COVID-19 has been an accelerant and a catalyst: Where does foodservice go from here? - by Paul Fetscher

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As you know, there have been many changes to the restaurant industry over the past few years. In 2015, the wage for a tipped employee was $5 per hour. That has now been raised to $12.75 and headed towards $15 per hour, a 200% increase. At the same time, meat prices are up over 20% in the last year. Insurance rates are up 35% - 40%. While the costs of doing business have raised substantially, the actual cost of living 2010 – 2020 has only gone up 1.67% compounded. Needless to say, the ability to pass the costs on to the consumer have not kept pace with the rise in operating costs.

This past year brought government mandated limited service if any.

Many operators successfully pivoted. Some became grocery delivery services. Delivery of alcohol was one bright glimmer of hope in a challenging landscape. Some landlords were understanding and bent their expectations. Others drew a line in the sand and demanded full rents; even when operators were prohibited from serving their dining room guests.

I suspect there's going to be a very long line at the landlord tenant court. Of course, it's better to reach an equitable agreement at the negotiating table. But some landlords will remain intransigent, and wind up losing tenants.

Restaurant operators have fallen into four categories. The first of these is "Grab and Go." Bagels, pizza and even some taco operations fall into this group. They may be down 10% - 15%. Others are even up in sales. They can tighten their belts and they are far from devastated.

The second group is the "Fast Casual." If they are dependent upon lunchtime office trade, they may be down 20% - 40% due to the people who aren't going to their offices. Many of these have pivoted well with third party delivery services. Others are suffering the ravages of devasted offices. I understand that 40% of all office space for lease in Manhattan is available on sublease. Many offices have found that working at home cuts down on commuting, and actually can wind up as being more productive for workers. It will be a long time, if at all, that offices return to believing that the best way to work is in the office Monday to Friday; 9:00 AM – 5:00 PM.

The third category is the "Sit Down, Full Service" restaurants. The TGI Fridays of the world have had to maintain “social spacing” in their dining rooms. However, their normal “social gaggling” at the bar is no longer acceptable or even legal. Their sales may be down more than 40%.

The fourth and most profoundly impacted are the “White Tablecloth” restaurants. In Manhattan, these restaurants are highly dependent on business travelers and tourism, both of which have evaporated in 2020. It may be a very long time before New York City again sees 64 million tourists gracing our sidewalks. These purveyors can still produce food and manufacture meals. While other midscale operators have boosted their takeout and delivery, white tablecloth has had a great challenge. When was the last time most people ordered a $75 takeout meal for one?

Also, in the fourth and most devasted category are the caterers. A 50 person maximum for events? Imagine bride-to-be having a bridal shower for 50 friends – and then having to tell half of them that they can’t come to the wedding!

So exactly how does the foodservice industry adjust to such factors? For one, numerous food service operators have pivoted from full service to Fast Casual. More than one operator has found that by dismissing their floor staff, and having people come to the counter, they have minimized ticket times, limited front of the house labor costs, and increased profitability.

Ghost Kitchens have emerged as a rapidly growing segment. So let’s see, if we can have half the capital expenditure, occupying ? the space, and paying 25% of the rent, isn’t it easier to turn a profit?

A restaurant is a meal manufacturing facility. To be more precise it is a warehouse, storage, preparation, cooking, assembly and sales facility. A Ghost Kitchen doesn’t have the need to have three times the space to accommodate patrons to consume three times the space and to be in a premium location in order to generate walk-in customers? Is there really a need to have on premises consumption now that we have trained the consumer to simply call or use their app to get Uber Eats or Door Dash to bring them food?

COVID-19 has been both an accelerant and a catalyst. Our industry has evolved years … in months. Paper costs are at an all time high, due to the exponential increase in “To Go” orders. We have fewer people front of the house. We have third party deliveries increasing day-by-day. Full service is morphing to Fast Casual.

Politicians are raising minimum wages which basically have operators paying more for no increase of goods or services rendered from their staff. As Norman Brinker observed 76% of all employees in foodservice are not the primary wage earners in their families. Tipped employees have always earned more from tips than from base salary. But politicians can earn more votes, at the cost of the restaurant operators.

The year 2021 will reward those who have pivoted well. Foodservice will continue to generate jobs. We can remain hopeful and rest assured that there will be a way to survive, and even thrive, as long as people continue to have an appetite.

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