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HOW TO LAUNCH A CONCEPT

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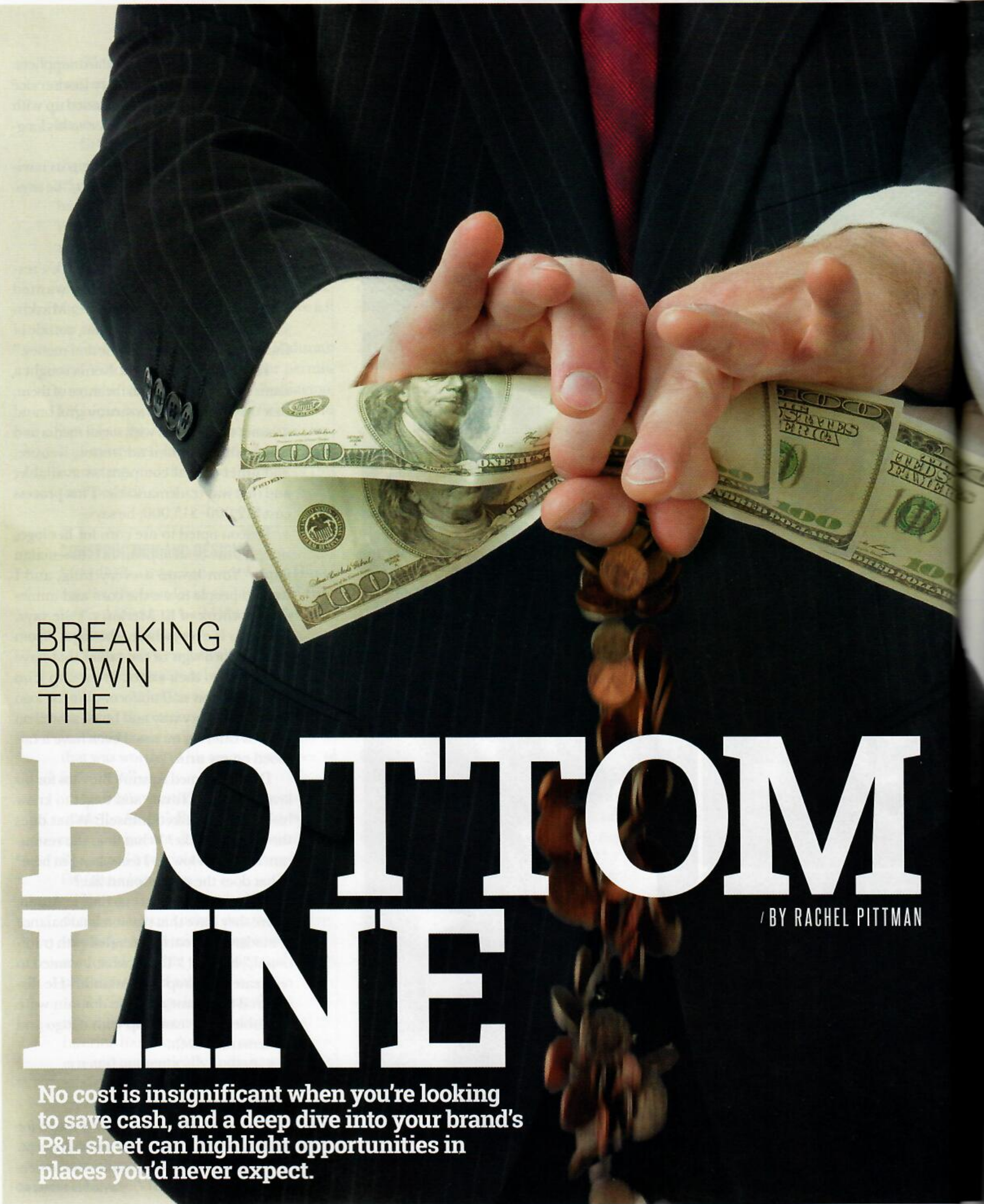

BREAKING DOWN THE BOTTOM LINE

/ BY RACHEL PITTMAN

No cost is insignificant when you're looking to save cash, and a deep dive into your brand's P&L sheet can highlight opportunities in places you'd never expect.

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In order to cut your costs, you have to know your costs. It's typical for operators to complete weekly or monthly profit and loss sheets—P&Ls for short—but it can be easy to overlook nooks and crannies where dollars are being drained.

The concept of doing a P&L sheet is simple: Operators add together sales from all revenue streams during a certain period (including in-store sales, delivery, catering, and even brand merchandise) and then subtract their costs of goods sold (COGS), labor costs, and operating costs during that period for a final bottom line. It's a straightforward way to stay alert to the gains and losses of your brand, something that New England Consulting Group (NECG) founder and CEO Gary Stibel says operators should be doing 100 percent of the time. "This is a tough business. We consult for a lot of different brands, some restaurant brands and some who are outside of the restaurant industry, and this industry is one of the most difficult. You have to do a P&L on a regular basis, whether it's weekly or monthly. You need to be looking at a lot of different elements," he says.

While calculating total sales is the first step of doing a P&L, and a very important part of the process, thoroughly combing through costs is the quickest way to save cash. Costs are an area begging for regular assessment and analysis, starting with COGS—or, put simply, what a brand makes and then sells.

CUTTING COGS

COGS is a massive portion of the overall costs for a brand, encompassing everything from ingredients to product packaging to beverages. This is the cost area where supply and distribution come into play, and where brands can see a dip in their bottom line if they aren't aware of ways to correctly search for the ingredients and supplies they need.

"The starting point with supply chain is with your data, and then the data will identify the opportunities. It's fascinating to see where some brands think they have a deficiency or an area of opportunity but, when we start running the data, we can show them where those actually are, and they can receive almost immediate returns," says Jeff Dorr, chief customer officer of ArrowStream, a company that provides foodservice supply chain software for operators.

As a consultant of sorts, ArrowStream recommends that brands take a good look at every in and out of their supply and distribution process, searching even for seemingly minute phenomena—like continuously crushed produce boxes that damage ingredients—that could be driving up costs.

Dorr says operators often miss valuable opportunities to bundle services, such as contracting with one supplier for multiple ingredients rather than one, or finding a supplier that also distributes an ingredient. Through ArrowStream's software, brands can access a digital supplier marketplace, allowing them to connect with vendors and locate specific items needed for menus.

"We had a smoothie operator that consolidated three product contracts into a single supplier and they saved close to $240,000 on an annual contract. Unless you're looking at your supply-chain operations every day, potentially through a system like ours, it's difficult to find these opportunities," Dorr says.

ArrowStream also recommends that operators dip beneath the surface on their menus in order to save on COGS. Many sourcing teams look at the top five ingredients on their menus, focusing on finding the best price for their most-used items. While this is a crucial part of the sourcing process, going down to the next-most-popular set of items on the menu can bring valuable results; Dorr says there is an average decrease in food costs of about 18 percent when operators evaluate the sourcing of the middle- and lower-tier ingredients on their menus.

For Honeygrow, a Philadelphia-based fast casual specializing in customizable stir-fries, salads, and treats, cost-effective sourcing means keeping ingredients local and keeping the menu focused. "We buy local, especially in the summertime, when so much is in season and costs aren't particularly high. There are a million things we'd love to add to the menu that we just can't because the cost of our ingredients would skyrocket," says Justin Rosenberg, Honeygrow's founder and CEO.

Since the brand's creation in 2012, many of the price ranges for certain ingredients have remained the same. Rosenberg says that items must remain within certain price parameters in order to stay on the menu, and that the brand works to create long-term relationships with local suppliers, establishing sourcing connections that last.

Food packaging is included in COGS, and, with a growing push for sustainable packaging happening in the industry, it's also an area that can get expensive. As a brand, Honeygrow is committed to sustainability, and Rosenberg says he strives to find a balance between environmentally conscious buying and upping costs. "We have to look at what's going to be good for the environment and what's going to fit our budget. To be honest, it would be a lot cheaper if we didn't do things sustainably, but that's not who we are and that's not why we're in business," he says.

Stibel, on the other hand, recommends that brands approach sustainable packaging options with caution. He says that sustainability is an important factor in branding today, but that brands should make eco-friendly changes that are visible to the customer first, and keep quality and value at the forefront.

"In the final analysis, more Americans care about the environment, but not all. All Americans want the food they eat to taste good. Plus, quick service is about value. When looking at sustainable packaging, you have to make sure that it wouldn't force your product out of the price point of your target audience," Stibel says.

LABOR OF LOVE

Perhaps the hottest topic of discussion when it comes to the restaurant industry and costs is labor. Labor costs are rising rapidly, with some cities and states rolling out legislation for higher wages. And it's up to operators to get creative in order to pay team members a living wage.

Mighty Quinn's Barbecue, a 15-unit concept based in New York, has a minimum wage requirement of $15 per hour for its locations in New York City. Partner Micha Magid says it's important to look for areas outside of labor where costs can be slashed, such as kitchen functions that can be automated or schedules that can be adjusted.

"It's really just about figuring out where we can either automate certain functions or curate the menu in a way that it's cost-efficient and creates a good experience for our guests," Magid says. The brand shaved off some of the tasks required for the store to open each day, allowing opening crews to come in a bit later. Magid and other operators have also looked to automation on the vendor side, outsourcing some tasks such as cutting vegetables to suppliers instead of doing it in-house.

Honeygrow has been using kiosk technology to simplify front-of-house operations since its inception in 2012. The kiosks do the job of four human employees taking orders and allow the brand to have team members, not technology, do the back-of-house heavy lifting. Rosenberg says that employees are trained at specific stations in the kitchen, offering them the chance to learn knife and wok-cooking skills that they will be able to use in future positions.

For Moberi, a superfood cafe based in Portland, Oregon, paying employees well is part of the brand's set of values. Founder Ryan Carpenter says price points are kept at a level that allows staff to be paid well, even if that price has to be raised occasionally.

"I think our customers see our happy staff and so they know that our price point is justified. Everybody knows that wages are going up, and I think in a town like Portland, we're lucky enough to be in a place where people really support that and are willing to pay to take care of the staff. It's a tricky line to walk, but so far, it's working out pretty well for us," Carpenter says.

If accommodating rising labor costs is truly killing the bottom line of a brand, Stibel says, operators should look into cutting down on advertising to free up cash for employees. Expensive advertising campaigns can often be drowned out by the plethora of marketing from other companies, leaving brands in the wake of a big campaign with a high price to pay and, at best, a lackluster boost in traffic. "Most of us can't remember what brand the ads are even for after we see them, let alone why they were telling us to go there. It's a huge inefficiency," he says.

OPERATIONAL HAZARDS

Operating costs are the very first concern for a new restaurant. Wise site selection is the first step in reducing the cash needed for operations, as high-priced rent payments and over-spaced stores can significantly bloat your operating costs.

Carpenter started Moberi in front of his house in Portland in 2011, pedaling a stationary bike blender to create the brand's first smoothie. After taking the business from the bike to a food-cart business to four brick-and-mortar cafes, he says that starting as small as possible was the best strategy for getting Moberi off the ground. The mobile sites allowed him to test out the concept in his community before dropping large sums of money, scope out the real estate that would be most successful and cost-effective, and learn how much space his concept needed.

"I don't think we would have survived if I opened up blindly wherever I thought might be a good spot. Waiting for the right place to open up is really crucial. Usually I approach site selection with a budget in mind and then use that price to find the right place."

What's the most important element of site selection? Knowing your brand's objectives. Stibel says that if brands know exactly what they're looking for, they can avoid leasing unneeded space or settling on a location that doesn't work. Renting too much space for a store not only results in unnecessary room inside, but also means that operators pay for the electricity, furniture, and other extra elements needed to fill and operate a large space.

It's also important to consider the nature of the menu offerings when selecting a site. For instance, if a brand is open for breakfast and lunch only, overspacing a store leads to paying more for utilities and furnishings and to paying rent on a building that will sit empty during dinner every day.

"Most of the industry is dramatically overspaced. We tell brands to focus on strategy: Do you want to go into very low-cost real estate with less traffic and more focus on delivery? Do you want to have beautiful accoutrements and a high-traffic store? We usually recommend a bit of both to brands. You need to tailor your plan to achieve your objectives," Stibel says.

Operating costs also include utilities and [CONTINUED ON PAGE 68]

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waste disposal, seemingly mundane processes that can actually add up to thousands in overspending. Experts say that operators should monitor things like electricity and water usage in their stores in the same ways that they monitor those utilities in their personal homes, while keeping guest comfort in mind, of course.

Training the staff to adhere to money-saving utility measures is the best strategy for conserving utilities; Rosenberg says Honeygrow team members are trained on how to use water correctly and suggests using automatic timers for exterior and interior lights to slim down operating costs.

And don't forget to talk trash. Some properties have landlords who take care of waste and recycling, but other brands look for contracts with a waste removal company. When selecting a contract, ArrowStream recommends that brands compare different services. Taking a little extra time can result in valuable cost reduction; Dorr says ArrowStream's smoothie-brand customer that saved by consolidating suppliers also found an extra $50,000 in savings through renegotiating energy, water, and trash-collection contracts.

PAY ATTENTION

In the end, cutting costs comes down to one thing: paying attention. When operators make a routine out of digging into their P&L sheets, it's easier to drastically reduce spending categories.

Itemizing costs line by line in a P&L statement is essentially a deep dive into how a brand spends money, and exploring this spending can help operators decide what to save—perhaps increased spending on sustainable packaging or higher wages—and what to slash—maybe an overspaced site or a high-priced ad campaign. It's about knowing your brand and choosing what deserves some extra cash and what needs to go.

"You have to dive into your P&L and figure out where you're wasting change. There are always opportunities, and there are always ways to save time and money without losing your team, cheaping out on your brand, or cutting down on the quality of your experience," Rosenberg says.

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a separate full-service bar and a private dining space that remain open after-hours. And service style varies from hall to hall; Fulton Galley patrons who want to sample different items visit each stall separately to order, pay, and receive their table number.

Other food halls offer cards that are swiped at various stations, with customers receiving a final total at a central cashier station. And Newer Hogsalt's Astor Hall in Chicago takes this a step further, leveraging technology in the form of self-ordering kiosks where customers order food from one or several stalls, pay all together, and then visit each stall individually to pick up the various items.

Some food halls don't even have four walls and have evolved beyond the point of a physical space; Sous Vide Kitchen in New York is a virtual food hall powered by online ordering, with the ease of delivery as the ultimate experience.

Real estate meets hospitality

Food halls continue to change the landscape of how restaurant and hospitality concepts run their businesses and search for real estate. Take, for example, the Food Hall Co., which grew out of a single concept: Legacy Food Hall in Dallas. The operator has essentially entered the real estate business, with plans to open multiple halls around the country. The company will open its third location, a two-level, 150,000-square-foot food hall and entertainment space, in Nashville, Tennessee, next summer.

"We like to call ourselves a food-hall company that's in the real estate and entertainment business," says Joe Magliarditi, CEO of the Food Hall Co. "The benefits we offer at these destinations is food, beverage, and entertainment that will drive bodies from brunch to happy hour to late-night," he says.

The Food Hall Co.'s model differs greatly from the traditional "land-based" models of most restaurant chains. Instead of establishing units in locations that will hopefully remain relevant or heat up, the Food Hall Co. focuses on the popularity of a location from the get-go, using a set list of criteria for choosing new markets that include population density, proximity to office and residential buildings, and demographics.

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for The Herd and Chicken TWILI, and the third units each for Chingon Kitchen and Rock 'N Fish Grill.

The brewery portion of the hall houses Buzzrock Brewing Co., which is involved with various rock-star ventures including the George Lopez Ta Loco Brewing Co. There are several taps at the breweries' 24-seat bar for customers, and the restaurants also feature bar menus. Brewing takes place five days a week. The breweries, led by a brewmaster who hails from San Diego's well-regarded Stone Brewing Co., are able to create a wide variety of suds, ranging from a tasty IPA to a watermelon pilsner.

The nearly 10,000-square-foot facility (which originally was a mechanics shop) has dozens of parking spots and seating for 65 people indoors, as well as picnic tables on the outdoor patio that will seat another 48. The building's garage doors can be opened for a cross breeze across the entire interior.

The foodservice area takes up nearly 4,000 square feet of the space, and the single kitchen—with 36 feet of hood space—is set up to efficiently supply all the food stalls. Not only will there be one head chef, but specific stations will be manned with as few as one cook each, such as a deep-fry area tasked with making all the stands' fried food, from french fries to fried chicken. The system is simple and cost-efficient, and eases up burdens on labor costs, allowing the brand to meet minimum wage requirements for staff without going over budget. "In 2019, where minimum wage is at an all-time high, we are hoping to reduce labor costs and take the idea to new markets," Zislis says.

In keeping with the growing delivery trend, The Brews Hall also has a designated area for food pickup and one designated delivery parking spot for each of the restaurants, upping the convenience factor of the concept and opening it up to audiences who may not have time to come inside for a bite or a brew.

The collaboration among brands makes sense, Portalatin says. "We will see more developments where back of the house space is shared, and even front of the house space is shared for carryout and delivery," he says. "It's all about efficiency. With rising labor costs and food costs, there's only so much margin to be squeezed out."