Forces Attacking Restaurant & Bar Profits
(and how the industry can fight back!)
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Introduction.

Third-party delivery, streaming video, meal-prep kits, and other market disruptors are changing the face of the food and beverage industry as we've known it.

This session will examine current market forces that are cutting into F&B profits, whether at restaurants, bars, or hotels, and provide important insights to keep guests coming back (and spending money).

Aggressive market forces are nothing new.

In July 2007, Technomic, a foodservice consulting and research firm, forecast "tough economic times ahead for same-store sales."[1] As reported by *Nation's Restaurant News* on July 9, 2007, "Inflating commodity prices, a slowing gross domestic product, skyrocketing fuel costs and a weak dollar" were predicted to take a toll on food and beverage sales nationwide.

Experts identified opportunities for growth, however, noting, "The growing number of consumers under 35 in particular presents opportunities for targeted marketing," suggesting further that "they are not cooking, so they will be very heavy restaurant users."

Convenience (e.g. curbside pickup), variety, healthy options, corporate social responsibility, and value were all identified as being important to guests.

But neither Technomic nor NRN really knew what was coming. The article referenced above was published:

- a mere ten (10) days following Apple's first release of its iPhone, which would change forever the nature of human interaction;
- six (6) months after Netflix began streaming content (for free back then), forever changing the way humans consume entertainment;
- one (1) year before Apple launched its AppStore, providing a marketplace for innumerable interactive apps; and
- eighteen (18) months before Lehman Bros. collapsed at the peak of the 2007-2008 financial crisis, triggering a recession that lasted until mid-2009.

These market disruptors could simply never have been predicted, and the list could go on and on…

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[11] Carolyn Walkup, *Tough Economic Times Ahead for Same-store Sales*, NATION'S RESTAURANT NEWS (JULY 9, 2007) https://www.nrn.com/corporate/technomic-sees-tough-economic-times-ahead-same-store-sales (last visited March 15, 2019).

The advent of smartphones allowed guests to view restaurant webpages and menus online while away from their desktop computers, requiring restaurants to augment their web-based presences (and keep them updated). Netflix, Hulu, and other content-streaming services, combined with the affordability of extremely large televisions, provided an alternative entertainment source beyond traditional network television and cable, effectively keeping guests at home, opting to Netflix & Chill (or even watch TV). The popularity of smartphone apps led to the availability of platforms for instantaneous verbal vomitus in the form of restaurant "reviews" via Yelp, TripAdvisor, and other online rating services. The Great Recession affected consumer spending in ways never predicted by the economic indicators.

Current market threats.

Almost a dozen years after the above-referenced NRN article, the restaurant and bar industry faces new and insidious challenges to profits. Like 2007, however, the industry will rise above them, finding new ways to innovate and elevate the guest experience.

Smartphone apps continue to pose a threat, and have led to a meteoric rise in the popularity of a growing number of food delivery services, resulting in significant encroachments into restaurant profits. The food delivery segment, with revenue of approximately $19B predicted for 2019, is predicted to grow to $24B by 2023, according to analytics firm Statista. Morgan Stanley, however, shockingly predicts that by 2023, forty percent of all restaurant sales will be via delivery, in the amount of approximately $220B. With restaurant costs to delivery services ranging from 15-30% per order, restaurants will face a significant hit in the event things continue along the current path.[2] Beyond the cost of paying the third-party delivery services, restaurants participating in the delivery economy find it difficult to sell high-margin items like iced tea, soft drinks, alcoholic beverages, and desserts, further cutting into the bottom line.[3]

Food inflation continues to be a factor, as more families look to cook at home.[4] The rise of delivered meal-prep kits (e.g. Blue Apron, etc.), where customers receive all the ingredients of a meal, plus a recipe, has people "cooking" away. Moreover, stores like Whole Foods and Central Market offer not only prepared meals for takeaway (at a significantly lower internal cost than what the same meal would cost a restaurant), but also wine bars, beer stations, happy hours, and customer events, in an effort to increase guest spending beyond commodity groceries.[5]

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[2] Julie Littman, *Why the Delivery Market Will Look Different in 5 Years*, RestaurantDive.com (Jan. 28, 2019), https://www.restaurantdive.com/news/why-the-delivery-market-will-look-different-in-5-years/546936 (last visited March 15, 2019).

[3] Nathaniel Meyersohn, *Why Uber Eats and GrubHub partnerships are risky for restaurants*, CNN Business March 28, 2018), https://money.cnn.com/2018/03/28/news/companies/uber-eats-grubhub-delivery-apps/index.html (last visited March 15, 2019).

[4] Anne Stych, *Why restaurant prices are on the rise*, The Business Journals (Jan. 16, 2019), https://www.bizjournals.com/bizwomen/news/latest-news/2019/01/why-restaurant-prices-are-on-the-rise.html?page=all (last visited March 15, 2019).

[5] Zlati Meyer, *Why 'Grocerants' are the new trend, taking bite out of restaurants*, USA Today (April 5, 2017), https://www.usatoday.com/story/money/business/2017/04/05/grocerants-take-bite-out-restaurants/99723098/ (last visited March 15, 2019).

The most drastic market force currently facing restaurants and bars continues to be an incredibly tight labor market, driven by record low unemployment rates (currently 3.8%, at the time of writing).[6] This, coupled with organized labor's pursuit of a national $15 minimum wage, will, in the opinion of many commentators, present a significant risk to the profits of restaurant, bar, and hospitality operations.[7] (Remember that only six years ago, President Obama sought, but failed to achieve, a $9 minimum wage!)

Finally, non-traditional market disruption is encroaching from market entrants such as Tesla Motors, which has begun including food and beverage venues in its charging stations.[8]

Overcoming the Challenge.

As in 2007, operators must always be on the lookout for potential threats to their ability to put guests in seats, as getting guests in seats (and making sure they return) has always been the primary challenge for restaurants and bars. These days, however, because guests have so many other choices (most of which were nonexistent a decade ago), restaurants and bars have become places guests seek experiences they cannot get elsewhere. (Not convinced? Try making a cocktail from *Death & Co. Modern Classic Cocktails* recipe book without going on a shopping spree at a well-stocked liquor store.) That might include specialized techniques like smoking meat, featuring specialty ingredients/flavors that are unfamiliar but appeal to evolving palates (Alabama white sauce, West African spices, etc.), showcasing plant-based proteins, and/or providing flights (whether food, alcohol, or a combination thereof), tasting menus, etc. (home cooks do not routinely cook the same item multiple ways at the same sitting).

Conclusion.

The restaurant and bar industry will continue to evolve, meet market challenges, and maintain its status as the second-largest private-sector economic force in the U.S. economy. But the tactics of just a few years ago are no longer good enough, and operators must adapt, react, and continue to innovate as the vortex of challenges continually swirls about them.

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[6] *Civilian Unemployment Rate*, U.S. DEPT. OF LABOR: BUREAU OF LABOR STATISTICS, https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm (last visited March 15, 2019).
[7] Adam Berebitsky, *Food for thought: Combating rising restaurant labor costs*, RESTAURANTDIVE.COM (Feb. 5, 2019), https://www.restaurantdive.com/news/food-for-thought-combating-rising-restaurant-labor-costs/547450/ (last visited March 15, 2019).
[8] Peter Romeo, *Tesla Opens Foodservice Facilities*, RESTAURANT BUSINESS (Nov. 17, 2017), https://www.restaurantbusinessonline.com/emerging-brands/tesla-opens-foodservice-facilities (last visited March 15, 2019).