The Hotel Yearbook 2023

The Uncertainty New Normal

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Diversification of restaurant revenue today

Guy Llewellyn
Assistant Professor at EHL Hospitality Business School

FROM RESTAURANT MANAGER TO RISK MANAGER

Prior to 2020, most restaurants had a simple business plan: bring people into the outlet, sell food and beverages, manage costs, and maintain good reviews. While profit margins were meager and survival was far from guaranteed, whether from a counter, serving team or take-away window, restaurant business plans were relatively straightforward. Bar and Restaurant reported that pre-Covid, 90% of restaurants operating in America captured 90% of their revenue from this primary channel.

Post-Covid, many restaurants materially have had to change their operations to diversify revenue streams, and despite the eased restrictions, restaurateurs remain risk managers keen to maintain diversity in their revenue streams, no longer comfortable relying on 90% of the sales coming from the direct sales of food and beverage. Diversifying restaurant revenue is nothing new. The sale of branded merchandise, cookbooks, or loyalty and gift cards have been traditional ways of diversifying revenue streams. Today, however, there are other more modern ways of diversifying.

REINVENTING THE BRICK AND MORTAR

During the pandemic, a restaurant's greatest asset, its brick-and-mortar location, often became its most significant drag; maybe it was in a business district, and everyone was working from home, or its physical space did not allow for outdoor dining or an easy takeaway window. Some restaurants expanded to reduce this risk by investing in a food truck as a mobile second location rather than another outlet.

Food trucks are great not only for festivals or pop-ups, but they face fewer dining restrictions. They do not have to be concerned about closures of in-person dining or limited table spacing from social distancing measures. They could also pivot to residential neighborhoods from business districts when workers are not in the office. Food trucks also provide a rolling billboard for marketing, help branching into catering, and can even provide a space to test new menu items. However, as restaurateurs are coming out of the pandemic, the up-font cost starting at US$50,000 could be out of reach.

Alternatively, restaurants have begun turning to a less capital-intensive way of having satellite operations by utilizing vending machines or local grocery stores and co-ops. Depending on the cuisine of the restaurants, vending machines can provide the same goods, sandwiches, wraps, salads, desserts, etc., that patrons can enjoy in the store; for example, Sprinkles Cupcakes has reported a 100% increase in revenue from selling their cupcakes through vending machines.

Vending machines are not only for quick grab-and-go food and snacks. Stellina Pizzeria, a restaurant in Virginia, USA, operates an Italian vending machine with pasta kits, cannoli kits, and jars of tiramisu that can feed a family of four. Expansion through vending machines can provide the same marketing and name recognition as a food truck, but as vending machines can cost less than US$10,000, they have a lower hurdle to entry and profitability. For restaurants better known for sauces, salsas, dips, ice-creams, and other items that can be bottled, jarred, or frozen, then working with a small local grocery store or a local co-op could both promote name recognition as well as drive revenue.

Another popular idea that emerged during the pandemic was using the restaurant's chef and staff to cater a meal at a client's home with small groups, which was ideal when restaurants faced dining restrictions and the closure of specific meal periods. However, as restaurants reopened and restrictions eased, and the staff was needed back in the shop, this activity ceased. But, having captured the learning and understanding of potential needs and costs, restaurants could consider offering catered dinner parties on slow nights or hiring a team to continue this service.

Alternative to providing a catered dinner party, restaurants offered at-home meal kits that only require the host to give the finishing touches of warming a sauce or reheating the food items before their dinner party. At-home meal kits would not require individual ingredients to be prepped for the client to cook but provide separate meal components with instructions on how to best finish the plate of food. The meal kit market was valued at US$15.21 billion in 2021 and is projected to have a compounded annual growth rate of 17.4% between 2022 and 2023, showing the potential revenue stream available to restaurateurs.

DINE AND SHOP

One way of diversifying revenue that is becoming increasingly popular is to have a retail line business. A popular option is relocating the dry and cold storage to the front of the house and making it available for sale. While restaurants will have the same storage ratio, allowing customers to come in and buy the goods that the restaurant uses will increase revenue for those who desire the products but do not have the time to dine in. Almost all ingredients, from bottled or boxed items to fresh or frozen ingredients, could be available for sale.

The retail portion could also include small wares, cookbooks, kitchenware, and other goods produced by local merchants or related to the restaurant theme. For example, picture a health-based vegetarian restaurant with a small yoga shop. Having a retail business within a physical restaurant may also enable a space to remain open and earning even when restaurants are required to be closed.

THERE'S A GHOST IN THE KITCHEN

Ghost kitchens, i.e., establishments from which food can be ordered but there is no physical place to dine in, are solely for delivery, in-house or third-party, have become a big business. Just Wings, a ghost kitchen brand from Brinker International launched in 1,050 Chili's and Maggiano's kitchens in 2020, was on track to exceed US$150 million in revenue in the first year of operation with an exclusive delivery deal with DoorDash, showing the potential of operating multiple brands through one kitchen.

The ghost kitchen is often complementary to the restaurant's cuisine and cross-utilizes items already on the menu to ensure the culinary team is not overburdened and has the appropriate skill set to maintain the quality of both menus. For example, high-end Italian restaurants could create a ghost kitchen offering lower-priced pasta, paninis, and salads as the ingredients are cross utilized but not overlapping so as not to reduce the value of the dine-in experience.

The ghost kitchen can also be an avenue for leftover food; for example, a barbecue restaurant could have a ghost kitchen selling sandwiches or salads that could utilize the barbecued products from the previous day that did not sell. Ghost kitchens can also use the kitchen and provide products when the restaurant is closed. Restaurants could offer delivery-only menus for breakfast or lunch if the front-of-house is closed during those meal periods.

SPACE PARTNERSHIPS

Smaller operations, or operations that are looking to expand, could consider partnering with a complementary business to open a co-shared space. Having a co-shared space will reduce the overhead expenses for a single company and build a clientele for both businesses. For example, restaurants should consider partnering with stores that fix equipment, bikes, computers, etc., so customers could dine in the restaurant while waiting for their products to be repaired. Co-working spaces and areas that offer lectures and talks are great for promoting the restaurant and providing snacks and drinks that could be enjoyed in the central location. Libraries, retail shops, banks, and event spaces could have the potential as complementary businesses. Restaurateurs should seek out companies that patrons visit for thirty or more minutes, as those businesses can provide captive guests to which the restaurateurs can cater.

As hospitality reopens, restaurants have seen sales rebound from the lowest point in April 2020, in which food services and drinking places in America had monthly sales, seasonally adjusted, of US$31.11 million to 2022, having a monthly average of US$82.78 million through July. While restaurant sales are above the pre-pandemic levels in the US, some revenue diversification measures remain. At the same time, other techniques have ended as more normal business resumes.

Regardless, restaurateurs should consider investing in additional revenue streams, consider diversification whenever they look to expand, and periodically review their ability to pivot on short notice as it is a matter of when, not if, the next event occurs.

AT A GLANCE

WHAT WOULD YOU SAY TO A YOUNG F&B ENTREPRENEUR STARTING OUT TODAY?

Don't put all your eggs in one basket! In other words, beware of basing your business model on the old mono formula of customers dining out just to be served a nice meal. Be creative about the many different ways you can offer a service. Capitalizing on a few other angles will not only make the customer experience more varied and memorable, it will above all expand the way you generate sales and create profit.

WHAT DIVERSIFICATION IDEAS WORK BEST FOR A LOW, MIDDLE AND TOP RANGE RESTAURANT?

Low end: For offerings that don't require heated food, vending machines are a relatively cheap investment and work very well in key locations. Ideal for the 'grab'n'go' clientele all around the clock.

Mid-range: Create a mini shopping outlet with your dry food stock. With produce that usually hogs much of the kitchen area, why not a) liberate some space, and b) make a revenue feature out of it? As long as the products are of high quality and the shop area is made to look as attractive as possible, customers will enjoy the additional activity that makes their dining experience even more memorable.

Fine dining: The sale of cookbooks is a safe bet, along with private kitchen experiences. Top end restaurants often produce meals that cannot be easily Googled, so a tour around the kitchen with the head chef who's ready to share a few 'trade secrets' is tantamount to an exclusive and luxury experience.

WHEN STARTING OUT IN THE BUSINESS, WHAT ARE THE MAIN ISSUES TO FOCUS ON?

Whilst diversification of the offer is key, beware not to go overboard with all the possibilities. Stay focused on the few things you can do well. The main priorities should be your cuisine (coherent), your price points (consistent) and your main concept (clearly identifiable). In brief, stay in your lane, make it as interesting as possible and be realistic about what your customer is willing to pay for.

Guy Llewellyn — Assistant Professor at EHL Hospitality Business School
Dr Guy Llewellyn has spent over a decade in the Food and Beverage industry, working in stand-alone restaurants, hotel restaurants, restaurant groups and private clubs. His research interests include restaurant location decisions, linguistics in menu design, and technology innovation within the food and beverage industry.

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