



# Challenges and Changes Facing Foodservice Operators

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## Executive Summary

As the foodservice sector continues to recover from the COVID-19 pandemic, operators are facing significant challenges. With high inflation gripping the country, operators and consumers alike are seeking the most from their money. This report discusses how suppliers and operators can provide the best value for customers and maintain profitability.

## Today's Foodservice Landscape

Over the course of the pandemic, foodservice operators have faced immense challenges and an evolving environment: short-term closures, adopting takeout and delivery options, creating outdoor dining, dealing with labor and supply shortages. As the industry adjusts to this new sense of normal, it's clear the landscape has changed drastically. At the end of 2021, there were 10% fewer foodservice establishments in comparison to pre-pandemic.<sup>1</sup> While overall food-away-from-home expenditures are making a recovery, when adjusted for inflation, they are still below pre-pandemic levels.<sup>2</sup>

With inflation concerns influencing consumers and operators alike, providing value is becoming even more critical. Since the pandemic began, foodservice has adopted technologies that add value by creating convenience for the customer, with more focus on takeout and delivery than dine-in. As labor shortages have remained a challenge for operators, value added items from suppliers can be of high value to operators as a means to cut labor requirements in their back of house operations.

### The Foodservice Operator's Mindset

Most operators expect to maintain or grow sales throughout 2022, with more than half expecting sales volume growth.<sup>2</sup> While operators are optimistic about sales, they are apprehensive when it comes to profit margins.



80% of operators report their profit margins are lower than they were before the pandemic. Even with expected growth, one in three believe they will be less profitable in 2022 than previous years due to higher operational costs.<sup>2</sup>





## The Foodservice Consumer Has Evolved

Operators have made shifts to menus, services and atmospheres that have transitioned into new business models. As operators adapt to these challenges and make changes, the consumer must be top of mind. Fifty-one percent of adults say they aren't eating out as often as they would like, a full 6 percentage points higher than before the pandemic. A return to pre-pandemic foodservice traffic is slowly occurring, but the foodservice customer is not entirely the same now. More consumers are choosing takeout as opposed to dine-in, causing full-service establishments to regain market share slower than quick-service.<sup>2</sup>

Customers are putting more emphasis on convenience and price. While health and safety concerns kept consumers at home for the past few years, many developed a preference for cooking at home as well as a means to save money. Thirty-nine percent of U.S. consumers say visiting restaurants is the first thing they cut back on during hard economic times.<sup>3</sup> As inflation reaches a 40-year high, price remains top of mind for consumers and operators will need to create the best perceived value for consumers. Sixty-nine percent of consumers rated price as the most important or the second most important factor when purchasing beef at a restaurant, followed by USDA grade.<sup>4</sup>

## Foodservice Challenges

The challenge for operators who expect growth yet lower profit margins is how to retain sales and minimize operational costs. We analyzed how operators can work through operational challenges and maintain sales by providing services that have perceived value to consumers. Below, see our list of the biggest challenges facing foodservice operators in a post-pandemic world:

# 1

### Providing Convenience Through Technology

Takeaway and delivery will likely remain popular for consumers who became accustomed to these convenience options during the pandemic. Over half of adults say that takeout and delivery food are essential to their way of life, with three in four millennials reporting these services to be essential.<sup>2</sup>

Prior to the pandemic, many restaurants did not offer online ordering for takeout or have delivery options in place. Eighty-seven percent of operators reported that adopting technology that supported takeout or delivery was crucial for survival throughout the pandemic. Now, almost half of those operators say these new technologies are an essential part of their business.<sup>5</sup>

Technology became much more acceptable to consumers during the pandemic, offering them convenience but also supporting operators. One example is the rise of QR codes.



In one survey, more than half of consumers said they like to have the option of a QR code to see a menu or to pay. QR codes for menus have made it easier for operators to update their menu digitally to quickly deal with supply chain issues and transition offerings.<sup>6</sup>

Ghost kitchens, foodservice spaces that are set up for carryout or delivery only, are becoming popular with quick-service operators. These require considerable technology application. While most technology adoption and investment by operators has been service based (online ordering, online reservations and mobile pay), some operators are making plans to adopt more customer-facing and back of house technology.<sup>2</sup> Customer facing technologies, such as table tablets, can enhance dine-in customers' experience. Back of house technologies, like artificial intelligence inventory trackers or robot chefs, can improve efficiencies and help operators deal with current labor constraints.

Digital menus allow for a less restricted space and flexibility compared to traditional print menus. This added space on digital menus can be used to share information about the protein within each dish. Transparency is important to consumers: 63% want to know the who, what, where and how behind their food.<sup>7</sup> As consumers are increasingly interested in how their food was produced, calling out brands, product claims, and traceability information when relevant can be a great way to connect consumers to their food, and ultimately to a brand or foodservice establishment.

## 2 Which Menu Callouts Resonate With Consumers?

Midan Marketing's Beef Attributes Research found that consumers gravitate toward claims that signify quality such as USDA Prime, USDA Choice or Angus. Secondly, information on how the animal was raised such as raised with no antibiotics ever, raised with no added hormones, or all natural.<sup>4</sup> If an operator is already purchasing within these parameters, calling out these attributes on their menu can be a great driver to increase consumer interest in meat items.

## 3 Labor Shortages Signal Opportunities for Value Added Products

Staffing shortages and wage competition are a big challenge for operators to run consistently at full capacity. Seven in 10 operators say they cannot adequately staff their business.<sup>2</sup> As operators manage labor shortages, value added products can be a solution. Eliminating processes and skilled labor requirements can ease the burden of operators trying to staff and run their back of house operations. Precut and trimmed meats, pre-marinated, and precooked or partially cooked items can be a great asset suppliers can offer to operators.



# 4

## Premium Experience at Home vs. Dining Out

Full-service and fine-dining restaurants have not made the recovery quick-service has, although there are still premium seeking consumers who value the luxury experiences.<sup>2</sup> According to Yelp's 2021 Annual Report, searches for businesses labeled "\$\$\$\$", the highest price point on Yelp, were up 56% and search for businesses labeled "\$\$\$" increased 31.4%.<sup>8</sup>

Through the pandemic, many consumers learned to create premium and luxury at home. As consumers cooked more at home, they experimented and traded up to more premium items, creating their own version of a fine-dining experience. As the premiumization at home trend continues, operators in fine dining will have to create value and a truly "over and above" restaurant experience that cannot be simulated in a home kitchen.

# 5

## Foodservice Meat Kits

One way fine-dining is creating value for customers who prefer to skip dine-in is through meal kits. Across foodservice, operators have begun exploring offering meal kit services. Of the consumers who say they are eating out less, 62% say they want to recreate restaurant meals at home.<sup>7</sup>

As consumers have transitioned their habits, fine-dining operators have made efforts to curate the fine-dining meal experience at home by sharing recipes and offering ingredient meal kits. Suppliers should consider offering case ready products to foodservice operators, because they can be easily incorporated into meal kits with limited labor requirements. Experimenting with premium and interesting cuts, like a USDA Prime filet, in dine-in and meal kits can give consumers the "wow" factor they crave but can't easily recreate at home.

# 6

## Menu Innovations that Complement Delivery

A large volume of foodservice orders are for takeout and delivery, so creating items that remain fresh and satisfactory through delivery is important to maintain customer satisfaction. While delivery is nothing new to operators at this point, they are still facing challenges with specific menu items meeting customer satisfaction at delivery. Consumers lean toward options they know are takeout friendly when not dining in. Burgers have been a longtime favorite of consumers and are a popular quick-service and takeout order. Innovating the burger space through new toppings, builds, and blends can bring something new and interesting to consumers that are searching for something exciting. New burger offerings that experiment with different muscle blends like short rib or brisket, for example, or meat and vegetable blends, like a burger-mushroom blend, can appeal to the adventurous or flexitarian consumer.





# 7

## Trending Flavor Profiles

Consumers say they like to try dishes that make everyday proteins exciting or have an international flavor and this is helping drive new flavor profiles. A consumer survey conducted by Mintel found barbecue, garlic, teriyaki, chipotle and jalapeno among the top preferred protein flavors for consumers. Latin American and Southwest Asian inspired dishes have also grown in popularity in recent years.<sup>9</sup> In the beef category, other trending menu adoption attributes and cuts include beef variety meats, breed claims, rich sauces, braised meats, hanger steaks and porterhouse steaks.<sup>10</sup>

# 8

## Opportunities for Suppliers

When suppliers consider value added proteins, they should keep these trending flavor profiles in mind to pair complementary pre-marinades and cuts. Value added proteins is just one area of opportunity for suppliers.



One in four operators say they need more support from their suppliers with menu ideas, recipes and back of house training.<sup>11</sup>

Introducing packaging and recipe adjustments that make dishes more suitable for delivery is also an important part of menu creation for operators now. As food prices rise and operators work to keep their margins up and menu prices down, transparency from suppliers can help operators know what they can expect as they make menu adjustments.



## Meat Remains on the Menu... For Now

As inflation weighs on the meat category, operators are not considering cutting back on meat offerings. Meat remains a staple on the menu, with 91% of operators reporting beef options on their menu and 77% reporting pork options in a survey conducted by Datassentials. Operators are planning to maintain or expand their meat offerings too, with 33% of surveyed operators planning to increase beef and 25% planning to increase pork on the menu.<sup>11</sup> While supply chain issues and shortages are obviously still a problem for many foodservice operators, operators did not express concern for availability when it comes to meat products. For operators, price, USDA grade, availability and format are the most important attributes when purchasing meat.<sup>11</sup>

### Price and Price Volatility

Operators' biggest challenges with purchasing meat is price and price volatility. Operators reported an average of 37% of their total food and beverage revenue was from the sale of items featuring red meat, while red meat dishes average 34% of their total cost of menu items. With a small margin between meat sales and cost, price volatility is a challenge for operators. Over three quarters of operators report beef as the highest price commodity to source followed by to-go packaging and chicken. Transparency and communication through the supply chain can help operators plan menu transitions and purchases ahead of price changes.<sup>11</sup>



## Looking Ahead

While a majority of consumers have returned to eating out as much as they would like, foodservice sales volume has not returned to pre-pandemic levels. As consumers have changed their habits to eat more frequently at home and are concerned with inflation, foodservice will be forced to create value and a true "restaurant" experience to maintain their customer base. This new dynamic offers opportunities for suppliers to support operators via delivery-friendly cuts, high-end cuts for meal kits, value added cuts to offset labor challenges and innovative menu ideas. The foodservice evolution initiated by the pandemic will likely continue for some time.



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# Thank you for your interest in the Challenges and Changes Facing Foodservice Operators Insights Report

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