



State of the Industry Report

2023

Restaurant Recovery, Changing Financial Models, And Future Restaurant Innovation

Restaurant recovery from the COVID pandemic continued in 2022, with an increase in sales across the industry due to a large return of on-premise dining. While a step in the right direction for an industry that has faced major challenges, many operators continued to struggle with profitability due to two major areas: increasing food costs due to inflation and ongoing labor shortages. These two areas, which together comprise of a restaurant's prime cost, have long been obstacles for the industry.

In 2022, record inflation – much due to supply chain issues, oil prices, and the war in Ukraine – was the main driver of rising food costs. Restaurants have responded in a few different ways. Most have raised menu prices, passing off some of this cost to diners. Many

have also simplified their ingredient list and menu offerings to create a leaner approach to their inventory. Tracking food costs more frequently and diligently has become a necessity, as restaurants search for more vendors to meet their inventory needs without sacrificing profit.

Like food costs, hiring and retaining employees has long been a battle for restaurants, which have among the highest turnover rates of all businesses. With over 20 states increasing minimum wage sometime in 2023 –and growing competition with the gig economy for labor–this increase labor cost is expected to continue in the coming year.

The restaurant industry continued to innovate through software and technology in 2022 as well. Restaurant

management software continues to give managers and owners greater insight into their business in real-time and allows their teams to automate tasks to reduce manual work. This trend will continue, as even more solutions enter the restaurant space through robots, AI, and software solutions.

In December 2022, Restaurant365 conducted a customer survey with questions surrounding these topics. This report overviews the survey responses and investigates the strategies restaurants are using to overcome the obstacles of food cost and labor, as well as the ways in which restaurant software has aided the process.

METHODOLOGY

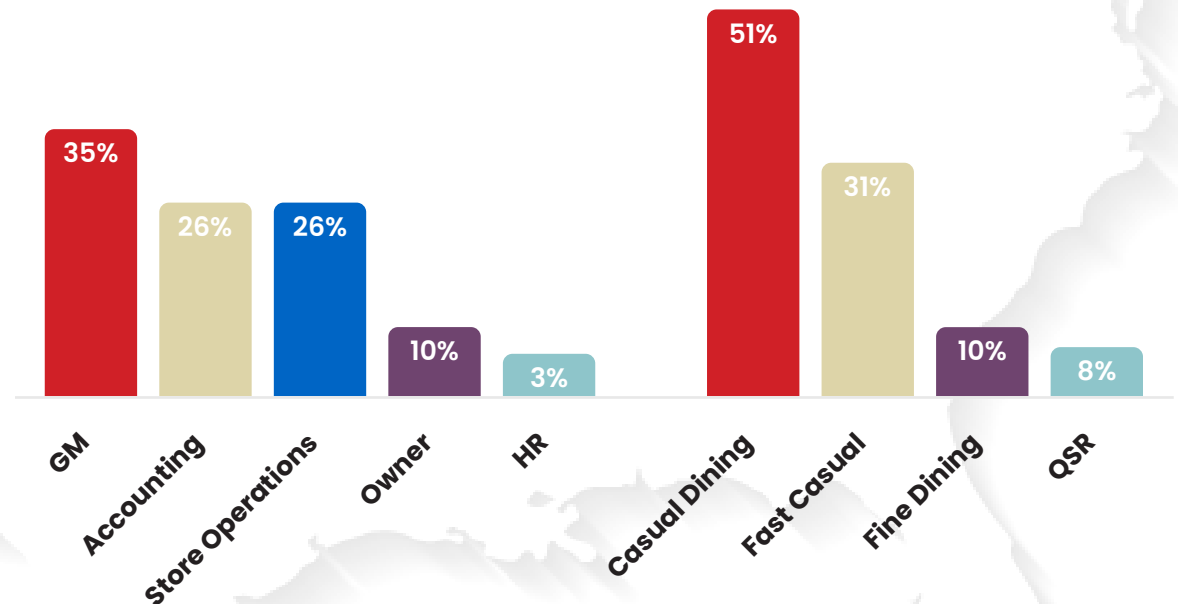
Restaurant365 Survey

In December of 2022, Restaurant365 polled its customers on their experiences in 2022 and their predictions for the coming year. The survey contained questions surrounding food cost, labor cost, menu prices, plans for expansion, and where they will be allocating resources this coming year.

The survey polled Restaurant365 customers cross the United States, with responses coming from multiple service areas and various job positions within the restaurant industry. The survey includes respondents from 49 states, representing ~10,000 restaurant locations.

49
states

10,000
locations



The most represented states in the survey were Florida (9.7%), Texas (9.1%), New York (7.5%) and California (5.7%), with responses from every state except West Virginia. The respondents represent over 10,000 locations across the United States from 587 total customers.



Food Cost, Inflation, And Restaurant Strategy To Combat It

93%

**of respondents
raised their prices
in 2022**

80%

**of respondents
will raise their
prices in 2023**

According to our survey, 93% of respondents raised prices in 2022. Much of this was the result of inflation, and many restaurants have passed off some of the cost to diners. The strategy that has been effective, as consumer spending has stayed strong, but can only be taken so far, especially in QSR where price sensitivity is higher.

The following are the strategies we've seen restaurants adopt in 2022 to help combat rising food costs and keep COGS low.

1 Tracking Vendor Costs More Diligently and Frequently

This might go without saying, but the operative word here is often. While every restaurant manager is tracking costs to some degree, many don't do so nearly often enough. With multiple items changing

frequently under inflation, a daily or weekly check-in to item costs is no longer going above and beyond, but necessary to effectively manage inventory cost.

One way to make this process easier is through inventory management. Many managers still rely on electronic purchase order information, or looking at their previous purchase orders and order guides to see changes. With tools like Restaurant365, real-time prices are pulled automatically into the system for major vendors, making this process take a fraction of the time.

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For any non-proprietary items, you really have to have multiple vendors. And then looking at things like receiving by purchase item on a weekly basis to see if and when you want to move to another vendors. We've used tools like Restaurant365 to gain greater insights into these areas.

Kevin Kruft, CFO
Someburros



2 Be Vigilant To Vendor Errors

Food distributors big and small are prone to errors, particularly with volatile items under inflation. Overcharging is easy to miss when reading through a P&L statement full of thousands of line items. A 2015 study by Consolidated Concepts of 400 restaurants and 11,000 invoices found there to be at least one overcharge for 35% of invoices.

Many of these overcharges are due contracts not being processed or not even reaching the vendor. The problem is largely solved by restaurant management software , where errors and prices changes can be flagged automatically. Managers can also select thresholds on food items to ensure they're never paying over a rate that would be outside of their budget.

3 Consider Wholesale, Local, and One-stop Options

Keeping ingredient quality high and food cost low is a delicate balancing act. One strategy many restaurants are turning to is picking wholesale suppliers who can offer one-stop shopping across all goods. While this can impact quality, restaurants often choose the few ingredients they need to remain high-quality for their menu.

Surprisingly, some restaurants are also turning to local suppliers over national chains to save. With rising shipping costs and supply chain issues, the price difference between the two is expected to shrink.

4 Use Your Data To Drive Specials & Promotions

You'll probably never remove a signature item from your menu, and with good reason. But using real-time food prices can help you strategize for what you'll promote that week or month.

Using social media to promote items to your regulars or more general marketing to larger audiences will always drive certain menu items. A 1-2% change in customer orders can mean the difference of thousands of dollars for even small operations.



The fed took so much action to change the trajectory of inflation and I think in 2023 we'll see the fruits of that effort as prices come more under control. Because of that, and the potential deceleration of consumer spend, I think the market wouldn't handle continued menu-price raises well. Instead, we'll see **larger focus on restaurant cost control measures to make sure those precious sales dollars make it to the bottom line.**

Tony Smith, CEO and Co-Founder
Restaurant365

Restaurant365

5 Menu Simplification & Reduction

From QSR to fine dining, restaurants have reduced their menu offerings as one way to combat rising food cost and inflation. This simplifies not only the number of ingredients in inventory, but also training time, from chefs to waitstaff.

Reducing your menu item offering isn't as simple as taking off a complex dish off the list. It's a complex part of menu engineering, which can be seen in greater detail in our [free guide here](#). While complex items will certainly reduce your inventory needs, they could also have higher margins and order frequency.

Restaurant management tools make this process far more intuitive and a data-driven process. By analyzing your ingredient costs, sales, and profit margins, tools like Restaurant365 automatically identify the items that are not just top-sellers, but driving the most profit overall (i.e. stars and opportunities).

6 Ensure Multiple Functions Of Ingredients

Ensuring that every item you purchase is used in a variety of different ways is a great way to maximize the usage and reduce cost.

Many restaurants have gotten more creative with their offerings by finding multiple uses for the ingredients in their most profitable dishes.



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A lot of our menu items have been altered or removed to ensure that items aren't being purchased as one offs. It's a way we keep individual cost as low as possible by buying shared items in bulk.

Hannah Phillips, Accounting & Operations Manager
Culinary Virtue

CULINARY VIRTUE

Labor Cost, Hiring, And New Strategies To Retain Employees

51%

of restaurants saw hiring and retaining staff as top challenge

75%

of restaurants see their labor cost increasing in 2023

When asked their biggest challenge in 2023, the number one response was hiring and retaining staff. Restaurant hiring has always been a struggle, and particularly difficult in the last two years with more than one million workers leaving the restaurant industry, many for the growing gig economy.

Restaurant labor cost is increasing at an unprecedented rate. According to the National Restaurant Association, hourly wages for restaurant employees grew by 12.1% from February 2021 to February 2022.

Wages and benefits will always be the top way to attract talent, but they're still only one part of the equation. In an employees' market, restaurants are also carefully weighing higher labor costs against the bottom line. With the high

cost of employee turnover, operators are walking a tight rope between optimizing labor costs and satisfying employees' needs. The burgeoning distribution, delivery and ridesharing markets give today's restaurant employees new job opportunities. Restaurant jobs are no longer the only choice for students and other workers with scheduling issues that don't allow for 9 to 5 jobs.

In the following section, we'll investigate some of the ways restaurant are attracting employees amid rising labor costs.

1 Mix Full-time & Part-time Employees

Before considering job postings, restaurants need to consider how many people they're hiring. Many use a ratio of one-third part-time employees to two-thirds full-time employees to reduce labor costs and overtime hours. Using the right mix of full- and part-time employees ensures the right balance of highly reliable with more affordable employees who can perform tasks that don't require as much expertise and commitment from staff.

Restaurants must rely on the availability of part-time workers to maintain optimal staffing levels for peak periods and reduce staff levels as demand decreases, while delivering the same level of service. Part-time workers can effectively pick up the slack when full-time workers are approaching overtime.

Advanced scheduling software can alert managers when employees'

schedules place them in overtime and can prohibit employees from clocking in or out outside of a specified window around their scheduled shifts. So, beyond maintaining a third of your staff as part timers, keep close tabs on your labor hours and set different functional areas of the restaurant separately with individual labor goals to optimize your labor spend.

2 Going Beyond Job Boards

Restaurants must have a strategy beyond job boards to attract talent, where they obtain a high number of applicants, but ones that are often low in quality compared to other sources.

Referral Programs: According to CareerPlug, referred applicants are 18 times more likely to be hired than those from a job board, a huge lift in an industry struggling to find employees. A referral bonus and retention bonus are a great tool motivate employees to reach out to their own networks. More

importantly, it ensures restaurants are hiring people who are, most of the time, the same quality as their existing employees. And, just as importantly, contributes to creating a real culture in your restaurant and increase retention rates.

Career Pages: According to CareerPlug, the average restaurant gets 11% of applicants from their careers page, but those applicants lead to 40% of overall hires. Why? Applicants from your career page are high-quality because they show specific intent to join your business. They're not applying in one click as they scroll through a job board. Take special note of these applicants when setting up interviews

Social Media: Restaurants have also turned to social media to recruit employees. Often made up of your biggest fans, your social accounts can be avenues not just to promote your business, specials, and events, but as a way to find talent.

3 Faster & More-frequent Communication

Communicating with applicants is the next step in the hiring process. As a manager, keep in mind that this is a major part of your first impression with potential employees and shows how you run your business. If you're relying solely on phone calls and emails, you may be missing out on talent.

According to CareerPlug, text messages are opened 4.9x more than email and receive 7.5x more responses than email. Many modern restaurant hiring solutions, like Restaurant365, include texting solutions across multiple platforms. It's not just an easier way to communicate, but insures you're top of mind when you contact applicants

When hiring applications, response speed is just as important. Restaurant operators are 7.7 days on average before contacting new applicants and 14.4 days to hire them. In today's hiring

landscape, where applicants have dozens of jobs available to them, waiting too long means running the risk of having applicants moving on. Modern restaurant hiring solutions allow you to manage these applicants under one system, and track your communication with them.

4 Effective Onboarding, Training, and Cross-training Employees

Employee onboarding is really the final step of the interviewing process. A poor onboarding experience doesn't just lead to ineffective staff but will turn into job dissatisfaction and premature turnover. If you're still relying on printed onboarding forms and training documentation, it may be time to update.

Adopting a digital hiring solution will ensure the process is seamless and allow you to easily track employee progress. Managers and administrators can easily complete their portion of I-9's and other onboarding tasks. Receiving

feedback should be a scheduled part of a new hire's training and needs be delivered as early in the process as possible. If there's part of the process that needs improvement, you should know about it. Don't rely on casual conversation. Make feedback a direct step in the process.

5 Provide Flexible Payroll Options

One advantage of working the gig economy, like rideshare services, is the ability to be paid daily. Restaurants are slowly but surely starting to adopt this option, attracting many workers back to the industry.

Offerings like Restaurant365's Pay365 allow employees to pay employees daily, pay cards for those who don't use traditional banking, and direct deposit. This payroll flexibility has been a huge contributor to employee satisfaction.

Tech Tools, Automation, And Access To Crucial Restaurant Data

17%

of restaurants will spend more on tech and software in 2023

6%

of restaurants will spend more on automation in 2023

Nearly one in five respondents will place additional resources on tech in 2023, a trend that has continued for the last several years. While restaurants see payroll, accounting, scheduling are most important areas for tech spend, the integration of these tools is another area of interest, in order to streamline and reduce time spent in multiple solutions.

1 Full 360-degree View of Data is Crucial to Restaurant Success

Tech solutions should simplify tasks and make your day-to-day easier. But if you're not careful, you can reach a point where you're using multiple systems every day that do one or two things. That means different log-ins, learning different softwares, and it ends up actually not saving you and your staff any time. This is particularly important in the

restaurant industry because there are so many different areas of operation. Your inventory, scheduling, POS, back office, and your accounting — all those tools need to communicate in order to run a successful operation.

Restaurants must start by ensuring everything is communicating under one roof, but the real power of restaurant software is the access to data. The industry has reached a point where restaurants can get real-time reporting on so many areas of the business. What vendor just changed their prices? What are our daily or hourly sales? Getting access to P&L not by the quarter, but by the month or week. This data allows you to make better decisions for your restaurant and make them more frequently.

2 AI & Robots Continue To Enter Restaurant Space

We continue to hear about the multiple uses of AI and robots in every industry, with tools like ChatGPT making multiple headlines over the last year. The restaurant industry is no exception, where AI has been used in multiple areas of the industry, especially for large restaurant groups and QSR. Here are some of the areas restaurants have seen major changes in AI and robots:

Autonomy: robots particularly have grown in use of non-customer facing roles (e.g. BoH, food prep) with the goal to improve order speed and accuracy, using touchscreens, conveyor belts, order-ahead lanes and AI-powered systems.

Live Chat Bots: for high volumes of phone orders, AI-powered phone bots have increasingly taken orders over the phone just as they would with a live person.

Drive Thru Voice Assistant: Many restaurants have experimented with fully-automated AI as drive thru voice assistants. In testing, these AI tools have greeted guests, reliably accepted their orders, and consistently offered upsell suggestions with very few errors.



CONCLUSION

Restaurant Strategies For 2023

Food Cost & Inflation

Record inflation and rising food costs in 2022 forced many restaurants to raise prices, with 93% of respondents raising prices in 2022 and 80% expecting to raise prices in 2023.

To keep costs of goods sold (COGS) low, restaurants have found many areas to innovate. Tracking vendors more diligently and frequently has been effective, keeping vendors in check with each other's prices.

Menu engineering has also been an effective strategy. This process allows restaurants to use data and software to ensure their menu offerings are maximizing their profit margins. They have also reduced menu item options to ensure their items are being used effectively, often across multiple menu items.

Labor Cost

With more than half of restaurants calling hiring/retaining staff their top challenge in 2022 and 75% of restaurants see their labor costs as increasing in 2023, hiring will remain a top challenge.

Restaurants have gone beyond job boards to attract top talent (e.g. referral programs, career pages, social media), returning higher-quality candidates with higher-retention.

Restaurant management software has also been effective at improving employee retention and simplifying employee management. Payroll flexibility (e.g. the ability to pay employees daily) has helped restaurants attract talent and improve retention.

Tech Tools

Nearly 20% of those surveyed will spend more on tech and software in 2023. This includes software solutions for payroll, accounting, POS, back office operations and many other areas.

The power of these tools isn't just in automation and reduction of manual tasks, but connecting your operations under one roof. These tools must communicate effectively in order to give full insight into your restaurant's operation, workforce, and accounting practices together.

Data must also be leveraged in order to make better strategic decisions for your restaurant. Restaurants can use data from daily sales, weekly P&L statements, and inventory reporting in order to better track every area of their business for success in 2023.



**HELPING
RESTAURANTS
THRIVE**

Schedule a free demo of Restaurant365 today.