

# Re-Imagine The Restaurant: Eating Out Will Never Be The Same Again



## The pandemic has impacted restaurants in a way none of us could have imagined.

According to the Economist, on Thursday April 9<sup>th</sup>, 2020 OpenTable reported zero restaurant reservations in America, a site that usually does millions of reservations a day. Then in mid 2021 we thought we were recovering, analysts starting raising their estimates for the industry, until we were hit with Delta and then Omicron.

The National Restaurant Association estimates that about 100,000 restaurants have shut down since the beginning of the pandemic. A recent survey by the Independent Restaurant Coalition estimates that 58% of restaurants saw their sales decline by over 50% this last December. Combine that with inflation, labor shortages and supply chain issues, we have the perfect storm. But eating out is an activity that we, as a people, love – the average American eats out 5 times a week.

What were the lessons from the pandemic? What capabilities are important going forward? What dining experiences will draw people out? Are delivery services friend or foe? What kind of technology investments is the sector making?

A panel of restaurateurs and industry leaders discussed this disruption and shared opportunities arising from this disruption on January 27, 2022:

### MODERATOR



**Himesh Bhise**  
Board Member  
TIE Philadelphia

Himesh is a leading software and internet services executive. He was most recently the CEO of Synacor, a public enterprise software company, where he led a massive turnaround and successful exit. Prior, he led divisions at Comcast, Charter and AOL, growing broadband, advertising, OTT video, and messaging businesses. He is on the IT Advisory Board of Temple University and on the Board of TIE Philadelphia.

### PANELISTS



**Munish Narula**  
President  
Narula Restaurant Group

Munish is the creator of Tiffin Indian Cuisine which has nine locations in Greater Philadelphia. Tiffin has made headlines for the recent introduction of reusable takeout containers, a first in the city. He began his career as an investment banker, before he opened the acclaimed Karma restaurant from which the idea for Tiffin was born.



**Ellen Yin**  
Co-founder & Owner  
High Street  
Hospitality Group

HSHG operates some of the country's most celebrated dining establishments including a.kitchen + a.bar, Fork, High Street Philly, and High Street Provisions in Philadelphia and High Sheet on Hudson, in Manhattan. Ellen has been honored with Philadelphia Business Journal's "Women of Distinction" award in 2020 and is a multi-year nominee for "Outstanding Restaurateur" by the James Beard Foundation.



**David Spungen**  
Partner and Wealth  
Adviser, RegentAtlantic

David provides independent, objective advice to successful entrepreneurs and their families. He is a former chef, is passionate about food & beverage, and works with restaurateurs, CPG and food tech entrepreneurs and others in the space. He founded Break the Mold, a network community for women in the food & beverage industry. Prior, he was the CEO of Hillview Capital Advisors that he combined with RegentAtlantic.



**Jay H. Shah**  
CEO, Hersha  
Hospitality Trust

HHT is a publicly-traded, real estate investment trust in the hospitality sector, which owns and operates high quality upscale, luxury and lifestyle transient hotels in urban gateway markets and coastal destinations. Jay also serves on Cornell University's Dean's Advisory Board for the School of Hotel Administration and is also on the Pennsylvania Academy of Fine Arts Board of Trustees.

## A Labor of Love

"I, like many people in this industry, started out working in college or high school - one of my all-time best memories of the hospitality industry is the restaurant La Terrasse on Penn's campus. I always had this bug that this was something that I loved, and although I tried other careers in healthcare and in consulting, I never found my niche until I opened the restaurant [Fork] 25 years ago," said Ellen Yin, co-founder of High Street Hospitality Group.

"I spent my 6th, 7th and 8th grade years living at the Red Rose motel in Elizabethtown, PA. I would be the desk clerk and after someone checked in, I would help them with their bags to the room, and inevitably they would call and say the TV wasn't working. So, I would head over there with a tool belt and fix the TV. It was a grassroots level introduction to hospitality. It gets in your blood. I went to law school, I worked on Capitol Hill, but here I am again," said Jay Shah, CEO of Hersha Hospitality Group.

"I've been in the hospitality industry for over 30 years now. I took a break in between to get my MBA and do some investment banking and private equity work. I kind of hated it. I wanted to get back into hospitality. So here I am, it gets in your blood, you can't get out, but I'm happy to be here today," said Munish Narula, President of Narula Restaurant Group.

"After I graduated, I became a chef at the White Dog cafe where Judy Wicks was the general manager. I love the environment - it's almost like alchemy, when you go into a kitchen and you turn all these raw ingredients into something you put on a plate and someone pays \$30 and they're happy. But I decided that I get more benefit from being a talented amateur than a mediocre professional and got into finance, where I've been working with business owners and entrepreneurs for the last 30 years," said David Spungen, Partner at RegentAtlantic.

## Business came to a Screeching Halt

The pandemic has been surreal – closings, partial-openings, open-air seating, people shortages. Scenario planning analyses typically ready businesses for a 20-30% revenue impact, but not for a Black Swan event...

Business came to a screeching halt.

The Rittenhouse Hotel went from running at a 78% occupancy in March to 2% within five days in March 2020, going from about a billion in revenue to \$80 million, with bills due and a balance sheet debt load. No customers were coming into restaurants. Fork, for example, is located the tourism district of Philadelphia - there were no tourists and no business travelers. A drive-through could do good business, but not fine-dining. Employees did not want to come in to work. Tiffin staff came to a collective decision to keep the restaurant open as a good majority of its business had always come from carry out and delivery. But eventually they too had to shut, not because of demand but because no people could come to work.

# Go-forward focus on business health

People still want to get together, celebrate together, and have elevated guest experiences. During this pandemic, patrons have missed their freedom to indulge in a fun meal out, while owners have learned the hard way that restaurants must be more than a labor of love. Pandemic learnings seem to focus on engaging with customers, while focused on business health:

- Give back to the community: Fork turned itself into a commissary for frontline workers, doctors, nurses. The team went from doing 65 covers to 500 meals a day.
- Reduce cash burn: The Rittenhouse reduced services - eliminated daily housekeeping and created a new standard operating procedure. Many restaurants streamlined – eliminated breakfast and only served one menu all day.
- Align costs to achievable revenue: The Rittenhouse realized that it could significantly reduce cash burn if they were able to get to at least a 11% occupancy rate, so they worked to consolidate whatever demand was out there. This helped keep many employed, even though they still had to lay off 4300 people.
- Discover the outdoors: Outdoor/café seating has historically been more prevalent in Europe, but it is now an important consideration for customers and additional capacity for restaurants in the U.S.
- Deploy technology: Applications such as task management and server/bartender tracking help restaurants run more efficiently and provide better visibility into costs and inventory. Before the pandemic, technology was nice-to-have, but now is a need-to-have.
- Focus on the customer relationship: Historically, many restaurants thought about a customer as someone who eats, pays their bill and *hopefully* comes back again. Now, they are finding ways to engage with customers on a more personal basis, and become an integrated part of the community.
- Home delivery and carry-out: Customers expect it, and volume is growing. Participate and innovate – for example, some restaurants wishing to provide an engaging experience provide prepared ingredients that customers can turn into a finished meal at home.
- Higher margin items: Introduce higher margin items. For example, liquor is usually more profitable - less labor required to fix a drink than making a meal, and even in the age of delivery, to-go cocktails can provide a margin boost.



# The “necessary evil” of delivery platforms

Meal delivery and carry-out is here to stay. Customers are comfortable with the convenience. Restaurant owners like the ease and volume they drive. Even fine dining restaurants, who never did delivery before, are finding that delivery is a way to reach loyalists at home.

So, why do restaurants refer to these delivery platforms as a “necessary evil”?

- Disintermediation: The restaurant doesn't know who the delivery ordering customer is and cannot engage with them, and the owner-operator is disintermediated from their customer.
- Marketing power: Delivery platforms are billion dollar companies with advertising dollars who easily outspend small restaurant owners. They buy search terms, and divert traffic from the restaurant's own web site. For example, a Google search for Fork restaurant yields OpenTable before the Fork web site.
- Sources of Volume: They have aggregated customers regionally, nationally and globally, such that an owner will see reservations and orders drop dramatically upon quitting a reservation or delivery platform.

This “necessary evil” trend has been observed in the travel industry for a long time with hotel and flight booking sites. The panel felt that social media relevancy seemed to be the primary thing that worked, unless you happened to be part of a large hotel or restaurant chain or airline that could match the investment to compete online.

- Social media relevancy: Focus on your own marketing – particularly lower cost but highly effective social media, email and mailing lists that build a following, and allow operators to engage directly with their customers.
- Pricing: Many restaurants charge more on the platform delivery sites. For example, dishes on the Tiffin web site are \$2 cheaper than on the delivery service - that covers the commission of the service.

## Investable growth opportunities

Food & beverage is an \$800 billion industry. As the industry rebounds, the panel thought that creating experiences that connect with guests will be differentiating, even as owners focus on business profitability. Some of the investment opportunities they surfaced include:

- Restaurant technology is a little bit of a land grab that is evolving very quickly. There's opportunity for technology and for adoption of existing technology, such as expense management.
- Quick service restaurants that have mapped out their supply chain to control expenses and have tight operating procedures are going to be big winners.
- Urban markets in the densely populated northeast plus the next 10 urban markets are geographies to invest in - there could be a huge post-pandemic run up coming.
- Innovative start-ups from people who have been part of the 'great resignation' and have decided that they want to be in the food industry. There are a lot of young entrepreneurs trying to start unconventional businesses. that are worth taking a look at because the industry is evolving rapidly.

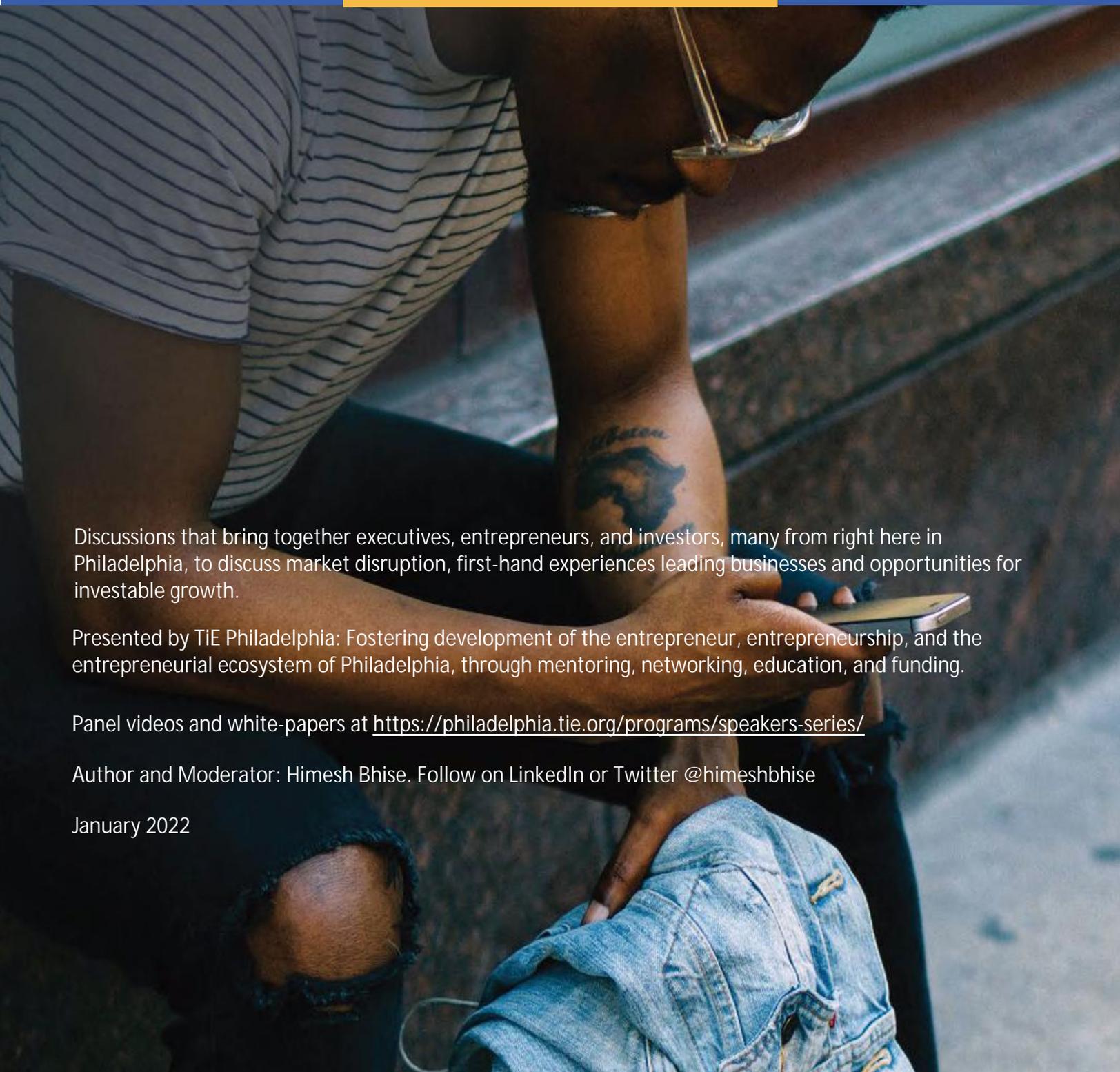
# The "Takeaway"

When one reminisces about great memories, many occurred at a table, with great food and drink, with friends and family. When the world shut down, we all wondered, "When will we be able to do that again?" Restauranteurs powered through those dark days and are once again delivering those elevated experiences for an increasing number of customers, but perhaps with a higher focus on operating health.

Driving operating health includes deeper engagement with customers and the community to build loyal, repeat business; continuing outdoor seating; home-delivery and carry-out options in a way that maintains the restaurants brand as best as possible in the face of large delivery platforms; using technology to drive cost-efficiency; and managing the menu for reduced variety and higher-margin items. Investable opportunities appear to be in restaurant technology products and deployment, quick-service restaurants, urban geographies, and innovative start-ups dreamt up by participants of the 'great resignation'.



# From Market Disruption to Investable Growth

A close-up photograph of a person's arm and hand. The person is wearing a white and grey striped t-shirt and has a tattoo on their forearm. They are holding a smartphone and looking at the screen. The background is blurred, showing what appears to be a concrete ledge or railing.

Discussions that bring together executives, entrepreneurs, and investors, many from right here in Philadelphia, to discuss market disruption, first-hand experiences leading businesses and opportunities for investable growth.

Presented by TIE Philadelphia: Fostering development of the entrepreneur, entrepreneurship, and the entrepreneurial ecosystem of Philadelphia, through mentoring, networking, education, and funding.

Panel videos and white-papers at <https://philadelphia.tie.org/programs/speakers-series/>

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