Supply chain takes A LICKING

More burgers, fewer steaks and a tough year for independents

It was a brutal year for many full-service operators. Most experienced guest count declines in 2010 on top of declines in 2009. Independents, which have a larger share of the sit-down crowd, were the hardest hit of all – particularly in B.C., where the increase in tax to restaurant guests from HST has taken an enormous bite out of guest counts. The decline is likely permanent.

That said, there was some good news in 2010. It was a great year for quick-service chains that focused on value. Many grew their guest counts on top of their gains in 2009. What it all adds up to in the supply chain is "more burgers and fewer steaks."

U.S. DOLLAR

If the biggest theme in 2010 was the continued impact of the recession, the second biggest was the continued weakness of the U.S. dollar. Canadian dollars at par are a long way from having to pay $1.40 or more for U.S. currency.

- The lower U.S. dollar has put a huge hole in case volumes lost due to the decline in tourist volume over the past five years.
- Almost everything coming from the U.S. is cheaper. The big question for operators is how much savings ended up in manufacturers' and distributors' pockets and how much in theirs.
- Loblaw, Metro, Sobey's, Safeway and Walmart win when the U.S. dollar goes down. A 10 per cent saving on food cost in grocery can turn into almost as large a percentage saving in the consumer basket. When grocery offers better pricing, restaurants suffer.
- Canada is becoming a more attractive market for U.S. chains. Recent entrants include Five Guys, Panera Bread, and Buffalo Wild Wings.

VOLATILE COMMODITIES

Volatile markets are a big issue every year. There will always be some commodities going through the roof, and some commodities heading for an all-time low. Bacon – nothing more to say on this one. Who would have thought how many menu lines were hit by bacon.

When weather and crop quality impacts produce, case cost can quickly double. Independents are flexible and can shift menus and ingredients quickly; chains cannot.

Forward buying paid off for chains in 2010 that used the savings to hold prices firm when competitors were raising them.

PRICE PRESSURE AND SUPPLY

Large suppliers and distributors were a bit of a sore point for some operators.

- Big chains have put pressure on suppliers to cut price due to the recession; the only customers left to make up lost revenues are the independents.
- Large dominant U.S.-based distributors focus on existing suppliers and their control label product because that is what builds their margin. The result: few slots are available to carry an operator's signature products and few new suppliers are listed.

INNOVATION

"Small bits of creativity" were the rule.

- A recession focuses operators on cost control. Innovation is one of the early victims to fall at the feet of keeping in-bound case cost as low as possible.
- The profit model in supply chain has significant economies of scale for suppliers that stick to their knitting. The result can be a shortage of big innovations in the market.
- Grocery often wins the innovation game because of the volume they buy. Frozen pizza is a great example of how pizza delivery restaurants ended up on the wrong end of the innovation game in the past five years.

VALUE ADDED

Figuring out what value-added service really means is harder in a recession.

- Many operators are still confused by the term "value added" and wonder "what the heck does that mean?"
- Independents in particular, who are suffering from lower guest counts, found the incentive to take the lowest case cost even stronger, regardless of what it might do to long-term profitability.
- Some value-added services drive guest counts and build your business and some do not. This recession year was a good one for big chains to sort out what mattered most.

Other important trends in supply chain include greening, organics, eating local, wholesome foods and the continued mainstreaming of Asia tastes.

This year was a tough one in particular for full-service chains and independents. Shrinking margins put pressure on the cost of goods paid to suppliers. Looking ahead to 2011 it is critical for restaurateurs to remember their supply chain partners impact their guest counts even more than they impact costs.

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