

surrender

2012

Restaurateur Issues and Challenges

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## 2012 Restaurateur Issues and Challenges Survey Results

We now know several new things about restaurateurs these days:

- They are generally optimistic about their future.
- They identify their top issues and challenges.
- They know the benefits of staying true to their culture while still creating profitability and revenue.
- Capital for expansion and opportunities for expansion are low priorities for restaurateurs as their businesses emerge from economic downturn.

This snapshot of today's restaurateurs was revealed by a survey of restaurateurs conducted in a partnership between Surrender Inc. and the Texas Restaurant Association. These findings reveal a clear picture of what restaurateurs are thinking as they have become accustomed to operating in a new economic environment.

The depths of the Great Recession are beginning to fade in the rear-view mirror, even if guest count is not what it was before the down cycle. But, since restaurants benchmark comparative sales against the immediate prior year, they are seeing positive numbers in addition to other signs of economic growth and opportunity.

### **1. Restaurateurs are optimistic about the future of their businesses.**

86% of the respondents said they were optimistic about the future of their business. It may initially be counter-intuitive to see so much optimism amongst restaurateurs. But many restaurateurs are also entrepreneurs — people who are, by nature, positive people. It is a lot easier to achieve goals when you feel hope than when you feel despair. Most business owners know that, with the recent beginnings of upticks in employment and consumer confidence, the worst is over, and the future will be better.

### **2. Ensuring their culture is represented in every guest interaction is a top priority for restaurateurs.**

The best restaurateurs are institutionalizing their culture through education, measurement, and a quest to share anecdotal evidence about their culture every day on every shift. These companies talk about their culture constantly, every time people get together, even if they only get together to discuss business issues that, at first, seem unrelated to the feel of their operations. In this way, they underline what is truly important.

It might also seem surprising that truly living their culture is restaurateurs' top concern, or even near their list of top concerns. After learning how to operate in a new economic environment over the past few years, it would seem logical that "hard" economic issues would trump "soft" for business people who often tend to treat symptoms instead of causes. We believe, though, that restaurateurs have realized that culture is the true root of all aspects of a business. Furthermore, we believe this is an indication of restaurateurs thinking about how to build revenue, realizing that, when perfected, culture is their true differentiator. Through their

culture they attract both associates and first-time diners. And, when they use culture to increase diners' frequency, first-timers turn into regulars.

Leading restaurateurs can communicate what is special about their concepts in a few words. Those restaurateurs have a true brand. The best restaurateurs can also test their decisions through knowing what is right for them and what is not. Those restaurants have a true culture.

### **3. Maintaining or increasing profitability in a recovering economy is also a top priority for restaurateurs.**

Top operators are going to stay cost conscious, focus more on what they can do to drive volume, and be more risk averse than they were in the past.

Profitability and revenue are the life-blood of every business, so it is logical that these are high amongst restaurateurs' priorities. The best operators have perfected running lean operations during the recent economic down cycle. Sales are increasing, albeit slowly, and restaurateurs are comparing them to the new world of the past few years as opposed to the years before the Great Recession. Leading restaurateurs are taking smart, targeted action to raise frequency, guest count and PPA. By now, they have been through every line item on their P&L, evaluated all of their vendor relationships, and decided what they must keep and what they can do without.

After the down cycles of the 80s and 90s, restaurateurs had short memories. They tended to forget much of what they had learned in the down cycles. Following a recession — caused by a savings-and-loan bust, a dot-com bust, or junk bond bust — restaurateurs felt like happy days were here again and began to spend and build units, anticipating unlimited growth.

We believe the deep depth of the recent downturn — along with the slow glide toward improvement — will have a different effect on restaurateurs when compared to the relatively short valleys they experienced in the past few decades. In other words, echoing the Texas bumper sticker — “Lord, just give me one more oil boom and I promise not to screw it up this time” — restaurateurs will have longer memories and continue to operate more carefully and prudently as things turn around. That is healthy for them and will make for a more stable and profitable industry overall.

### **4. Building and maintaining revenue in a recovering economy is also a high priority for restaurateurs.**

After culture — restaurateurs' leading priority — the uniqueness of the experience at the table is what the best restaurateurs have realized is the most cost-efficient way to build revenue.

Staying out of “victim mode,” great restaurateurs realize that, by establishing relationships with their guests, training their staff to truly serve — by doing everything from creating food and drink items that delight and inspire their guests, to offering them items they may not have

ordered without guidance — restaurateurs have greater control over their own revenue than it would initially appear.

There have been many recent changes to the way restaurateurs build revenue. Restaurateurs responded to the challenges of declining consumer confidence and tighter household and corporate budgets by dropping price points and adding limited-time offers. Full meal deals, the staple of quick service, migrated to casual dining and even to fine dining. Groupon and all its imitators were born. Simultaneously, social media began to reach its potential and a peer's review accessible on a smartphone app became more important to a diner than a review by a tenured critic in the daily paper.

### **5. Reacting to escalating commodity costs is a high priority for restaurateurs.**

While some forecasters have begun to write about the possibility for commodity cost to decline this year, restaurateurs have yet to see any hard evidence that this is going to come true.

Restaurateurs control many aspects of their business, but, as commodity costs rise, they feel helpless to stem the tide. Restaurateurs know the price of beef and dairy products in more detail than a stock broker knows the Dow. They have passed through the grief states of denial, anger, bargaining, depression and acceptance to a point where they can deal with this issue. Leading restaurateurs are being creative with their product, looking at alternative sources or alternative portion sizes to respond to this challenge. Others are deciding between putting efforts into increasing marketing, service vs. driving guest count and PPA to offset higher food costs, and just raising prices to cover increased commodity costs. This is a dilemma that is on every restaurateur's mind every day.

In general, the larger the organization, the more likely that they embark on an elaborate initiative to raise sales without passing on the price increase. For smaller operators, it is more realistic to just pass on part of the increase to the guest on the theory that the guest also shops for food in the grocery store and understands the restaurateur is not profiteering. The longer commodity costs remain high, the less likely that restaurateurs will be able to resist a price increase as part of a sound overall strategy to run their business. Many who have been holding off for years for fear of losing customers are beginning to see the merits of passing along what they can to the consumer.

### **6. Need for more efficient marketing is a high priority for restaurateurs.**

For too long, marketing efforts have been geared toward the immediate gratification of short-term traffic; limited-time offers and couponing certainly fall into that category.

We believe that marketing efforts in the restaurant industry are more valuably geared toward creating regulars who will dine at a restaurant time and time again. The lifetime value of a customer is a concept that will be increasingly embraced in the future, as restaurateurs learn to represent their culture in every guest interaction and become better at enrolling guests into wanting to return for another and another meal.

As restaurateurs begin to evaluate deep discounts and are weary of discount addiction and training the customer to wait for the deal, we expect to see outstanding companies slowly wean their guests off of discounting. Instead, they will win them over through an improved concept and dining-room experience.

The most alert restaurateurs, like people in many businesses, are transitioning away from a traditional model of print, broadcast and direct mail marketing that they are resigned to but unsure about. They are learning about Web-based advertising and interactive social media campaigns where they have less of an understanding, but more of a realization that this is where they want to be to communicate with their guests.

This means they are getting up to speed quickly and experimenting with what works. Why does a restaurant on one side of the street start a Facebook page and get 5000 friends in its first week and one on the other side of the street does the same and struggles to get to 500 friends? People who can answer that question are becoming increasingly valuable, whether they are inside or outside restaurant organizations. They are learning how to harness the power of social media. Operators are divided between finding a hip, tech-savvy know-it-all in their organization who can run a truly interactive social media campaign, to outsourcing this to a digital marketing company.

### **7. Managers trained to initiate constant process improvements are a high priority for restaurateurs.**

It is no accident that Red Lobster has devoted a national TV ad campaign to the hospitality ethic of its managers or that Domino's TV spots celebrate a menu item created by a crew member.

Restaurateurs know there is a limitation to what ownership and senior management can accomplish. Great operators are going to get a better result when they rely on all members of their management team to identify opportunities and solve problems. This is changing the idea of what an ideal restaurant manager is. For many years, the industry looked for people who could read the manual and execute the prescribed operating policies and procedures. The largest restaurant companies will always rely on this procedure — their size is too great to allow for improvisation.

Everyone else in the industry has the opportunity to get all hands on deck to devise, pilot, and evaluate process improvements. We see the best companies insist that it is not enough to do your job, run your shifts, hire your staff and count money at the end of the night. Instead, they expect their management teams to be constantly funneling ideas, information, and creativity toward improving all aspects of operations — from service to menu offerings to cost management. Having realized that the power of many is greater than the power of a few, restaurateurs are learning to train managers to think without limitations and make innovative solutions — viewing this as even more important a contribution than a shift full of satisfied guests on budget. We expect to see this approach widening in the future.

### **8. Quality of the labor pool is a medium priority for restaurateurs.**

Quality of the labor pool declining from a high priority to a medium priority is a function of many people coming back to restaurant work as unemployment levels have increased.

Remember when some restaurants were closing for lunch because they could not staff two shifts? Seems like a long time ago, but, in reality, it was only four or five years ago. It is natural that the quality of the labor pool, one of the biggest long-term challenges the restaurant industry faces, has receded as a priority. We expect it to increase in the future to the point where it is, once again, a leading priority for restaurateurs.

As employment rises, so will restaurateurs' concerns over the quality of their labor pool. There will be a time when pay and benefits will simply not be enough to maintain a sufficient work force. In the meantime, top restaurateurs are now thinking about building trusting and respectful relationships with their work force, communicating to them why their organizations are a special place to work, and enrolling them in their mission.

This will allow them to not only retain people when employment options increase again, but also to bolster their culture, their number-one current concern. By protecting the industry from losing workers, operators also protect individual restaurant brands from losing workers to competitive organizations.

### **9. Differentiation from competition is a medium priority for restaurateurs.**

Single-unit operators in our survey saw less need for differentiation than multi-unit operators. We believe this is because single-unit operators, by their nature, have prospered by virtue of their differentiation, whereas multi-unit operators must spend more time preserving what made them special in the first place and establishing their place in multiple markets. In fact, we believe that differentiation through culture and turning occasional guests into regulars is something restaurateurs underestimate at their peril.

So why is this just a medium priority for the restaurateurs we surveyed? It may be that restaurateurs break this down into components: branding, culture, product offerings, locations, marketing, and service. There is nothing wrong with addressing differentiation on a category-by-category basis. But restaurateurs will benefit in terms of success and their self-awareness about what is really important in how they allocate time, energy and resources when they see this on a global basis. So we see an opportunity there to expand not only their thinking but their self-image about how they guide their businesses as sophisticated business people.

### **10. Need for training is a medium priority for restaurateurs.**

On this topic, single-unit operators also tend to be less concerned than multi-unit operators. Training programs do the work for multi-unit operators that single-unit operators do every day on site, so that should come as no surprise. Still, we see major opportunities to increase training levels across the board, in pursuit of the cultural and service goals many restaurateurs

have established, and also to support expansion — a topic that will be increasingly on the best operators' minds as the economy continues to heal.

Single-unit operators have an opportunity to emulate multi-unit operators in terms of sophistication of training, materials, and follow-up as they harness technology to utilize their Web sites, DVDs, and streaming videos that trainees can watch anywhere at any time. Single-unit operators who plan to grow will especially benefit from focusing on more sophisticated training systems.

The position of trainer can be either a pathway to management or an alternative for valued team members who may want to grow in their careers outside of the management track.

### **11. Work/life balance is a medium priority for restaurateurs.**

The fact that multi-unit operators feel this is a less important priority — and single-unit operators think it's a higher priority — may reflect the ambition and commitment restaurateurs make to multi-unit companies. The rise of work/life balance as a topic for discussion reflects that an idea almost unspoken in a work culture a generation ago is now seldom disputed: that one of the benefits of getting away is that you will be sharper when you come back. Combine that with the personal benefits of leading a full life at work, home and in the community, and any group's opinion of the priority of work/life balance is a topic worth addressing.

Restaurateurs have come to compare their work hours and commitment to those of their peers in other industries and have begun to seek a better quality of life. The six-day week is a beast that has been slowly dying over the latest generation, for instance. This begs the question, is the reason some people are not focused on work/life balance that they are too busy to think about it?

Still, many restaurateurs own their own businesses, and the best ones balance their work and their life and make sure they do not feel like they have bought themselves a job. Through many of the issues that are important to them — training, culture, marketing, and delegating process improvement to management teams — restaurateurs open up the possibility of improving their work and their life. What they had thought was impossible — enjoying their families, interests and hobbies and operating successful companies — is available to them when they arrange their work life to support these different endeavors. Many of the best restaurateurs have options in their lives for work/life balance and we see some of the happiest, most satisfied restaurateurs taking advantage of that. We expect the importance of this topic to rise in the future.

### **12. Capital available for expansion and opportunities for expansion are a low priority for restaurateurs.**

It is clear from the results of this survey that restaurateurs are focused on the here and now — their existing units and how to perfect them, protect them, and profit from them. We know that, while there are still deals out there, cooperation from banks, venture capitalists, and the

traditional pool of independent restaurant investors is harder to inspire than in the past. To many restaurateurs, this is not a problem, because they are not thinking about expansion.

But we also believe there are opportunities out there, and we see many great restaurant companies expanding, commercial real estate sources telling us that deal flow is good, and that the best sites that became available when operations did not survive the downturn are released and off the market. The strong get stronger as restaurants with higher-than-average profits, revenue, and longevity attract the capital that is there in the marketplace, forcing the operator who does not yet boast those characteristics to do more with less and accept higher risk, a greater cost of capital, or a less desirable site.

### **Conclusion**

During every economic downturn — whether a dot-com bubble, real-estate bubble, savings-and-loan crisis or Great Recession — restaurateurs learn to run lean and adapt to the changing economic landscape. Once the good times return, however, historically many forget what they learned about running a good business. Not this time. The recent survey of restaurateurs conducted in a partnership between Surrender Inc. and the Texas Restaurant Association shows that restaurateurs may have changed their ways while still maintaining a positive outlook. Taking smart, targeted action, improving and utilizing their culture and taking advantage of in-house brainpower through better training are now viewed as keys to achieving increased revenue.