AFTER THE FALL

Partners in cost control

Operator, supplier relationships are key to bottom-line management

BY RON RUGGLESS

Although prices for many commodities have fallen in the past year, the continuing pressure on restaurateurs' top lines means that the bottom line will keep getting intense scrutiny for the foreseeable future.

That means that the relationship between operators and suppliers will remain critical as operators continue needing to control their costs, observers say.

"Restaurants will be asking their supply partners to take a more active role in driving down costs and providing more value," says Lee Plotkin, president of the L.P. Enterprises Inc. consulting firm in Richardson, Texas.

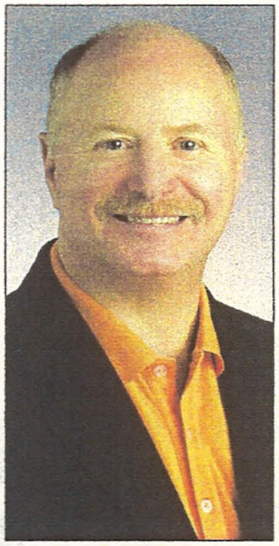
"The suppliers will be asked to take more of a partnership role in providing ongoing solutions," Plotkin says. "Many restaurants are now scheduling regular meetings with the right person at their supplier to look at all aspects."

Peter Gaudreau, vice president of brand development for FreeBirds in Austin, Texas, a burrito chain that just opened its 25th store, says vendor partnerships are especially key in a difficult economy.

"We've been able to develop some strong strategic partnerships," Gaudreau says. "We've got vendors who are like family. With that comes treatment you could only hope for from a partnership like that. We have a meat provider who provides us with our grass-fed beef. We look to them for innovative ideas in pricing. We challenge them, because we are partners, to be sure we are getting the best quality for our guests."

In addition, FreeBirds relies on consultants to provide expert advice, he says.

"They will take an average range on price from coast to coast of the produce that we are using, for instance, and we put that into perspective and then go to our partner-vendors and say, 'This is where we are told we need to be by another partner of ours.' They look at the data and then come together on pricing," Gaudreau says. "From food prices to furniture and artwork, we have found that treating our vendors like family — and them the same of us — we always have greater results."



Commodity Forecast

Trends for the prices of individual commodities are difficult to predict. "No one really has a crystal ball here," says Lee Plotkin, right, president of the L.P. Enterprises Inc. consulting firm in Richardson, Texas. However, he offers these outlooks:

● POULTRY. "It's been a somewhat depressed market. Cheaper corn prices and lower demand have resulted in lower prices," Plotkin says. "Typically, you'll see poultry prices start to climb as next summer approaches. All of these commodities are competing with each other as people aren't eating out as much and grocery store sales [for the first time in months] are starting to be flat."

● BEEF. "Customers that are out there seem to be going crazy for burgers, and we're seeing many new gourmet burger restaurants open," Plotkin says. "As a result, we'll most likely see that driving up prices for chucks and rounds. We'll also most likely see some of the less expensive cuts of meat go up in price as mid-scale and upscale restaurant concepts look for ways to drive traffic. Tenders, ribs and strips are at normal levels, and there will most likely be a bump in price going into the holiday season, which is fairly normal." He says there may be opportunities in the beef market in February and March of 2010.

● PRODUCE. Row crops, such as lettuce, have been flat in price. "However, there have been some heat-related issues for the crops in California, mostly driven by water shortages, and even cold weather at times," Plotkin says. "I believe that we'll see processors increasing their costs due to labor factors and food safety requirements. Potatoes and onion crops are looking good so far for this fall and early next year."

Operators can lock in some deals for the future if they act now, Plotkin advises.

"Have close conversations with your supplier and ask to speak with their commodity experts," he says. "Continue to have dialogue with them and have them produce forecasts and historical data to help you know when to lock in. Use their buying power instead of just your own."

When looking to lock in prices, he adds, have the supplier provide average prices from the previous year on each of the commodities.

"That's the benchmark," Plotkin says. "If you are seeing lower contract prices offered, it may be worthwhile considering taking a position."

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Buyer's market

Falling prices let brands spread their messages far and wide

BY MARK BRANDAU

Marketers have been asking for months which is the best method for reaching customers: broadcast media, with its ability to reach the most people fast in a given trade area, or the low-cost to no-cost new-media methods in vogue, especially social media.

But the question isn't actually which avenue is better, says Tim Hackbardt, principal of marketing firm The White Barn Group in San Juan Capistrano, Calif. Both have their uses, and each brand should strike a balance depending on its situation. The real question, he says, is what's going to drive traffic as the economy improves.

Every brand should explore taking advantage of lower rates for traditional advertising, Hackbardt says, and they should try out some new-media tactics to tap into their database-building power.

"You'd better be talking to [traditional advertisers]," Hackbardt says. "We've tracked rates down 30 percent to 40 percent from last year, and last year was bad. It's a fabulous time to get back into broadcast. There are a lot of brands that should be able to play now. Go out and renegotiate broadcast rates, and if you've never done it before, go see what you can get."

Some new-media techniques, especially

CONTINUED ON FOLLOWING PAGE

Consumers have more screens than ever

Monthly time spent in hours:minutes per user

ACTIVITY	2ND Q 2009	2ND Q 2008	PERCENT GROWTH
Watching TV in the home	141:03	139:00	1.5%
Watching TV on DVR	7:16	6:05	19.5%
Using the Internet	26:15	26:29	-0.9%
Watching video on Internet	3:11	2:12	45.5%
Watching video on mobile phone	3:15	3:37	-10.0%

SOURCE: THE NIELSEN CO.

Partners in cost control

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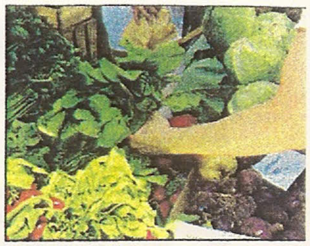
He suggests that operators look at contracting as a way to protect profits rather than as a way to save costs.

"The market for commodities will go up and down, and there will be times when a contracted item looks like a great deal and times when it doesn't," Plotkin says. "However, you can set your price and walk away, and know that you won't have to raise the price to the customer. You can continue to maintain your profit margin and be protected."

Despite the drive to lower costs, Plotkin says many operators are keeping a close eye on how food safety can affect an operation.

"This is an extremely important aspect of purchasing, and we're seeing restaurants take a more educated approach with their suppliers to make sure that they have the appropriate [indemnification insurance] to make sure that they are covered in the event of tainted products or foodborne illness, making sure that they have tracking systems in place to trace the product all the way back to the source, and that those products can be quickly recalled," Plotkin says.



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Operators these days are making sure their suppliers have the right insurance coverage in case of a food safety issue.

With the locavore movement, many suppliers are working with local farmers and ranchers to provide insurance and traceability, he says. That "seems to be more popular in certain areas of the country," Plotkin adds. "I've seen this really take shape in California, Atlanta and a few other regions."

The credit crunch has also taken its toll on purchasing relationships, Plotkin says.

"[Restaurants] that have good credit and pay bills on time are the ones getting [the deals] they want."

— LEE PLOTKIN PRESIDENT, L.P. ENTERPRISES INC.

"Suppliers are taking a closer look at aging invoices, and it may be putting a strain on some relationships," he says, noting that some suppliers are offering shorter terms than in the past and may be diversifying their customer base and looking at the operators' credit risk.

"What I'm hearing from suppliers at the end of the day," Plotkin says, is "the ones that have good credit and pay bills on time are the ones that are getting what they want [in terms of] manufacturer deals, better leverage to negotiate, etc." ■

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