

What's Eating at Your Restaurant Cash Flow (and What You Can Do About It)





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What's going on out there?

The National Restaurant Association reports that one of the key drivers for growth of the restaurant industry is the change in how Americans spend their money on food. In 1955, only 25 percent of American dollars spent on food was spent at restaurants. Today, the restaurant industry's share of the American food dollar has risen to 47 percent and continues to grow.¹

As a result, the restaurant industry as a whole has seen significant growth with sales posting a yearly record high of \$709 billion in 2015.² As a result, 2015 was the sixth consecutive year of positive sales growth in the restaurant industry.

Unfortunately, it's not all good news. The second quarter of 2016 has proven to be the worst fiscal quarter the restaurant industry has seen in over five years. In particular,

June's same-store sales growth was also disappointing at -1.1%.³

While we've seen consumer confidence increase in the US, due in part to gains in the jobs market, uncertainty about the global economy and the upcoming general election in the United States, is starting to cause hesitation when consumers go out to spend money.

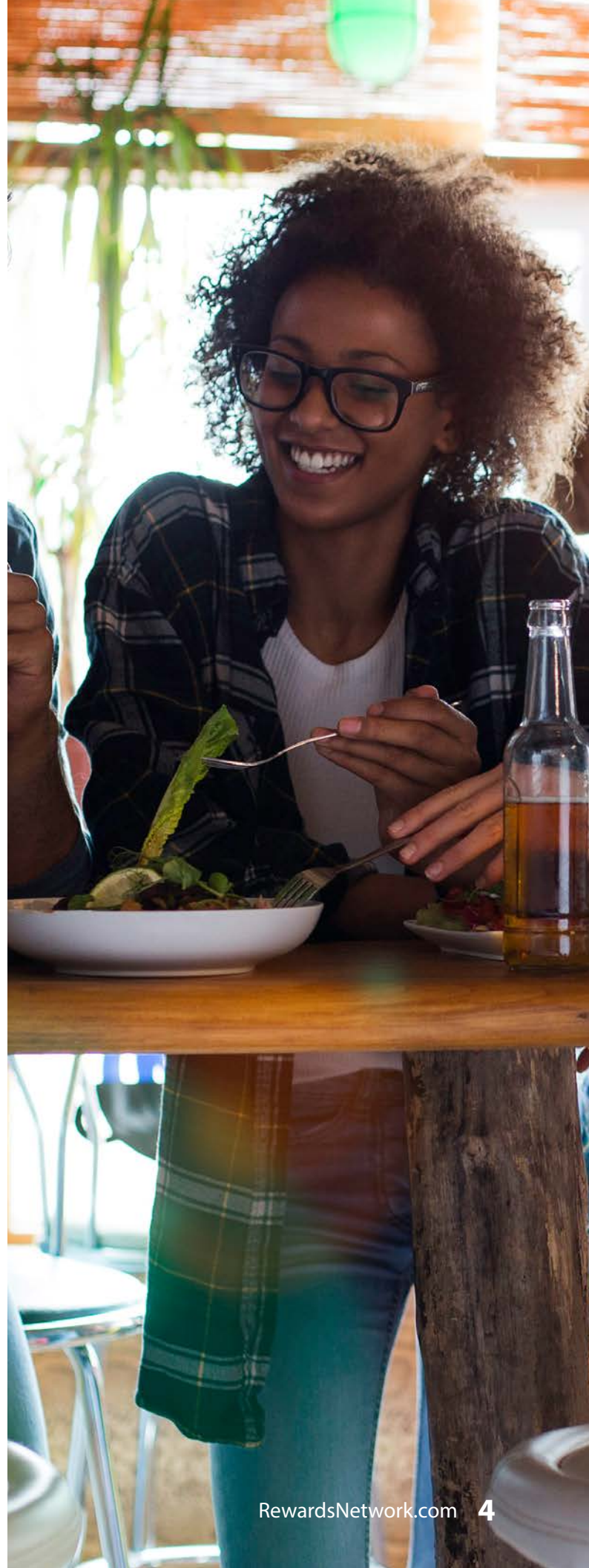
Not every type of restaurant is affected equally, of course. Pizza franchises in particular seem to benefit most when other restaurant segments and food choices lose revenue.⁴

But overall, consumers are spreading their income across many different categories, and that lack of attention can cause restaurant sales to be sluggish. A lot of

businesses are feeling that pinch in their cash flow already.

It's times like these when restaurateurs need to fall back on what they can control in terms of cash flow. You may not be able to single-handedly change the economy, but you can control costs and open up new streams of profit for your restaurant.

What follows is a step-by-step look at the economic challenges your restaurant is likely to face in the coming months — and some ways to control and offset them to protect your cash flow. We begin in chapter one with **expected costs**.



Expected Costs

When you have a great month or two or another financial boon, your first instinct is probably to invest those extra funds right back into your business. But very few entrepreneurs want to spend money when times are tight. The reality is, some costs are unavoidable, positive cash flow or not, in order to keep business running as usual.

Because restaurants have so many moving parts, how can you know which parts need your attention the most — especially when cash flow is restricted? Here are some of the expected costs that restaurants may need to budget for this year, whether money is tight or rolling in like thunder.

An EMV-enabled POS System

Have you been putting off upgrading your point-of-sale system to take EMV-enabled credit and debit cards? It's easy to put it off, right? I mean, your current system isn't broken, so why not just forget about the EMV chip, right?

But the fact is that businesses not embracing EMV technology may potentially be liable for certain types of credit card fraud that occur when an EMV reader isn't used on an EMV chip-enabled card.⁵ So why take that chance? Upgrading to EMV technology will protect you and help ensure you are compliant with the current requirements — plus you're helping to protect your customers at the same time!

A Nutritionist

Updating your menus to include nutritional information is going to be important to you in the next year, and it's no easy task. Many restaurants will be required by law to display certain health information on their menus by May 5, 2017. Restaurants that aren't required to display this information may still face heightened scrutiny from consumers when the law goes into effect.⁶

Being upfront about nutrition sends a message to your consumer base. Consumers want to feel that they can trust you and updating your menus to reflect that transparency can make a huge difference for your reputation in the community. Hiring a nutritionist to record and report on all the data you need for your menu is one sure way to get that information updated in time.

New Menus

With the need for reporting nutritional data, there will also come a need for reprinting menus. But there are plenty of other reasons you might want to put money into reprinting your menus. Your menus are used all day, every single day. No matter whether they're paper, laminated, or encased in plastic covers, they're eventually going to start looking worse for wear.

Replacing menus (and any plastic covers) when they start to get dirty or ragged will help make your whole restaurant look clean and professional. This goes double if menu items or menu item prices have changed – just putting tape over discontinued dishes or old prices is not going to cut it, especially when diners can start to peel the labels away to see lower prices underneath.



Any business not embracing EMV technology can potentially be liable for any credit card fraud that occurs when an EMV reader isn't used

Glassware or Plates

There are so many ways your table settings can dwindle over time. Plates brake! Glasses get scratched! Cups get chipped! These things are bound to happen in a restaurant, no matter how careful your servers, bussers, and dishwashers are.

If you're running tight on glassware and flatware, consider putting some money down on new sets (hopefully in the same style as your current set so you can simply add to what you still have). You'll have what you need for full service, and not have to disrupt your kitchen staff with an emergency wash if stock starts to get low.



Safety Materials

Is your kitchen up-to-date on all the safety materials necessary to keep your employees safe — not to mention protect your customers about to eat your food? Refill or replace these items as needed, particularly floor mats, protective cut gloves (both full

hand and finger kept in full supply), and fully charged fire extinguishers.

Make sure your first aid kit is fully stocked. Investing in ongoing sanitation and safety education for your staff can also help ensure that the safety materials are being used properly.

Try different methods of advertising for a few months at a time to see what works.

Marketing

Expanding your marketing reach is something great restaurateurs are doing all the time, but that effort definitely costs money. Try different methods of advertising for a few months at a time to see what works. Give yourself the space to experiment with various marketing outlets instead of playing it safe with the same advertising you've always done in the past.

And whether it's through paid social media, print ads, radio promos, or updating your website, try to promote special events like Happy Hour, summer events, and holiday party opportunities. You'll find that offering a specific value in your marketing will resonate with potential customers much more than just a standard brand communication.



Not every expense is absolutely necessary; however, some can be avoided entirely.

Food Prices

Food prices can be cyclical in nature, but odds are, something is always going to be up and something is always going to be down. Until this year, the price of eggs had been exorbitant because of the rise of avian flu. Now, prices are finally stabilized at a much lower rate.

Today, chocolate prices are rising because of agricultural availability, and many restaurants are feeling a pinch that probably isn't going to go away any time soon. But if you have desserts on your menu featuring chocolate, lean in and make them stand out. Order high quality chocolate for your more decadent dishes and make those desserts the highlights of your menu. Suddenly what could be a hindrance becomes a centerpiece of your restaurant's brand.

An added bonus is chocolate's durability as an ingredient. Unlike most of the ingredients you order on a regular basis, it doesn't have to be used right away. So yes, you are ordering a luxury ingredient, but it's not one you absolutely must use within a week or even month of delivery. If you keep it sealed and stored in a dry, cool area of your kitchen, certain types of chocolate can last for a year before you need to use it. Even opened chocolate can retain its quality for months as long as you reseal the package and keep it properly stored.

Not every expense is absolutely necessary, however. Some can be avoided entirely — or at least reduced through proper planning. In the next chapter, we explore seven **variable costs** that restaurants face, rain or shine, and how to minimize their impact.

Every businessperson knows you have to spend money to make money. But that doesn't mean spending unnecessarily. Part of navigating your budget — especially during down times — is knowing which expenditures are necessary and which can be avoided with careful planning and preparation.



Chapter

Variable Costs

There are plenty of variable costs and profit sucks hidden in your day-to-day choices, and knowing where the avoidable ones are (and how to spend wisely today to avoid bigger expenses tomorrow) can make a big difference in the long-term success of your business.

Equipment Maintenance

Yes, it's tempting to set it and forget it, but don't just think about your equipment when it's broken. When you have so many other bills to pay, regular equipment maintenance can go by the wayside. However, the cost of routine maintenance can ultimately save you money. Not only does it cost a lot to repair a major piece of equipment, but imagine how

much it slows down service to be without that equipment for several shifts (if not longer).

And if lack of maintenance results in having to entirely replace the equipment much earlier than anticipated, that's just more hurt to your bottom line that proper care could have helped avoid.

Energy

Understandably, business owners often want to hold onto their existing equipment until the very last moment of its lifespan. After all, "if it ain't broke, don't fix it," right?

Well, just because something is running doesn't mean it's running the way it should.

If you have older equipment models (especially big pieces like your ovens and fryers), you could be wasting a lot of energy. Earlier models often weren't built for maximum efficiency and in some cases, older machines simply don't run as well as they used to.

In either case, keeping inefficient equipment around adds up to higher utility bills for your business, which can have a major impact on your bottom line. With all the technological improvements made to kitchen equipment in the last ten years, maybe it's time to finally upgrade to a brand new, energy efficient model.



Throwing out what was perfectly good produce or protein just a few days ago means having to reorder to make up for the loss down the line. This is literally like throwing away money. If you use ingredients in the order they come in, you can often avoid that waste.

Waste

Speaking of waste, it's not just spoiled ingredients you need to worry about needlessly throwing away. When it comes to preparing ingredients — from chopping onions to trimming beef to filleting fish to slicing tomatoes — there will always be some usable product that gets cut away with the onion root, beef fat, fish bones, and tomato core. You can minimize it by going stem-to-root or nose-to-tail with some of your recipes, but it's likely impossible to eliminate ALL waste.

The problem arises when your kitchen staff starts regularly cutting away too much of the usable product and throwing it away



Inventory

The FIFO (First In, First Out) rule is incredibly important to the success of any restaurant. Its directive is this: ingredients that have been there the longest need to be used first. Why? Because the oldest of any one ingredient is the one closest to spoiling.

with the waste. That's when you start running out of that product much more quickly than necessary. Your purchaser will be forced to buy more of it more often, and pay for more than you would have needed with just a little bit of extra attention and care.

The solution? Proper preparation training — not just when your staff starts working in your kitchen — but consistently throughout their time as your employee. Make sure everyone is on the same page, today and every day.

Portion Size

Similar to throwing away usable ingredients, line cooks offering too much of any one ingredient or preparation in a dish also amounts to waste. Maybe it's slicing steak portions a little too generously. Maybe it's letting the mashed potatoes pile over the rim of (rather than just fill) the scooper. Maybe it's adding eight asparagus to a plate instead of five. And for your bar area, maybe your bartender overpours by a few seconds.

This seems like a small thing, but remember that your menu items are all priced out to reflect the cost of their ingredients. If your kitchen (or bar) staff consistently serves portions too large, then you're effectively giving food away. As with prepping the ingredients, it comes down to proper portion training. While a little leeway is assumed (if there are five asparagus on the entrée and one asparagus is a little small, adding a small sixth one isn't going to break the bank), instill in your employees that consistency is key.

Employee Comps

It's just good sense to offer a complimentary meal (or at the very least, a discount on meals) to shift employees. It's a great way to support your employees and make sure they keep their energy up during work hours. It also encourages them to get to know your menu in a more direct way.

You should calculate a certain amount of complimentary food into your budget, and monitor its use. If some employees are taking more than their share of comp



If your staff consistently serve portions too large, then you're effectively giving food away.



meals, that's going to impact your bottom line. Handle the employees who abuse this benefit the same way you'd deal with any other behavior issue among your staff.

Server Error

When it comes to food mistakes, it's not just the kitchen staff you need to watch. Incorrect orders or misunderstood table requests can cost you dearly. For one, incorrect orders that can't be fixed on the fly could require you to throw the food out and make the plate again.

But even if it's simply fixing the food already on the plate (for instance, putting the steak back on the grill because the guest asked for medium and they got medium rare), you're adding more time onto that ticket. And more time per ticket could potentially lead to fewer overall table turns. That costs you money, too.

Of course, everyone working in your restaurant (including you) will make a mistake at one point or another. As a manager or owner, you should be assuring your servers that they won't get reprimanded for one error on an order. After all, creating an environment where your staff is constantly nervous they'll make a mistake will only lead to them being distracted — and possibly making even more mistakes.

However, if you are seeing the same mistake being made over and over and it's causing dishes to be redone (and food to be thrown out), then it's time to have a discussion with the staff member involved and work on updating their training.

So, with these expenses and more in your near future, how can restaurateurs hope to balance out costs with **increased profit**? We have seven great ideas for your business, and chapter three details how to use them to take your restaurant to the next level.

Solutions

Figuring out new ways to increase your restaurant sales is a big part of what it means to manage your cash flow and turn around negative results. But identifying profitable ideas that organically build on your existing brand isn't always easy.

You never want to expand with new opportunities at the expense of your core business — or the relationship with your solid customer base. Finding a way to improve your cash flow, not simply shift your existing business to a larger pool temporarily, respects your success to date. And it will help you maintain trust with your existing diners and staff, too.

With that in mind, we have assembled seven ways to expand your restaurant profits — and thoughts on how to implement without undoing any of your hard work.

Limited-time offers

One of the easiest ways to introduce something new to your restaurant's routine is the LTO — the limited time offer. Controlled in its scope, a successful LTO can be anything from a single dish to a full, additional menu, so long as it feels unique and fleeting. It's not enough to just conceive of a new dish.

That FOMO ("fear of missing out") sense of urgency your customer feels must be developed through advertising, whether external (signage, ads, window posters) or internal (upselling by staff, table tents, menu inserts). Otherwise, your LTO is just another menu item that could easily be overlooked.

Your LTO can be a discount opportunity, but it doesn't have to be. Simply offering something that incorporates a new seasonal

ingredient or combines two things your customers haven't seen on your menu before can generate enough interest for success. Just be careful that your pricing covers any additional expense generated from going outside your usual repertoire, but still works for the market you service.

And who knows? If your LTO is profitable, it may earn a rotating place on your menu. If it isn't, your commitment is as limited as the offer itself. But no matter what, stick to your guns with an end date. It's part of what makes the opportunity special.

Buffet

Adding a weekend brunch (or other special occasion) buffet can seem like a profit loser at first glance. All-you-can-eat is a frightening prospect when planning out prices and cost, not to mention ensuring that your prevailing brand doesn't get diminished. That said, there's a wide range of restaurants that host buffet-style serving, from casual to fine dining, and there's a reason for it — buffets are profitable.

Your typical buffet offering works best when you keep a few key tactics in mind. Pre-cut sizes for proteins encourages smaller portions of your most expensive items. Customers will often self-police the amount of any one item they take — if for no other reason than to leave room for sampling as many different items as possible.

For the guest, buffets are an opportunity to experience everything you as a restaurant have to offer. For you, it's an opportunity to offset a few high-cost food items with many more at a low cost (potatoes, breads, pasta) at a premium price for the experience. And even if your buffet price is in line with your normal menu, the opportunity to upsell high cost liquor in drinks not already included in the price, like a mimosa or Bloody Mary, can take your Sunday brunch from average to exceptional in sales.



7 Ways to Expand Your Restaurant Profits

1. LTO
2. Buffet
3. Happy Hour
4. Party rooms
5. Catering
6. Products
7. Rewards

Happy Hour

Increasing your restaurant sales can be as simple as identifying slow periods during your standard operating hours and finding something compelling to fill those seats back up. Happy Hour has long been considered one of the most recognizable ways to draw in more customers in the post-lunch, pre-dinner lull of early evening. Offering drink specials alone can definitely be a draw for your regular customers, but it also might tickle the fancy of an entirely different set of diners.



Just be careful that your state doesn't prohibit limited-time alcohol deals. If it does, don't panic. A unique small plates menu offered only during certain hours can be as much incentive to stop in after work as drink specials. And if you plan it carefully around ingredients you already stock, the cost for adding a small plate menu to your kitchen order should be minimal.

Party rooms

Speaking of events, one surefire way to increase your restaurant sales without disturbing your core customer experience is to host larger parties in a separate room. Investing in the physical build-out necessary for the room to feel private can be a large upfront cost, but the long-term profit you'll see from the ability to manage events is considerable.

Private parties can be offered a limited service menu to order from, helping your kitchen control costs and limit being over-taxed with too many different orders that need to arrive simultaneously. Since party rooms are typically booked in advance, your chef will have advance warning about the amount of food they'll need to stock and prepare, limiting unnecessary waste.

And hosting large parties in an enclosed space helps control staffing as well. Buffet or family-style serving will limit the number of servers necessary to keep these important guests happy. Since larger parties tend to be faster to manage than multiple tables of the same total number of guests, you'll be able to handle more guests over the course of an evening shift. All that aside, party guests tend to consume more food and beverage

Hosting large parties
in an enclosed space
helps control staffing.



than your typical impromptu guest, which can turn into more profit for you.

Of course, word of mouth recommendations from party-goers can be very positive for your reputation overall, and it's easy to see how party-goers can turn into regular customers as well.

Catering

Another avenue for increasing restaurant profit apart from your normal restaurant experience is building out a catering menu and service. The opportunity to build your reputation through word of mouth and positive experiences both in and out of your restaurant is tempting. So too is the ability to prepare food with advance notice on a set budget and for a predetermined number of guests. But every profit-generating opportunity also comes with a price.

Catering can be an intense burden on your existing staff and, as a manager, it falls on you to keep these two tracks of your business from disrupting each other. It also requires an investment in additional equipment, reliable transportation, and — quite possibly the most important part — a salesperson. Having a single person committed to each event, from initial appointment to contract review to execution, is critical.

But despite the upfront financial costs, adding catering to your restaurant's repertoire can lead to better exposure for your restaurant and an additional steady stream of income, especially around holidays where you may see fall-off in your dining room service.

Products

Do you have a salad dressing that your chef makes from scratch that gets consistent raves? Has your dessert chef come up with a hot fudge sauce customers come in just to try? If you have a special recipe like that, it might be worth jarring and selling part of your restaurant's experience for customers to take home with them.

Packaging products for sale can be a big investment for your restaurant, but it's important to remember that it's ok to start small. A small shelf next to the cash register or Maître d' station can be an easy start to product extension. The larger your vision, the more careful you'll want to be about the resources you expend to support it. Your chef has a full time job already in managing your kitchen. Jarring dozens of house-made jams a day is likely not feasible.



Whatever you do, however, just make sure it stays on brand for your restaurant. Remember, it's called "product extension" for a reason. What you sell should extend your reputation and your customers' interest, not replace or diminish it.

Rewards Network program restaurant Davio's started their product line by packaging their Philly Cheese Steak Spring Rolls and selling them in local grocery stores. Now the spring rolls are available in three varieties (original, plus Buffalo Chicken and Mac & Cheese) at 4,000 stores around the country.

Rewards

In today's world of personalized customer experiences, rewards of choice are becoming increasingly more important to drive behavior. Rewards can be earned to offset travel costs, college tuition, and retail purchases – whatever the customer's personal goal. Rewards are really about the consumer, and what they want to earn, not about the restaurant and what they want to give.



Thank You

Conclusion

It's about cash and customers

Rewards have become a way of life for many – and the results for restaurants can be considerable. A program like Rewards Network can add more profit to your bottom line because it drives in loyalty program members who spend 25% more per check on average than other customers. If you haven't already, it may be time to rethink your restaurant rewards.

When all is said and done, your cash flow can be impacted by a million different things, large or small. Some are predictable. Some are not. Some can be avoided. Many cannot.

But the key is what you do when faced with costs or set-backs to your restaurant's day-to-day finances. Do you respond strictly with cost-cutting measures, or do you double down on strategy to generate more profit to your bottom line?

The savviest of restaurateurs knows that their ongoing success is about both the cash and the customers. By balancing wise operational spending with marketing that actually drives more people through the doors, your business can maintain its foothold in the market and its reputation with its diners — even in the toughest of times.

That's one of the reasons Rewards Network has remained so popular with restaurant owners for over 30 years. In the course of that time, over 90,000 restaurants have benefitted from our unique blend of marketing and financing while simultaneously rewarding their best customers — at no extra cost to their businesses.

Your restaurant gains unparalleled access to loyalty program members from the nation's largest and most loved brands, including American Airlines, Jet Blue, Plenti, Hilton, Orbitz, Overstock, and more. These new customers are driven to dine with you through a combination of email and mobile web marketing, a level of online marketing reach no restaurant can hope to develop on its own.

And the results speak for themselves

Rewards Network members drive an **additional 3-5% of revenue** to your bottom line, above and beyond any cost of the marketing. And what's more, it's a form of revenue that doesn't depend on any additional resources, training, or discounts on food and beverage. They're simply more diners being served by your existing staff, with your current pricing, in your standard mode of operation.

And since all of Rewards Network's program are 100% cash-flow friendly, with no upfront fees or charges, you'll get to see results before ever laying down a penny. In this economy, the opportunity to grow your customer base while preserving your cash flow is too good to pass up.



Endnotes

¹ "2016 Restaurant Industry Pocket Factbook" – Restaurant.org

² "2015 Restaurant Industry Forecast" – Restaurant.org

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⁴ "Restaurant Recession? Pizza Party!" – Bloomberg.com

⁵ "Learn more about EMV" – Chase.com

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⁸ "Shortage is driving up chocolate prices" – Foxnews.com

Want to learn more about how Rewards Network
can help your restaurant grow?

Contact us today:

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