

.80 **BEHIND BRENNER**



.82 **CULINARY** CALCULATIONS

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RESTAURATEURS CRUNCH NUMBERS, BREAK DOWN COSTS AND LOOK TOWARD THE FUTURE



The food and beverage industry is one of the most impacted by the coronavirus pandemic. A number of restaurants have shut their doors in its wake, and more will surely follow. The industry is changing daily to survive, pivoting to take-out, market concepts and wine clubs, reopening dining rooms with reduced capacity and creating outdoor dining areas.

We explore the business side of restaurants, showing why every dollar and diner are more important than ever and shedding light on operating costs, the pros and cons of tipping, and the slim profit margins of some popular dishes. Although no two restaurants are alike, we hope to set the table for a better understanding of the forces that drive the business.

illustrations by Sam Gray photos by Justin Chesney

FROM LEFT: ALEXIS COURTNEY; KATE THOMPSON, COURTESY BRITTANNY ANDERSON

BEHIND BRENNER by Eilen Mollon



Money is not something most restaurant owners like to discuss, especial-

ly when the main goal at the moment is survival.

In mid-April, I first spoke with Brittanny Anderson, the James Beard Award-nominated chef and co-owner of Brenner Pass and Metzger Bar & Butchery, about the costs of operating the restaurants, specifically Brenner Pass, the Alpine-inspired venture in Scott's Addition.

Four months later, Brenner's dining room remains closed for the safety of the staff, with its outdoor patio open for dinner. Although there have been a number of changes in that time — the lifting of indoor dining bans; the launch of a blue-crab delivery service. Sharktooth Seafood, with her uncle; checking employees' temperatures daily; two-hour limits for diners; and cocktails being sold to-go — one thing has remained constant: fighting to keep her restaurants alive.

"At a place like Brenner, we break even at 100 percent capacity," Anderson says of the restaurant she co-owns with wine director Nathan Conway, beverage director James Kohler, former pastry chef Olivia Wilson and Brad Hemp. "I need my sales to be minimum, \$40,000 a week — just to pretty much break even."

Since the onset of the pandemic, Anderson says Brenner Pass is making anywhere from 15% to 25% of it's pre-pandemic revenue. "We're losing between \$5,000 to \$10,000 every week," she says. "Right now, I would say that is probably pretty average at most places, depending on your rent."

That statement is the gut-wrenching reality faced by restaurant owners, and it's why many wonder whether their restaurants will ever return to normal. According to the Independent Restaurant Coalition. it is projected that 85% of independent restaurants could close due to COVID-19's effects on businesses.

While each restaurant has its own unique blueprint - size, location, concept — and Brenner Pass is a larger, 140-seat venture, the majority of them function with single-digit profit margins and have always done so. Since COVID-19, these barely scraping by margins reveal the fragility of an industry that relies almost entirely on having its dining rooms open and its bars occupied.

"Ideally, you're hoping for margins of 7% to 10% profitability, which is a perfectly run restaurant." Anderson says while going over profit and loss reports from Brenner Pass. "We don't share this stuff a lot — everyone is often quiet when talking about profit margins."



STAYING TRUE

Although many restaurants continue to offer strictly takeout, it doesn't mean that quality has wavered. Handmade pasta, Seven Hills Beef, local greens and charcuterie plates all grace Brenner's to-go menu.

"Our burger is \$16," she says. "I want to charge \$18, even if I'm putting it in a to-go box. The to-go box isn't coming back; I have to buy those repeatedly, and that gets factored into the price. If we want to be more equitable, our industry needs to charge more for food."

At restaurants where the menu evolves with the seasons, or even weekly or daily, there is more room for food prices to fluctuate.

Restaurants with a consistent menu, or perhaps those that are part of a large group, can purchase bulk orders, which helps with maintaining more consistent costs.

Sourcing is another key factor in costs. Anderson notes that premium, locally sourced ingredients are more expensive.

"Are [diners] thinking about the Trainums [of Autumn Olive Farms] and their farm and the pigs they raise and all the money and time they spend?" she asks. "Are they thinking about Jo Pendergraph at Manakintowne [Specialty Growers]? That's where their money is going. It's a big chain, and I don't think people think about their food like that."

A LOOK INSIDE THE BOOKS OF ONE OF RICHMOND'S TOP RESTAURANTS



Operating a restaurant doesn't stop at food and labor.

"There are the other things people don't really remember or think about," says Anderson, as if sharing a secret when discussing overhead costs.

She is referencing rent, fees to participate in OpenTable's online reservation platform, cleaning supplies, vendor surcharges, utilities, takeout supplies, paper goods, and flowers, decor and linen rentals when the dining room reopens, which she envisions will not be anytime soon. Since the pandemic started, the costs have also included personal protective equipment (PPE), hand sanitizer dispensing stations and patio furniture.

When asked whether it's important for diners to understand the cost of operating restaurants, even with an unknown fate, Anderson responds, "I do, especially those fixed costs. If I close [my dining room], I still have to pay rent."

Operating costs related to labor and food may be down due to fewer staffers and customers. but even without diners inside. a restaurant remains an expensive business. Whether there are 10 people at Brenner Pass or 100, many expenses don't cease.

A NEW CHAPTER

Since the pandemic, Brenner has condensed its staff, relying on an all-hands-on-deck approach. Anderson believes this is a chance to ignite a systematic change in the restaurant community.

"I think you'll see a lot of restaurants move into a more 'everybody helps with everything' model," she



says, noting that managers prep in the kitchen or expedite food to tables, while chefs hop in the dish pit and servers answer phones. "Those are the people that will be valuable in this new world, people [who] can do everything."

Besides salaried managers. Brenner's BOH staff now make \$15 an hour, while FOH staff make \$5 an hour. Currently employees are given two weeks of paid sick leave to self-quarantine or get tested, if needed. The goal is to introduce a service charge that will be added to customers' checks to support the new system — if a diner leaves an additional tip, it will be split between the non-salaried bartenders and servers. Both Brenner and Metzger want to embrace this system moving forward.

"We believe this is the right direction the industry needs to be headed," Anderson says. "We are lucky we got the kick in the pants to do what we did."

To support these operational changes, Anderson says menu costs need to rise. Just as restaurants are adapting, guests will have to do so as well.

"The system is broken, and in order to fix it, the guest is going to have to take a hit here, and it's not that they'll be paying more, it's that their tips won't be a voluntary thing," Anderson says. "It will be included in the price of the goods. We have to make changes, and some people will have to make sacrifices."



PAYING THE BILLS

Examples of expenses Brenner Pass forks over:

COGS=Cost of Goods Sold

Food and alcohol, plus anything that is necessary to provide the product to the guest menus, takeout supplies, etc.

Total for 2019: \$722.430 or 36% of sales

RENT

Includes fees to pay off the original restaurant build-out

OpenTable

Brenner Pass is currently offering reservation-only patio dining, making this platform vital

UTILITIES

Phone, internet services, power and water



Initial investment of hand sanitizing stations, hand sanitizer, thermometers, gloves and masks

PATIO FURNITURE New umbrellas, tables, vinyl signs and tents purchased upon reopening the patio.

LINENS

The average amount spent when the dining room was open

CREDIT CARD **PROCESSING** \$69,000 (2019



PAYROLL \$864,000 (2019) or 43% of sales

Cost (including federal and state taxes) of paying all employees and owners

A NIGHT ON THE TOWN

Dinner

\$20 + \$12.75 = \$132.75Meals and

Total



Afer deducting labor (\$43) and food/beverage costs (\$36),

PROFIT = \$21

CULINARY CALCULATIONS

AREA CHEFS REVEAL THE PRICING BEHIND MENU ITEMS

How much do menu items, from idea to inception, cost a restaurant? Typically, chefs aim for their overall food costs to hover around 30%, but in some cases, as seen below, that number is higher. Despite a shift in diners' desire for higher-quality, locally sourced and seasonal ingredients, most menu prices have not kept pace with rising overhead costs, an increasingly competitive market and the significant prep labor some dishes can require. Since the pandemic, the food cost squeeze has been amplified due to supply

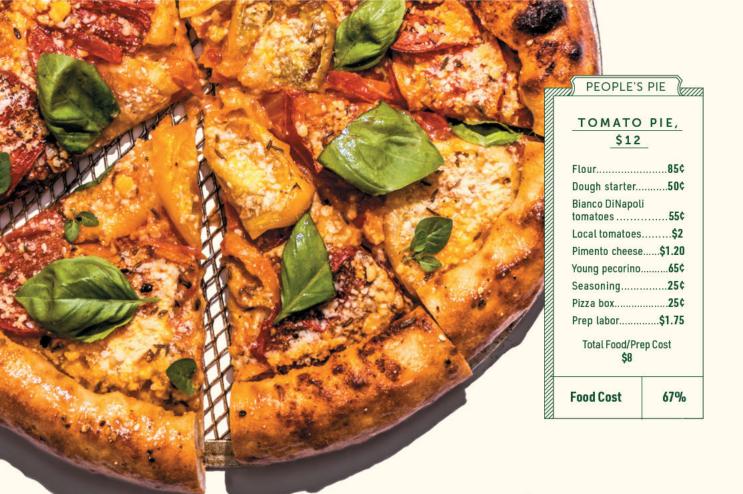
chain issues and price spikes on staples such as cheese and flour. We present a local sampling of entrees broken down by costs to better understand the bang behind the buck.

by Piet E. Jones Photos by Justin Change

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BRENNER PASS

FONDUE BURGER, \$16

House-made bun....70¢ Seven Hills beef....\$1.38 Fondue......\$1 Speck......14¢ Mayo.....3¢ Dijon.....6¢ Cornichon.....3¢ Manakintowne Farms frisee......49¢ Potato......14¢ Prep labor......\$6.40

Total Food/Prep Cost \$10.37

Food Cost

65%



ILLUSTRATIONS: SAM GRAY; HEADSHOTS, FROM TOP: EILEEN MELLON; COURTESY SPROUTHOUSE

* SHOW ME *

THE RESTAURANT WORLD IS A GAME OF NUMBERS



30-30-30-10

A general rule of thumb when referring to restaurants' operating costs and profit margins.

30% labor 30% food 30% fixed costs 10% profit





PAY "THE MAN"

7.5%

City of Richmond meals tax (1.5% dedicated to Richmond Public Schools)

4%

Henrico County Meals Tax (all proceeds benefit Henrico County Public Schools)

0%

Chesterfield County **Meals Tax**

\$**35.5** M \$**41.8** M

In the 2020 fiscal year (July 1-June 30), the city of Richmond collected \$35.5 million in meals tax. while in 2019, that figure was \$41.8 million.

> (At press time, the 2020 fiscal year did not include information for the month of June.)

INSIDER INSIGHT

"Little restaurants like us, we're not going to do crazy dollars, we don't do millions a year. I choose to make



10% profit or less if it means I pay my people better. To me, it's worth it. No one should rely on their restaurant being busy to make money. It's taking care of your people 101."

Donnie Glass, chef and co-owner of Grisette

"Once you start messing with the way their [servers] tips are done, they aren't going to make as much money. Today, a typical restaurant has about 70% of staff that are tipped employees, when you go from the \$2.13 per hour ... the whole way you run the restaurant has changed. It [tipped wages] doesn't need to be changed, there's no way to change to a European model, that's not the way [restaurants] are set up. I think it would be devastating to the industry, and I think you would see a lot of restaurant closures, and you would see a lot of people who look at it and go, 'I can't make my full-service restaurant work.'

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-Eric Terry, president of the Virginia Restaurant, Lodging and Travel Association

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"We're building for the long haul and building a foundation [that is] less based on some tipped employees making \$300 a night and someone standing in the dish pit making \$75 after taxes. I think those days are gone. We're in a shift on so many levels from protests to the pandemic, all these

these norms. It's forced us to use our imagination and have deeper and more meaningful discussions about what it means to spend 40-plus hours of your life in a place."

-Patrick Phelan, chef and co-owner of Longoven

things are an opportunity to challenge



THE NUMBERS GUY:

Russ McDowell has been working in restaurant finances for more than 30 vears. To learn more. head to richmondmag. com/mcdowell.

TIPPING POINT

Tipping is one of the most ingrained components of dining out, often subsidizing the salaries of restaurant workers and making diners the driving force behind their wages. Employers are required to pay tipped employees only \$2.13 per hour, however, their wages including tips must equal the national minimum wage of \$7.25 per hour.

THE GREAT DEBATE

In recent years, there has been an industrywide discussion with business owners and in government about the practice that was first introduced in the 18th century, looking toward a more European model that includes higher minimum wages, the elimination of tipping and/or the addition of service charges.

TIPPED EMPLOYEE:

Someone who regularly receives more than \$30 per month in tips, often bartenders and servers in restaurants. The IRS suggests that tipped employees paid out at the end of each shift set aside 10% to 15% of their income each week for taxes.





PROS OF TIPPING

- Lower operating costs for restaurants
- Earning flexibility for staff
- Encourages up-selling
- System restaurants were built upon

CONS OF TIPPING

- Wage disparities between front-of-house and back-of-house employees
- Rooted in racism and sexism
- Inconsistent and sometimes inequitable income
- Competition among tipped employees

The original meaning of tip: T.I.P. = TOINSURE**PROMPTNESS**



TO EACH THEIR OWN

Each restaurant pays its staff and allocates tips differently.

GRISETTE: Front-of-house and kitchen staff (minus owners) collectively work together on the floor and receive an hourly wage. Credit card tips are split among staff and included in their weekly paycheck. Cash tips are also split and distributed weekly.

LAURA LEE'S, THE ROOSEVELT,

GARNETT'S CAFE: Tipped employees pool both credit card and cash tips. Credit card tips are paid through biweekly paychecks and cash tips split at the end of each shift.

R & L HOSPITALITY GROUP: Starting in September, tipped employees will pool all credit card and cash tips which will then be distributed in biweekly paychecks.

THE BOATHOUSE/CASA DEL BARCO

LOCATIONS: FOH employees are paid an hourly wage, with a 20% service charge automatically included in the bill. If guests tip, the money is split among all employees.

BANG FOR YOUR BOOZE

To sell alcohol, restaurants must apply for an on-premise Virginia ABC license.

Annual License Fees

Beer: \$145

Wine and Beer: \$300 # Mixed Beverage (liquor, does not include wine and beer): 1-100 seats = \$560, 101-150

seats= \$975, 151 or more = \$1,430

(During the pandemic, off-premise privileges have been temporarily granted.)