OUTLOOK

Q2/2024

Has your menu hit its price ceiling?

Look beyond your POS for clear direction on how to optimize your menu mix

Price increases have been unavoidable for operators in recent months. According to research from the National Restaurant Association, prices for limited-service meals and snacks increased 5.8 percent from January 2023-2024, while full-service menu prices increased 4.3 percent over the same period.

But if your guests are starting to resist these price hikes – along with any extra service charges you have had to implement – you may need another approach to protecting your margins and preserving value. A recent Technomic report suggests operators ask a range of questions, like for example, if your menu maximizes guest reach and revenue; if it can be streamlined without losing sales and profits; if it needs to be expanded (and if the sales mix will change in profitable ways as a result); which menu items can be removed and what the consequences of this will be; and how the cost of labor, ingredients and other budget items impacts your profitability.

Finding reliable answers to these questions requires not only analyzing the data you collect through your POS, but also conducting a risk assessment to help you anticipate the likelihood of your menu changes failing. So how can you dig a little deeper for information that will help you optimize your menu? Technomic advises combining your POS review with a simulated ordering scenario analysis, such as MaxDiff or conjoint analysis. This will tell you the number of guests you can reach with your current menu and how changes you make might increase or decrease the incremental nature of that reach.

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Census of Agriculture Released

Key trends affecting farms

Just last month, the USDA released its most recent Census of Agriculture, which provides data on nearly 2 million farms being operated by 3.37 million agricultural producers in the U.S. This information is collected every five years, so the trends it identifies carry a lot of weight when it comes to business planning in the sector.

Some key take-aways from the census include these trends: The amount of farmland in the U.S. has declined slightly since the previous census, and the number of farms is also trending downward across all farm sizes. The largest farms generate outsize results for the sector: More than 78 percent of farm revenue came from farms making at least $1 million in sales, even though these farms represent just 5.5 percent of total farm operations. While U.S. farms are often perceived as large corporate structures, the vast majority of farms (95 percent) are family businesses. But demographics are shifting in other ways: Although farmers in general are getting older, there has been an increase in the number of farmers under 35 years old since the last census. Finally, only 35 percent of farms fully own their land – the remainder rent their land, either partially or wholly.

Here is the USDA's most recent research concerning key agricultural commodities:

Commodities
(from page 2)

Corn, wheat and soybeans: For all three commodities, lower season-average farm prices are expected.

-For 2024/2025, corn production is expected to decrease about 2 percent amid higher domestic use, imports and ending stocks.

-After two years of drought in the Southern Plains drove wheat acre projection down in comparison to last year, production is expected to climb higher, with wheat yields projected to increase 2 percent in the current marketing year.

-Soybean planting area is expected to increase this year amid higher domestic demand as a result of growth in biofuel use. Exports are likely to face some pressure from competition in South America, in particular. Overall production is expected to increase 8 percent over the marketing year.

Beef and pork: A number of factors are expected to place strain on beef prices for the next several years, including Proposition 12, California's animal welfare rule, drought and the resulting poor crop production, and the expectation that the cattle population will drop to a 60-year low this year. As the average price of a burger hovers around $16, according to Restaurant Business, operators are looking for alternatives to raising prices – including reducing portion sizes, using less expensive cuts of higher-quality meat, adjusting recipes to reduce meat content, and adding plant-based items to the menu.

Last year, 25 percent of pork production was exported. That is expected to tick upwards slightly this marketing year. Higher domestic and foreign demand for U.S. pork as compared to that of the E.U. is expected to keep prices competitive.

OUTLOOK

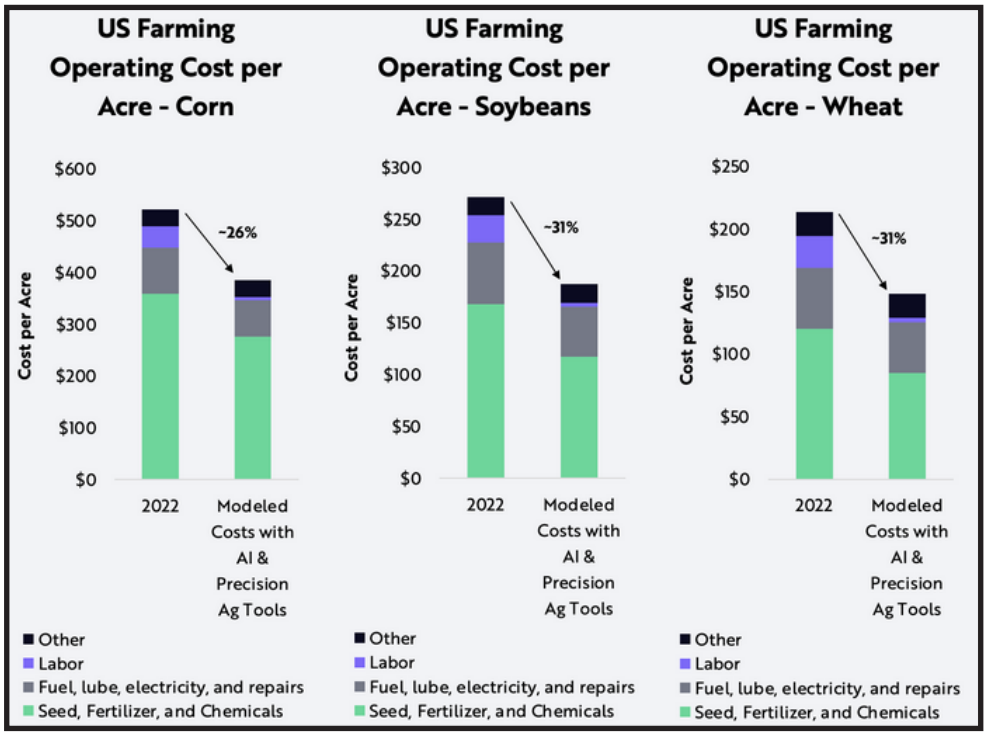
Team Four Foodservice

Q2/2024

How AI could transform farm finances

Just last month, the USDA released its expectations for net farm income for 2024. Their research predicts that income will drop nearly $40 billion this year, or 25.5 percent. Conditions can change over the course of the year, but if the USDA's forecast is realized, 2024 net farm income would fall below the 20-year average in inflation-adjusted dollars.

Against this backdrop, farms need every tool at their disposal to manage risks, anticipate outcomes and improve profitability. Artificial intelligence-supported technology is building upon the tools that farms can use to make informed decisions in these areas. According to research from ARK Investment Management, artificial intelligence, in conjunction with precision agriculture, has the potential to reduce annual agricultural operating costs by more than 22 percent globally.



Source: ARK Investment Management LLC, 2023, based on USDA data as of July 12, 2023]

In an industry sector that operates in climate conditions that are often difficult to predict, AI-driven tools can bring a measure of predictability. Their recommendations may help farms cut waste and preserve margins. For instance, AI algorithms can analyze the chemical composition of soil samples and then make recommendations about optimal irrigation, as well as nutrient application and composition. The combination of artificial intelligence and precision agriculture could significantly reduce the operating costs of farming corn, soybean, and wheat in the U.S. on a per-acre basis (see chart above).

Menu

(from page 1)

MaxDiff, or best-worst scaling, asks people to respond to a pair of attributes – such as whether a particular menu or operating change would make them "most likely" or "least likely" to visit your restaurant. By forcing the respondent to make this trade-off as opposed to just respond using a ratings scale, there is less nuance to the responses. This makes MaxDiff helpful for fairly simple questions with limited components.

Conjoint analysis assumes that guests make decisions about brands based on a combination of their characteristics. A conjoint survey question will demonstrate the relative importance of each attribute and the options you include within them. So a survey question about a new menu that features varying prices might ask the respondent to build their meal as if they would order in reality – they reveal bigger-picture preferences. The results you gather here can provide insights that might otherwise remain hidden, so you can segment your guest population in more detailed ways.

At a time when data has never been more important to the success of a restaurant, it's essential to know what kinds of insights you can gain from what you collect. You can use the above approaches individually or together to gather more nuanced information about your guests' preferences than you might be able to learn from your POS – and hopefully get some clearer direction to support your decision-making.