The Food-Service Industry:

Best of Times, Worst of Times

by Alex Susskind

EXECUTIVE SUMMARY

Technology has long been a factor in restaurants' back-of-house operations, but the actual amount of automation depends on the restaurant operator's preferences and, to some extent, the type of restaurant. Technology is now expanding in the front of the house, as part of the service interaction with guests, but again the implementation is uneven and depends in part on the restaurant's concept. Whatever technology is introduced should at minimum not damage the guest experience and preferably should boost service levels. Participants in a recent roundtable at the School of Hotel Administration examined these and other issues in the food-service industry, with a particular emphasis on the entrepreneurial aspects of the restaurant industry. Food service now stretches beyond the restaurant business, as grocery stores have entered the meal replacement sector, and food-kit deliveries are growing in popularity. Changes in the restaurant industry have influenced vendors, whether they offer a broad line or systems distribution. One other issue that is in flux is tipping, as some restaurateurs have eliminated tipping and raised menu prices to balance payrolls throughout the restaurant, while others retain tipping due to customers' price sensitivity.

ABOUT THE ROUNDTABLE CHAIR

Alex M. Susskind, Ph.D., is an associate professor at the School of Hotel Administration in the Cornell SC Johnson College of Business and a member of the Graduate Field of Communication at Cornell University. He earned his PhD in communication from Michigan State University with cognates in organizational communication and organizational behavior where he also earned his MBA with a concentration in personnel and human relations. Susskind's research is based primarily in organizational communication and organizational behavior. He is currently researching: **(a)** the influence of customer-service provider interaction as it relates to organizational effectiveness and efficiency from the perspective of guests, employees and managers; and **(b)** the influence of communication relationships upon individuals' work-related attitudes and perceptions surrounding organizational events and processes such as teamwork and downsizing.

He thanks all of the participants who took time out of their busy schedules to participate in the roundtable, and particularly thanks Rani Bernstein '19 for being the official note taker during the roundtable.

The roundtable "The Food Chain: Path for Entrepreneurs" held on May 10, 2017, was developed by the Leland C. and Mary M. Pillsbury Institute for Hospitality Entrepreneurship.

The Pillsbury Institute gratefully appreciates the support of Susan Guerin, CEO of World Finest Foods, for sponsoring this roundtable.

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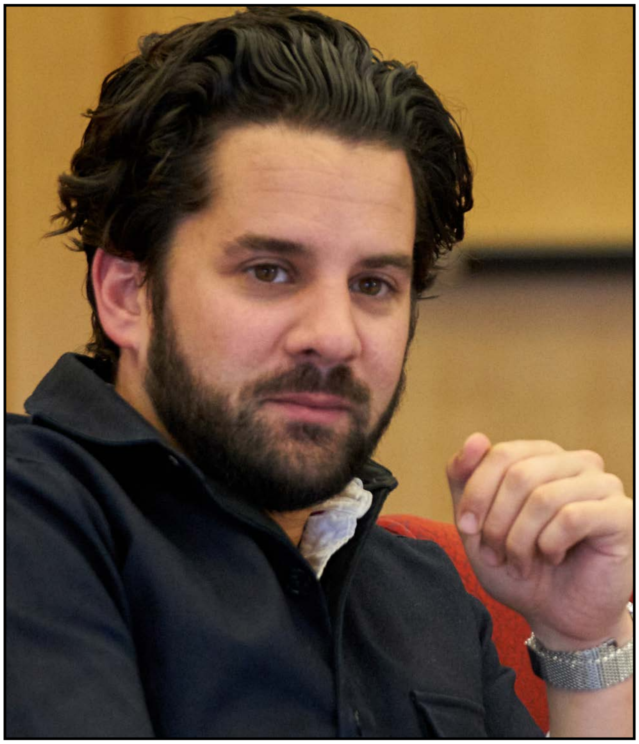
The restaurant business is one of the most fertile fields for entrepreneurs, but few other businesses challenge operators to balance a such broad portfolio of skills, knowledge, and enthusiasm. Participants in this Pillsbury Institute roundtable examined how the business of food is developing and what are key issues of concerns for operators in the restaurant, retail, and supply domains. Topics of interest included the effects of technology at all levels in the food-service business, including operators, purveyors, and guests, and the question of whether to adjust tipping policies. The roundtable also specifically focused on food retailing, and the vast changes caused by new market entries. Food supply system operators are also feeling the effects of changes in the industry.



It's possible to monitor and manage restaurants remotely using carefully chosen phone applications.—*Charles Bililies, Souvla*

Making the Most of Technology

The discussion of technology in food service covered four main topics: automation, data analytics, information system management and integration, and guest-facing technology. Regarding automation it was acknowledged that technology is ever-present. To varying degrees restaurants have implemented point-of-sale systems, reservation systems, labor management and payroll systems, inventory systems, and payment systems. Session co-facilitator Charles Bililies, founder and CEO of Souvla, makes full use of a set of systems in his three restaurants (POS, payment, labor, analytics, guest ordering, and delivery), which allows him "to manage [his] restaurants from [his] phone." He said he carefully examined each operational need and looked for a solution through technology to meet that need. He did not jump in to any one system too quickly to avoid adopting technology that "seemed cool, but did not help [him] better manage [his] restaurants or serve [his] guests." He said that he likes the fact that he can adjust the lights in his restaurants, view current sales data, and check employee schedules—all from his phone—but he emphasized that technology still has a long way to go before it becomes a seamless part of every restaurant. His sentiments were confirmed by the other participants who noted that smartphones are great, but can't fully replace some of the functions operators rely on. Smart managers still need to ensure that day-to-day business can carry on without disruptions, regardless of technology. One concern is the potential barrier posed by legacy systems. Because legacy systems have such a strong presence in our industry, it becomes challenging to adopt newer systems, features, or functions that do not integrate well with these systems. Legacy system purveyors often see new options for restaurant-related technology as a threat, while their customers (restaurant operators) see only opportunity. The participants mainly agreed that this large divide will eventually work itself out. Meantime, independent operators or those with just a few units now have more technology choices than they did before companies like Square or BentoBox hit the market and have proven themselves as viable solutions.

Automation is expanding in many restaurants, but most participants feel that technology will not completely replace humans. Clearly, technology will play a much larger role going forward in some segments. For example, quick-service chains use automation all the time, as in the case of a worker at McDonald's who presses a button and receives a ready-made cappuccino. To say the least, that is different from how a Starbucks barista makes a cappucino. That same McDonald's employee takes a bag of fries from the freezer and puts them in a fryer basket and presses a button. The fries descend into the hot oil and cook until done as determined by a timer that beeps when the cycle is done. Then the fryer basket rises from the oil automatically. Having guests enter orders and pay for their meals without the use of staff members is gaining ground in quick-service and fast-casual restaurants, but we still need humans for some things, particularly to trouble shoot problems with automation and, even more critically, to deliver hospitality to guests. We have not programmed a machine to do that convincingly—yet.

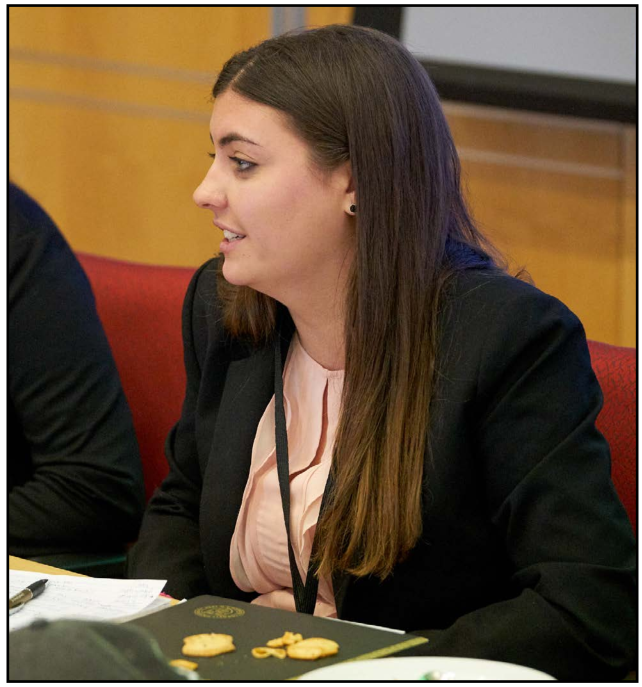
Big data. The discussions clarified the industry's need to make the most effective possible use technology, as well as the network of users connected to technology. The industry could harness the information collected through this valuable resource to improve sales and profits. For example, Opentable knows where and when your guests eat, as do the credit-card companies and the third-party delivery companies—which, by the way, is seen as a huge growth vehicle by most restaurant operators. Suppliers know what food and beverage items you buy, how much you buy, and when you get items delivered. These data are incredibly valuable. Both individual restaurant operators and companies need to focus on exploiting these data to better inform both tactical and strategic decisions.

Julie Mercado ’17, student respondent for this session, summarized the discussion well. From her perspective, she said, “Tech can’t replace everything, but it certainly helps give us easy access to what we want more quickly. But remember [as Millennials] we still value service, and we expect restaurants to advocate for themselves and convince us to spend our money with them, over their competitors.”

Promoting Your Product

Looking at the food retailing side of the business, it’s clear that the complexity has grown both in terms of product lines and merchandising. Session facilitator Susan Guerin, CEO of World Finer Foods, started off by presenting some history on the development and growth of the retail side of the food business, noting that the big thing in premium products used to be “imported” products, which then shifted to “natural” products. More currently, “organic” is the hot term, and that is connected to other labels customers value, such as “non-GMO,” “kosher,” “low sugar,” “traceable,” and “gluten free.” She also noted that while sales of the traditional “center store” grocery items are declining, departments typically found around the edge of stores, such as produce, bakery, deli, alcoholic beverages, and health care products, are on the rise. Additionally, the way consumers use grocery stores is changing, as meal replacement continues to expand. Stores like Whole Foods and Wegmans are evolving with notable business coming from their prepared foods sections, restaurants, and cafés. Beyond that, the market for premium retail food products is on the rise (but so is snacking). This new premium-food demand is connected to consumers’ desire for enhanced product labeling (as noted above), transparency in how the products are sourced and produced, and creative, sustainable packaging. Consumers’ emphasis on fresh preparation is clear, as the use of meal kits is also on the rise. One in four U.S. adults purchased a meal kit to be delivered to their home in 2016.

Changing preferences. After many fits and starts, grocery delivery services are gaining some traction. In addition to changes in consumers’ preferences for products and consumption of retail products, there is a notable shift from brick and mortar shopping to online shopping, particularly among Millennials. Online shoppers cite the convenience and ease of shopping online as the main drivers of their behavior change, when compared to traditional in-store purchases. With the rise of Amazon Fresh and Amazon Grocery, for instance, consumers’ online grocery purchases are growing. The NPD Virtual Grocery Store Report found that 52 million U.S. consumers purchased groceries on line in 2016. Restaurant food delivery remains uppermost, however. While viewed as convenient, participants did not see online grocery store shopping and delivery as being more convenient than restaurant delivery services.



Remember, even though Millennials are tech users, we still value service, and we expect restaurants to advocate for themselves and convince us to spend our money with them. —*Julie Mercado ’17, student respondent*

Given all these changes and developments, to stay on top of the retail food market, Susan Guerin noted that brand attributes are the first thing to consider for growth and adoption within her firm, World Finer Foods (WFF). First order of business is to look at how well the category of interest is doing in the market, with specific attention to how the brand is perceived and situated, together with the viability of the products. In considering prospective products, one should be able sell them through online and non-traditional channels, and they should feature the right shelf life and packaging characteristics. After the brand and products pass the test, WFF examines the producer’s company to ensure it can be a viable partner and to determine how the new products will fit into the WFF portfolio and be relevant in the marketplace they operate in. The session concluded with comments from Julie Berman ’17, the student respondent for this session. She added that for brands to be attractive to her and her peers, there needs to be a story or identity behind the brand for them to relate to. She said, “It is important that we know the story behind the product and the brand before we commit to it.”

Food-service distribution is rapidly changing, so pay attention to brand attributes when determining which products to feature for company growth. —*Susan Guerin, World Finer Foods*

Still Feeling the Great Recession

The supply side of the restaurant business still is feeling the repercussions of the Great Recession. Presenter Chris Mellon, CEO of Maines Paper and Foodservice, reminded participants of the impact that the Great Recession had on our industry, forcing restaurant closures, a shift down in both fuel costs and interest rates, and rising labor costs. "Labor affects everything that happens on the supply-side too," he said. "It isn't just restaurant operators' labor bills that are increasing quickly." He referred what we have now as the "New Normal."

Mellon highlighted the differences between broadline distribution and systems distribution. Margins on broadline business are larger and require a different process to manage than with systems distribution. With broadline distribution you offer a selection of products and product lines to operators to support their operations through a salesforce. With systems distribution you spend more time storing and moving products for chains that have already specified or secured their products from producers. In doing so, he also noted that suppliers play a central role in supporting both independent and chain operators, and building relationships with operators is a key ingredient to success.

Bigger data. Whether the business is broadline distribution or systems distribution, however, the suppliers are the ones who see it all. They know what you buy, and when you buy it. They see how clean your restaurant is and how well it is managed—in short, they have a finger on the pulse of the market restaurants compete in. In fact, most of the time, suppliers know long before restaurant operators which segments are growing and which segments are shrinking.

Restaurateurs and distributors alike face critical decisions when they are faced with changes in cost structures. Whether you are a supplier or an operator you are buying products and reselling or redistributing them. When the cost of goods goes up you have the uncomfortable decision of whether to increase your prices, take less profit, or find ways to cut other costs. While wholesale costs are currently low (along with general grocery prices), the cost of labor is increasing. Labor is one of the first things people look to cut, but that is challenging in today's landscape. Managers working to limit costs also focus on good business practices: controlling theft, waste, and loss; avoiding poor inventory management (over- or under-ordering); and managing key drop deliveries.

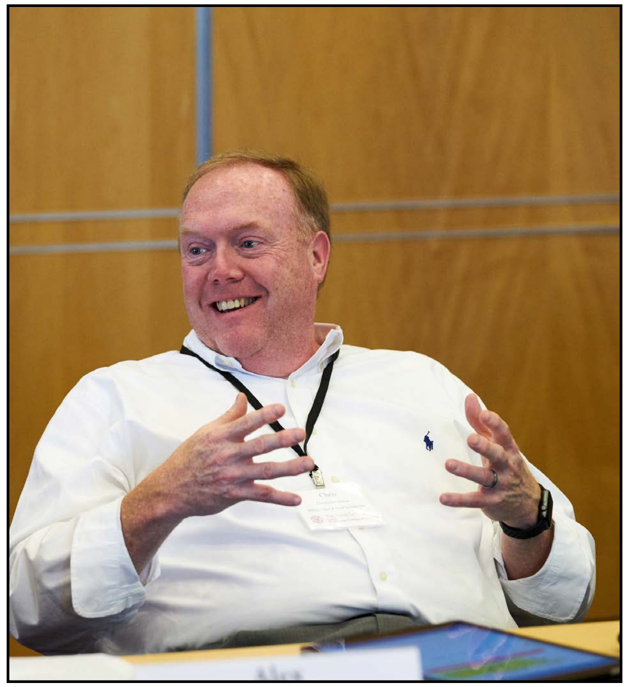
This session concluded with commentary from Braden Williams '17, who expressed an interest in restaurant operators using just-in-time purchasing and inventory management. He believes that operators can deliver higher food quality and deal with less waste when food is procured and prepared daily. It was noted that this model for food purchasing may not work well for all types of restaurants, but can certainly have promise. One major drawback to just-in-time systems are delays and miscues in delivery. Operators need to find a balance that works for them with their suppliers to ensure they have what they need, when they need it.

It's All about Tech

Technology returned in the final discussion of trends and fads in the industry. Technology was clearly top-of-mind for roundtable participants, particularly delivery, guest-facing, and guest-driven apps. The consensus was that technology can help improve the service processes for all kinds of operations, but it is not the answer to all operators' problems. With technology a new set of challenges needs to be addressed. For example, Panera's system was viewed favorably by the participants for its ease of use and multiple functions—you can order online or on your phone before you arrive at the restaurant, or through in-store kiosks. Participants also had high regard for the guest-facing apps at Domino's and McDonald's, due to their ease of use, functionality, and flexibility. They agreed that this type of technology can help operators reduce service labor, improve order accuracy, improve service time, and reduce cash handling activities for staff.

Full-service dining apps are still a work in progess. The systems created by Ela Carte in Applebee's and Ziosk in Chili's are well received. There was less agreement on the utility of these systems, but a research study concluded that roughly 80 percent of guests using these systems in full-service restaurants believe the devices improve their experience in the restaurant, noting convenience and ease for both ordering and payment.[1] We also discussed efficiencies that can emerge from using the devices, also identified in studies, such as reduced table turn time, labor savings, and increased average check.[2]

Supplementing service. We agreed that in full-service restaurants the technology has to be viewed as an added layer of service and should neither replace nor reduce personal service. While technology can promote labor efficiency in full-service dining, at this point it would be a mistake to diminish service delivery to guests, as restaurateurs need to deliver real hospitality to their guests to build their loyalty. For that reason, participants believed that it will take some more time for guest-facing technology in upscale restaurants to take root, beyond having menus on tablets. Most participants felt that it remains important for operators to select and use technologies that help them improve what they do and how they do it, as well as improving the guest experience. That means that there are technologies that can be used that the guests may not know about, but help operators improve the processes of production, management, and service.



Suppliers see it all. They have a finger on the pulse of the market that restaurants compete in, and they know which segments are growing and which are shrinking.—*Chris Mellon, Maines Paper and Foodservice*

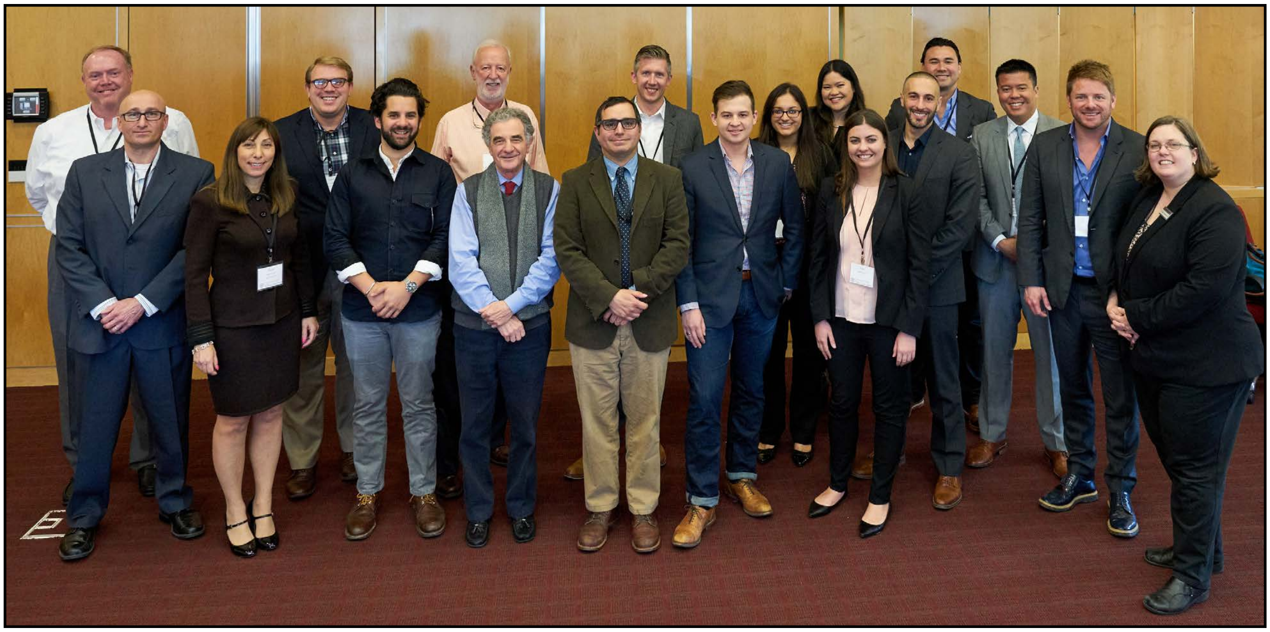
Tipping or Not?

The other hot topic is the trend toward ending tipping, notably, Danny Meyer's effort to eliminate tipping from his restaurants and to influence the industry at large's practice. The group's opinions on this topic were diverse. Some argued in favor of leveling the playing field, that is, to increase wages for back-of-house employees so that pay levels are more balanced between the front- and back-of-house. Rather than have the prospect of tips to ensure service, some said that management would then have to take responsibility for ensuring everyone gets the level of service they deserve—notwithstanding that it's always management's responsibility to ensure that service is delivered properly. Some participants cited international restaurants as an example where tipping is less common and service seems to work well without tips, but then a couple of participants argued that service is worse overseas because tipping is not used. A concern that seemed to be shared by all is that if servers' wages go down as a result of doing away with tips, it may limit restaurant operators' ability to attract and retain a talented service staff, much like operators currently face with back-of-house staff. It was clear this is a debate that will continue for some time. ■

1 Alex M. Susskind and Benjamin Curry, "An Examination of Customers' Attitudes About Tabletop Technology in Full-Service Restaurants," *Service Science*, Vol. 8, No. 2 (2016), pp. 203–217.

2 Alex M. Susskind and Benjamin Curry, "The Influence of Table Top Technology on Table Turn, Service Labor Usage, and Average Check in Full-Service Restaurants." *Cornell Hospitality Report*, Vol. 16, No. 15 (October 2016); Cornell Center for Hospitality Research.

Participants



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- **Charles Bililies** ’06, *Founder & CEO*, Souvla
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- **Susan Guerin** ’83, *CEO*, World Finer Foods
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- **Heather Kolakowski** ’00, *Lecturer*, Cornell School of Hotel Administration
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- **Chris Mellon**, *CEO*, Maines Paper and Foodservice
- **Abe Ng** ’95, *Founder and CEO*, Sushi Maki
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