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# Menu Re-engineering a Key Post-recession Tool

By Tom Miner

*"...new and significant cost-cutting opportunities lay beyond the potential of existing concepts..."*

## CAUTIONARY SPENDING BEHAVIOR IS THE RESET BUTTON

The current changes in foodservice consumer spending behavior may or may not be permanent. Regardless, we can expect a significant number of consumers to spend significantly less money in restaurants through the next 6-12 months. Through this relatively long term downturn in their foodservice spending, consumers are recalibrating their foodservice needs—occasion by occasion. The cautionary spending behavior sets the stage for an industry-wide, competitive reset—defined as: the competitive response necessary to bring the restaurant industry back to a new normalcy of sales growth and unit profitability. Eventually all stakeholders (especially operators and suppliers) will adjust their approach to suit the new consumers' needs better.

Post-reset restaurant demand will be "off" from pre-recession levels. It makes sense that fewer restaurant units will be necessary, and, for some remaining units, profits will be low—too low. In this environment, competition will be fierce, even more price-driven than the present environment.

When post-recession consumers visit their local restaurants in 2010, their preferences will be altered and will require changed experience levels to meet their altered attitudes and spending limits. In other words, consumers will be less willing to support (at a higher cost) the concept attributes they no longer need. In this view, we will witness an industry-wide waning of "opulent" concept attributes such as 150-item menus, enormous portion sizes, or tremendous footprints. The use of scale or variety as a primary driver will diminish. In 2010, with restaurant visit frequency and per person expenditures down, chain brands may want to reconsider their competitive positioning—the way they relate to consumers vis-à-vis their competition—and "reset" their own position to reflect the changed attitudes of their current and future guests.

## DRIVING GUEST FREQUENCY AND PROFIT MARGINS—AT THE SAME TIME

Through our ongoing consumer research and numerous competitive evaluations, we identify the need for restaurant brands to re-engineer restaurant concept attribution (including all aspects of environment, service, and menu offering) to fit the post-recession needs and preferences of consumers. This re-engineering approach has the added benefit of providing a means for further profit margin growth.

Importantly, the operating margin gains of the past 3 quarters (gained in part by easing commodity prices) have buoyed both bottom lines and stock values, alike. However, new and significant cost-cutting opportunities lay beyond the

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Tom Miner, Principal

*Tom Miner brings over 25 years of restaurant industry experience to Technomic, specializing in brand positioning, promotional strategies, new menu/concept development, operations improvement, and a host of other consulting and research activities including menu re-engineering. Tom also has extensive culinary experience, including over 10 years as an executive chef.*

potential of existing concepts—especially where real estate becomes involved. The easiest gains have been realized. In the next 12 months, operating results will be more difficult to improve.

## COST-OF-GOODS-SOLD "COGS" IS THE NEXT FRONTIER

If today's concepts were already economical—with fewer service aspects and smaller spaces to operate—the labor needed to operate current concepts would require fewer hours and dollars. But the buildings are up and running. The concept shells are set. A retrofit would require more cash. Since existing concepts' operating systems can only shed so much labor before the customers start to rebel, the next-largest and most-likely source of margin cost-cutting will be through cost-of-goods-sold management.

One way to minimize cost-of-goods-sold (and associated culinary production labor) will be to "optimize" the menu offering in ways considered unnecessary or risky just 6 months ago. Through a menu re-engineering process, operators may:

- Identify new, "consumer-approved" menu ingredients, e.g. substitutes for expensive proteins
- Isolate menu item sales strengths and weaknesses to cull poor sellers and "push" high-margin items
- Benchmark the contribution of each item and category of the menu to re-engineer ingredient and labor components
- Refine culinary production to reduce the number of cook platforms from 3-4 to 2-3, or less

Menu re-engineering challenges the current assumptions about the competitive draw of food and beverage offerings, and quantifies the sources of customer spending and frequency, as well as operator profits. This is a classic re-engineering process wherein nothing is taken for granted—all previous assumptions are challenged. Specific goals are top-line, sales-related and bottom-line, profit-related. Given the need for both a thorough competitive reset and further profit margin growth, menu re-engineering will be one of the key tools used by successful chains in 2010. Conducted conservatively, the process is designed to yield better margins and an updated item offering—more responsive to consumers' needs.

## LESS IS NOT MORE

Some of the reduction tactics identified through menu re-engineering have been tried before without success. For example, in the late 1970s casual dining concepts developed the enormous portion sizes that have defied reduction attempts for decades. Whereas returning to smaller portions may not have been successful in the past, in 2010 it may provide the price break necessary to increase the frequency of price-sensitive consumers. Obviously, guests will need to be surveyed then the insights tested in the marketplace. Further cuts to operating costs cannot come at the expense of guest experience—unless the guests sanction them! However, menu cost-of-goods-sold and production labor costs provide a deep source for potential profit margin growth.

*To learn more about menu re-engineering and related initiatives, please contact Tom Miner at (312) 876-0004 ext. 3918, or tminer@technomic.com.*