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Recent Inflation Impacts on the Restaurant Industry, What Are the Solutions?

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ABSTRACT
Since the COVID-19 pandemic, businesses all around the globe have struggled and are still struggling to recover from the damage it caused. Restaurants specifically have struggled to retain customers and employees and stay afloat. Restaurants are also struggling to maintain menu prices at a decent level, while inflation caused and still causes food costs and operating costs to skyrocket. Since 2020, the restaurant industry has witnessed thousands of closures, loss of customers and employees, and bankruptcy due to increasing prices over the years. The purpose of this industry commentary article is to analyze and examine inflation impacts on restaurants in the United States, covering information such as food cost increases, labor cost increases, menu prices, industry statistics, and consumer spending statistics. In the end, this article will uncover the best strategic practices to keep restaurants safe from bankruptcy, closure, or loss of business in the heat of inflation. Research shows that updating menus, researching better-priced supply vendors, bringing in new technology, and adjusting labor and operations hours have significantly contributed to the recovery of United States restaurants from the impacts of inflation.

KEYWORDS
Hospitality, restaurant industry, economy, inflation, United States, supply chain, consumer spending,

INTRODUCTION

The COVID-19 pandemic had drastic effects all over the world, including detrimental effects on schools, stores, businesses, healthcare, families, and more. The hospitality industry specifically in the United States was drastically impacted as well. When the pandemic caused shutdowns and social distancing, many hospitality places such as casinos, hotels, nonessential restaurants, amusement parks, movie theaters, and more were shut down. When these places reopened, many were left with little supplies, money, or staff. Along with this struggle, they were given capacity restrictions that restricted the number of people allowed in one area, room, or location. Restaurant tables had to be sectioned off by plastic guards or placed a certain distance apart. Not only did they face multiple restrictions, but many restaurants had to deal with the cost increases from inflation as well. While trying to attract customers back while complying with restrictions that limited capacity, restaurants struggled to regain the money they had lost and operate profitably.

Inflation is the increase in prices of services and goods in the economy and is measured through a percent change. Inflation impacts what you are getting for your money. The product stays the same in size or ingredients, but the price increases, meaning you're getting the same amount for more money. In April of 2023, the Consumer Price Index was 4.9%, but in June 2022 it was 9.1% (Restaurantware,2023). Although it is getting better, that does not mean inflation isn't still causing significant damage to the industry. The Consumer Price Index shows monthly changes in prices, which are calculated by the Bureau of Labor Statistics. It is a calculation of inflation and deflation. The inflation of 2021 was caused by supply chain and labor shortages. During the pandemic, it was harder for supply chains to revive imported goods, therefore prices to import goods were more expensive, leading to restaurants having to pay more to suppliers to get food orders. Supply chains themselves were also shut down. In food factories, distancing protocols slowed down manufacturing times, leading to companies having to invest in new equipment and employees to ensure safety.

Many restaurants created outdoor seating to adapt to social distancing rules and bring in more revenue, but many lacked the space or licensing to make these attempts profitable. Employee hours were cut to reduce labor costs as well. The restaurant industry relies on revenue and food and beverage sales to pay employees, bills, rent, operation costs, food suppliers, and to make an overall profit. Research shows that there is a direct link between inflation, restaurant failures and bankruptcy. To develop more stability in the industry while dealing with price increases, many restaurants have had to make drastic changes within their day-to-day operations. Restaurant managers struggle to find better-priced supplies and menu prices to match competitors and keep employees while dealing with inflation costs. Forty-two percent of restaurant merchants said that "costs of food and other supplies is ranked as one of their top two concerns." (Doordash, 2023)

The purpose of this industry commentary article is to examine and analyze inflation's impact on the United States restaurant industry and evaluate the industry's current standpoint on regaining balance after the COVID-19 pandemic. This article will then look to offer long-term solutions for the industry.

INDUSTRY CONTEXT

Escalating inflation, similar to what happened in 2021, occurred in the late 1970s through the 1980s. Geopolitical events in the Middle East caused oil prices to skyrocket in 1973 and again in 1979. By the 1980s, prices of raw materials and energy spiked so it cost factories and producers more money to make their products. During the price spike in the 1980s, employees demanded higher wages so they could afford to keep up with the rising prices. The same battle continued in 2023, when companies were not paying employees enough, or employees were not making enough money to keep up with the rise of prices on day-to-day items and activities. This can lead to restaurant employees wanting more stable jobs with better pay and benefits, creating another challenge facing the industry. As for current-day inflation, it began at the end of 2019, when the

COVID-19 pandemic first struck the entire world. During the early months of 2020, countries including America initiated very strict lockdowns. Travel restrictions were put in place prohibiting many people from entering or leaving the country. The lockdown and pandemic caused disruptions in many global supply chains, because factories and producers had to follow strict COVID-19 guidelines, such as six-feet-apart rules for factory workers, stricter sanitation rules, and more frequent cleaning of machines. Fewer workers were allowed to work at one time, as well as having the virus take workers out of work. In some cases, factories shut down completely. These things caused a slowdown in production, a lack of workers, and more, therefore causing factories and producers to charge more for their products.

An article by Fox News shows the before and after pandemic prices for day-to-day items, such as gas. “In Pennsylvania, the highest price residents paid for gas was $5.03 in June of 2022.” Before the pandemic, “according to the Bureau of Labor Statistics, gas in 2020 was $2.39.” In 2023, gas prices had still not fully recovered, as the “average cost of gas in Pennsylvania is now $3.63.”As for food costs, “the average cost of a gallon of milk in 2020 was $3.31. On average in 2023, a gallon of milk costs $4.” (Williams, 2023)

Food prices “generally increase 2%” each year, but they “increased about 11% from 2021 to 2022,” notes an article from the U.S Government of Accountability Office. The pandemic was not the only cause of inflation. The recent increase in egg prices was due to an outbreak of the avian flu, combined with a slowdown in the distribution of agricultural products such as corn, sunflower oil, fertilizer, and wheat caused by the war in Ukraine. (U.S Government Accountability Office, 2023) All of these factors over the past four years have increased inflation, and inflation has had detrimental impacts on the restaurant industry. Not only are restaurants struggling to pay operating costs and salaries, but consumers no longer have the money to pay outrageous prices to dine-in at restaurants.

A research study conducted by PYMNTS surveyed 533 businesses in the hospitality industry in 2022 within six months, asking whether they plan on, or can stay open for the years to come. Nearly 5% of businesses stated it was “less than somewhat likely” that they would continue to operate for the next two years. Six months afterward, the percentages rose from 4.8% to 8.2%, stating it was “less than somewhat likely” they could operate for the next two years. (PYMNTS,2022)

An article on NPR gives insight from a current restaurant owner who states, “It's harder to do business than it was in the pandemic." Not only have food prices increased for this restaurant owner and many others, but other costs that restaurants pay have skyrocketed as well. Rent for this restaurant owner had increased 15% since 2019, and “basic paper goods…. staples, bags, plates, and containers, have quadrupled in price.” This restaurant owner featured in the article states that he worked seven days a week for seven years to open his restaurant after his business barely survived the pandemic. “It's possible that he could end up having to surrender to inflation.” (Smith, 2022) In addition to food, operation, supplies, rent, and utilities, labor costs have risen as well, as it’s costing restaurants more and more to pay employees, and the revenue cannot keep up with rising labor costs. Tenzo article writer Joanna White says “labor costs have been increasing 10% monthly since April 2021.” With these increases, restaurant owners are finding it harder to pay the proper number of employees needed to keep the restaurant open. The article by NPR also states that according to the National Restaurant Association, “90,000 restaurants have closed down temporarily or permanently due to the pandemic” and the restaurants that have made it through the pandemic are “running on razor-thin margins, often as little as 1% of sales.”(Smith,2022)

Not only is inflation of prices among food suppliers rising, but restaurant menu prices have risen as well to keep up as restaurant managers and owners are pressured to maintain their margins. A study posted on QSR states that “full-service menu prices have risen on average about 8.8%” since 2022. (QSR,2023) Consumers no longer have the desire to eat out at restaurants as often as they did, or at all, because they cannot pay the prices restaurants are asking. Not only do consumers not have the money to dine-in at restaurants, but they are struggling to keep up with living expenses as well such as gas, groceries, rent, and utilities, therefore leading to a complete cut or slowdown of restaurant eating. An article posted by Restaurant Dive looked at before and after inflation prices with different restaurants. Chipotle increased menu prices by 14% in a year, and McDonalds by 8%. (Littman,2022) Applebee's prices were raised by 7%, Chili’s by 9% and IHOP by 11% (QSR,2023). Even though quick-service restaurant prices are still rising, many consumers are choosing them over dine-in establishments. Restaurant Dive writer Julie Littman says “visits to full-service restaurants were down 18.2%” compared to 2019. A survey posted on NPR news shows that with rising prices, “restaurant spending is one of the first things people would cut” and many grocery shoppers that were surveyed said that “they've already traded eating out for more cooking at home.” (Smith, 2022) In a survey of 2,169 people that was posted on the PYMNTS blog, the study found that of those 2,169 people, “78% expect to eat at home more often to save money.” (PYMNTS,2022)

DISCUSSION

Through a review of the literature and a study of other restaurant data, there are methods restaurants have implemented to stay afloat, avoid possible bankruptcy and closure, and fight decreasing profit. Dealing with inflation in restaurants will not be easy, but it is not impossible. In an article in Modern Restaurant Manager, restaurant manager Joe Martinez explains his three rules that help him rise above inflation. He says, “Beating inflation in the restaurant industry takes three steps: trimming food expenses, trimming labor costs and growing revenue.” (Martinez, 2023) Aside from Martinez's three-step rule, other establishments are, according to Restaurant Dive, leaning toward creating loyalty accounts. “73% of restaurants with rewards programs found these programs particularly important during these times,” these loyalty accounts provide “diners with discounts" and customers can “earn points through repeat business” (Littman, 2022). For example, restaurants can create a loyalty program, and first-time joiners can receive a coupon for a free appetizer on their next visit, which persuades customers to come back and spend money. At Dunkin’, customers download their rewards app and scan their app on each purchase. Each purchase gains the customer points, and points can lead to free items, including drinks, donuts, and merchandise. Additionally, app members receive free coffee on Wednesdays with a purchase. Along with loyalty programs, restaurant owners and managers are looking for other ways to bring customers in the door with things like happy hour, specials, new marketing, live entertainment, and events (Simplot, 2022).

Another safety measure restaurant owners and managers are using is optimizing menu items. To do this, managers and owners must evaluate each of the items on their menus. The items that are not selling should be taken off the menu, and popular items should remain. After sorting out the popular items, restaurant managers can look at the ingredients.

When looking at ingredients, current suppliers and inventory can be re-evaluated. When collecting data for inventory, the restaurant manager can see what food products are being wasted. If there is a lot of waste with one item, that shows that for the next food purchase, fewer of that product can be bought. If a product during the week continues to run out, restaurant managers can order more because it is a favorable item.

Research can also be done to look at different supply vendors to find ones with a good version of the product at the cheapest price. Martinez states that "Buying locally saves money on transport fees," and he also strives to find pre-cut and cleaned vegetables and meat, which saves him time and money. "The goal is to pay less without seriously compromising the quality of the product." Some vendors have discounted pricing for a bulk amount of a product. Comparing vendor prices can save thousands of dollars for a restaurant. Taking non-popular items off the menu reduces preparation labor for that certain item, meaning there are opportunities to optimize labor. Workers can focus on prioritizing popular items and making them correctly, instead of putting extensive time into unpopular items. Along with this comes correcting labor and operating hours. Fewer workers are needed if fewer items are on the menu, leading to decreased labor costs. Restaurant owners and managers can also use software or point-of-sale systems that show the busiest months, weeks, days, and hours within that establishment. Some software systems have "in-built data analytics that capture vital information on a restaurant's sales and importance" (Martinez, 2023). If revenue is low Monday through Thursday, fewer staff members are needed those days. More staff members will be needed on days when high revenue becomes a pattern. Some software can also show which staff members are taking up the most amount of labor costs. For example, if there are two hourly supervisors on shift on a slow evening and three servers, it would be more beneficial for labor costs to have only one hourly supervisor on the schedule. The software would show that the two supervisors on shift are taking up 45% of the daily labor costs, whereas the three servers, since their hourly rate is lower, are only taking up 10% of labor costs.

Another way to save money is to change the hours of operation. The same software that shows staffing percentages can also show when business picks up and slows down during the day. If a restaurant is open between 10 a.m. and 11 p.m., its revenue does not start to pick up until noon, and then revenue declines around 9 p.m., costing restaurants more money in labor and utilities to stay open during the low-revenue hours. It would benefit the restaurant to change opening hours from 10 a.m. to 12 p.m., and closing hours from 11 p.m. to 9 p.m. This will allow the restaurant to save money on the electric, water, and HVAC bills, and to save money on labor costs as well.

Although consumer reports show that customers are not favorable to the rise of menu prices, most restaurants have no choice, but there are choices on the correct ways to raise prices. Restaurants can consider different types of menu prices, one example being dynamic pricing. This type of menu pricing increases prices during high-traffic times and decreases them during low-traffic times. For example, a beachfront restaurant would raise its prices from May to September when foot traffic in that area is high, and would lower prices from October to April. If a restaurant chooses not to raise prices at all, they can consider making smaller portion sizes. Martinez writes that “each year, 40 million tons of food is thrown out in the US and 40 percent of that comes from restaurants, grocery stores, and food service companies.” Martinez states that decreasing the portion size will save the restaurant money in food purchasing, and decrease food waste. Instead of decreasing food portions or raising menu prices, some restaurants have found safety in discounts and lower prices. With the correct advertisement and deals, in the long run, restaurants have brought in more foot traffic and revenue by decreasing prices and being cheaper than competing restaurants (Nelson,2022). Although restaurants will have to do extensive research and put time and effort into saving themselves, in the long run, these tips may be the lifeboat to a drowning restaurant.

CONCLUSION

The restaurant industry in the United States is dealing with substantial challenges stemming from recent inflation, which escalated during the COVID-19 pandemic. Inflation has presented significant challenges for the restaurant industry, making it a challenge to generate profit and keep establishments open. With the rise in food, utility, labor, and rent costs, coupled with disruptions in the supply chain, these factors have created hard waters for restaurants to navigate.

This industry commentary article has thoroughly examined various aspects of inflation and its impacts. It also covered past inflation issues that affected the United States in the 1970s and ‘80s, and compared them to modern-day inflation. Consumer behavior and spending habits have also changed and were mentioned in this article. Inflation brought consequences to the industry that resulted in rising menu prices, closures, bankruptcies, and severe financial struggles. Research gathered from news sources, the National Restaurant Association, and input from restaurant owners illuminated real-life struggles and situations that are happening within the industry. With 90,000 restaurants that were temporarily closed, or have become permanently closed, those restaurants that survived are doing so on razor-thin profit margins and must find viable solutions.

In response to these challenges, this industry commentary article also offers practical solutions to help restaurants regain balance and stay afloat to gain revenue during these struggling times. Supportive tips included implementing loyalty programs, bringing in new technology for data-driven decision-making, raising or lowering menu prices and portion sizes, and exploring new innovative pricing models.

The restaurant industry must continue to remain innovative and embrace change to be able to adapt to rising costs to be able to survive the possibility of closure or bankruptcy while implementing new proactive measures. Restaurants not only can survive, but possibly thrive by using these methods to weather the storm that is inflation.

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