toxic work culture issues some of which mushroom up to legal actions. Talk to that Chef in New Orleans who lost his multiunit company. Those situations are controllable and manageable given the management systems and standards that the industry has developed since the 1960s. How many donuts or burritos does it take to offset a $$500K judgment and $400K in legal costs?

There are great, smart, dedicated people in the restaurant business. Careers are made, fortunates are made. Restauants are vibrant and a critical part of society, and are always investable. The level of play just has to be raised.

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