AlixPartners

COVID-19 RESPONSE

AlixPartners insights and advice:
Practical steps for restaurants as business restarts

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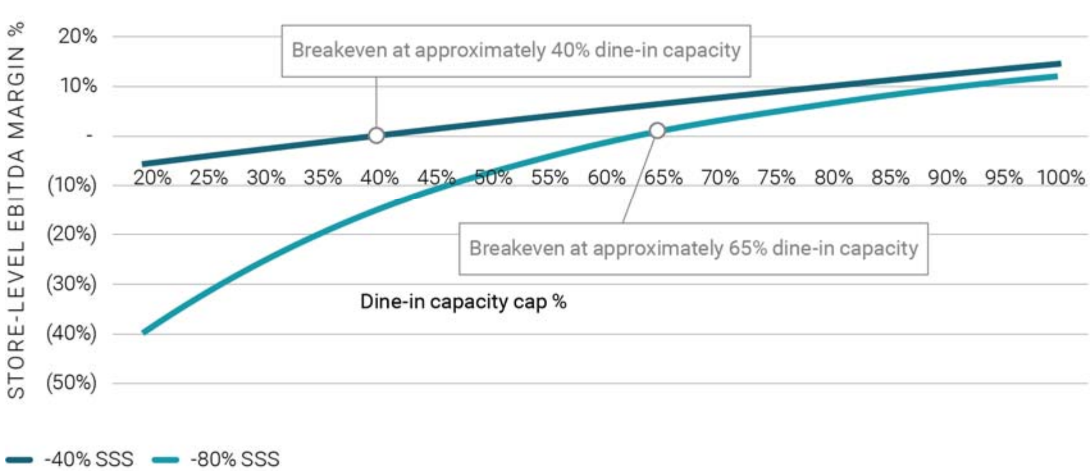
As restaurants continue to reopen for dine-in service in the United States, we find that many companies and brands are entangled in trying to find answers to completely unknowable questions instead of focusing on a pragmatic set of actions that need to occur. While contemplating how consumers will behave in the post-pandemic world is an interesting exercise, dealing in hypotheticals can be distracting and, worse, paralyzing at a time when decisive action is crucial. This is because there are too many variables and too many uncertainties to deduce useful insights. The best crisis managers know that it is critical to separate the signal from the noise and focus time and energy on practical and operational actions rather than conjecture.

Situation

Over the last several weeks, the restaurant industry has moved quickly and decisively to protect employees, customers, and businesses, often having to make difficult decisions along the way. Now, just as operators are beginning to work out snags within their takeout and/or delivery platforms and come to terms with whether off-premise business models can keep the lights on for the foreseeable future, they are faced with yet another unprecedented ask. As states continue to reopen amid rising pressure to jumpstart the economy, restaurant companies must determine whether operating dine-in services while adhering to new capacity restrictions and safety guidelines is worth it. Many casual dining operators may struggle to break even when dine-in capacities are cut to half.

FIGURE 1: CASUAL DINING OPERATORS MAY STRUGGLE TO BREAK EVEN WITH DINE-IN CAPACITIES CUT TO HALF: OFF-PREMISE PERFORMANCE WILL BE KEY
Example store-level breakeven thresholds



Note: store-level EBITDA calculations exclude G&A, Advertising and Field Ops

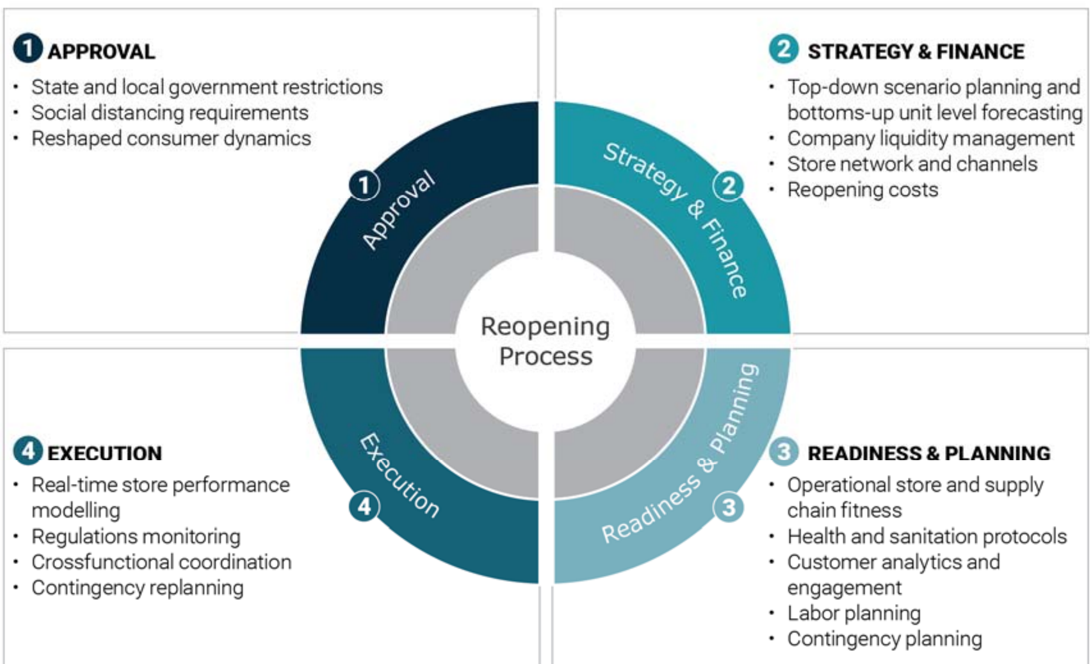
Restaurants are fighting on several fronts. Customers have less money for discretionary spending, consumer expectations have fundamentally changed, and there is significant new investment required to reopen closed doors and operate under new health and safety guidelines.

Regardless of whether restaurants have already reopened for dine-in service or are considering reopening soon, operators need to take several important and pragmatic steps today. These steps will put them on the path to healthily reshaping their business and measurably improving the breakeven threshold for operating under the terms of the foreseeable future.

Key elements to consider

There are four overarching elements companies must manage in tandem during the next several weeks:

FIGURE 2: EACH INDIVIDUAL ELEMENT IS EQUALLY IMPORTANT
Aspects to reopen stores



Source: AlixPartners analysis

Tactically, these elements include the following action steps:

Set priorities for the entire business: Chasing healthy sales, margins, and new market share all at the same time may be impractical in the current scenario and lead to achieving none of the three. Here are some broad areas to set priorities in:

- **Focus on health and safety** first, for both employees and customers. Make sure you clearly communicate all measures you are taking internally as well as externally.
- **Set a clear and decisive strategy and align metrics** to it. Determine the right balance of sales, margin, traffic, and time needed to meet your strategy goals, whether you are choosing to focus on sustainability, profitability, etc. The output of this refined plan must reframe realistic key performance indicator targets and milestones that get clearly communicated throughout the enterprise to rally teams around a set of common goals.

- **Establish one source of truth** throughout the organization. Construct a baseline plan that you can then build upon and modify regularly and that serves as the foundation for all decisions. This bottom-up plan should account for current sales levels and channel performance by location, labor schedules, estimated reopen dates, and historical demand by location. Conventional factors in forecasting may not be applicable. In fact, they will almost assuredly not be accurate in the short term. Resetting the 2020 financial plan based on assumptions that are rooted in our new reality is essential for all other planning processes for this year and beyond.
- **Accelerate consumer insights** adoption now. Until now, many restaurant operators have been rich in data, but poor in how they draw and execute on insights. In times of uncertainty, it becomes imperative and urgent to utilize consumer insights to make critical decisions because other metrics are unreliable. In absence of traditional input variables, restaurants must use real-time insights from consumer data to inform decisions across labor, supply chain, pricing, promotions, and storefronts.
- **Establish a cross-functional team** that is accountable to inputs, assumptions, and any changes to the baseline.

Capitalize on the opportunity to reshape your business: Consumer dynamics have been turned upside down, and operators are restarting a business that is dramatically different from the one that closed its doors to dining in more than two months ago. Do not lose sight of the fact that you have an opportunity to shift customer expectations while keeping in mind that behaviors you encourage now may be expensive to change later. Here are some operational considerations for resetting your business:

- **Menu rationalization and optimization** – The goal should be to drive a healthy margin while increasing turnover speed and taking supply risks into account.
  - Simplify menus and reduce complexities that drive labor costs, complicate employee training, and reduce margins.
  - Consider new optimization factors, such as improving table turnover, hedging for supply performance, and balancing waste created by capacity restrictions.
  - Recast old item cost build-ups for supply changes and buying realities of the reshaped business, such as pack sizes, volume changes, etc.
  - React to the shift in consumer interest in dayparts when developing offerings, as well as the changing demands of off-premise and dine-in channels.
  - Move optimization beyond the menu and to the bar, where a full offering during capacity restrictions could drive significant waste.
- **Labor management** – Reduce complexity to offset additional work required to meet sanitation and social distancing guidelines.
  - Recast productivity models to reflect menu revisions, new daypart goals, and balancing off-premise and dine-in channels at the same time.
  - Reset opening and closing hours and demand management guidelines, such as from utilities.
  - Create back-of-house efficiencies through simplified menus.
- **Strategic cost reduction** – Cost management needs to go beyond rent relief, reduced labor, deferred payments, decreased deliveries and/or improved terms. This may be the right time to restructure agreements for a newly reshaped business.

  - Collapse supply lines where possible, reducing adding agility to processes.
  - Restructure service agreements for a reshaped business.
  - Seek clawbacks on underutilized policies in the core business and upstream.
  - Capitalize on declining fuel costs as applicable, both explicitly and indirectly.
  - Reconsider marketing funds and how they are getting used.

- **Liquidity preservation** – It may be tempting to develop a plan in the C-suite and send it downstream, but the results may not reflect the current reality of the business. Instead, reverse the usual top-down approach to financial planning and incorporate feedback from restaurant locations and on-the-ground intel.
  - Assess liquidity controls, measuring against the industry standard.
  - Develop or rerun scenarios to track against the best and worst plan.
  - Conduct ongoing reviews of your cashflow model.
  - Account accurately for any restart investment and promotions.
  - Evaluate site-specific off-premise channels to maximize margin, such as bringing delivery in-house, understanding the net impact of third-party fees by location, etc.

- **Risk mitigation** – Despite good intent, some suppliers may fail, or requirements fall through the cracks. Your restart plan needs to include an ongoing vendor prioritization exercise.
  - Prioritize sustainable stability of the supply chain, instead of only thinking short term.
  - Assess commodities and vendors for any weaknesses or continuity risk areas.
  - Pressure test operating procedures related to sanitation and communication.
  - Develop relationships with local governments to drive collaboration.
  - Assess and monitor the health of franchisees.

FIGURE 3: MAKING SENSE OF THE SITUATION MEANS REVERSING THE USUAL TOP-DOWN APPROACH TO FINANCIAL PLANNING

Source: AlixPartners analysis

Conclusion

We believe if operators rigorously focus on these pragmatic approaches during this ongoing reopening period, they will be in a position to significantly and measurably improve their breakeven threshold. In recovery, they may have to make some decisions they don't like. But operators need to embrace the unique opportunity to reset consumers' relationship with the business. And all strategies and decisions must be right for the brand. Any damage done to the brand value perception now may be irreparable.

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Our people

For a deeper look at our Restaurant Restart Playbook, please contact our Global Restaurant, Hospitality and Leisure team:

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