

# Trends in the Food and Beverage Industry

Restaurants and catering facilities are going through some tough times, and you can take that to the bank, so to speak.



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**F**ROM THE PERSPECTIVE OF A FINANCIAL PROFESSIONAL, we see many of the trends identified in the food and beverage industry as being similar to those in other industries. Operators in every industry are analyzing their costs and protecting their assets. Overall, we see a moratorium on increases, a reduction in staff, more layoffs, increased government oversight and cost shopping on all line items including insurance, rent and product supplied by purveyors.

There are two types of trends that are apparent. The first has to do with the marketing aspect of restaurants, and the second has to do with the financial side of operations.

Restaurants are now becoming more casual and moving toward a less formal atmosphere. The focus is on service and food. Consumers are no longer willing to pay for unnecessary overhead, and proprietors have responded accordingly. Another trend is the solicitation of customer feedback through table cards, e-mail, social media and Web sites. The trend toward customer input has now become the norm. Restaurateurs are encouraging and maintaining a dialogue between their brand and their customers through these platforms. Lastly, although other line-item costs are decreasing, restaurateurs are now spending three to ten times their previous budgets on advertising.

A number of trends have been identified with regard to personnel costs. Among them are wage freezes, raise moratoria, dual positions and prevalent layoffs. Everyone including chefs, administrative people, receptionists, order takers, dishwashers and delivery people are affected by ongoing cost examinations.

There are definite trends with regard to direct costs as well. In an effort to continue delivering the same high-quality food at a lower cost to the operator, the restaurateur is now requesting lower prices from their purveyors for the same products. In order to retain their accounts, the purveyors are lowering their margins and accepting lower prices for the product.

Many times, deals are made in exchange for the purveyor adjusting his margin. In "take or pay" arrangements, the operator agrees to purchase an additional

amount of food from the purveyor, either at the moment or in the future, in exchange for receiving a lower price for the product he needs at the time of sale. The "take" is in the form of inventory, which the proprietor may have to purchase and store until it is needed.

Trends are also seen in big line background costs such as insurance and occupancy. Proprietors engage in comparison shopping and request lower premiums for the same liability coverage they currently receive. Similarly, many proprietors renegotiate their rent or pursue rent deferrals until their facilities are consistently full.

In a zealous tax collection effort, the government continues to insert itself through increased oversight. Hidden revenue is being pursued more vigilantly than ever. High-profile restaurants are vulnerable because they will garner more attention from the media.

Catering facilities face an additional set of challenges, primarily because they rely on critical mass. One identified trend among caterers is forced closing due to a severe lack of bookings caused by factors including increased options among customers/new competition, lowered to disappearing margins, lowered corporate spending and much smaller affairs. Many customers are losing their deposits due to the unforeseen closing of these venues.

A number of trends exist within this dynamic. First, there are fewer bookings in the prime periods. As a result, there are more openings for prime times which translate into additional choices for consumers. Facilities are usually inclined to accept a lower price to ensure the space is booked. Secondly, consumers are waiting until the last minute to book their space, which gives them great leverage with price negotiation.

We are also seeing the size of affairs shrink and, as such, smaller venues are becoming a viable option. Consumers also have become much more critical of the larger venues and are concerned about their stability. Many proprietors have chosen to invest in their properties to give the impression of financial security to potential customers. ■

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