

The Big Squeeze in Food Service

By Drew Ryder



Broken supply chains are still healing in the aftermath of the Covid 19 pandemic, and the pain has been particularly felt in the food service industry. In some cases, food service companies are facing bankruptcy. Several factors have aligned to create this financial pressure on the food service sector:

1. Ingredient price inflation



The agricultural supply chain has always had pricing volatility due to the nature of farming: weather uncertainties, disease challenges, genetic and biological variation, etc. The pandemic blew it up even more. Meat packing plants were closed, backing up thousands of animals. Transportation was restricted, causing shortages to processors and distributors. This created the situation we still have today - severe price inflation on many food commodities. Food service companies are needing to make tough decisions

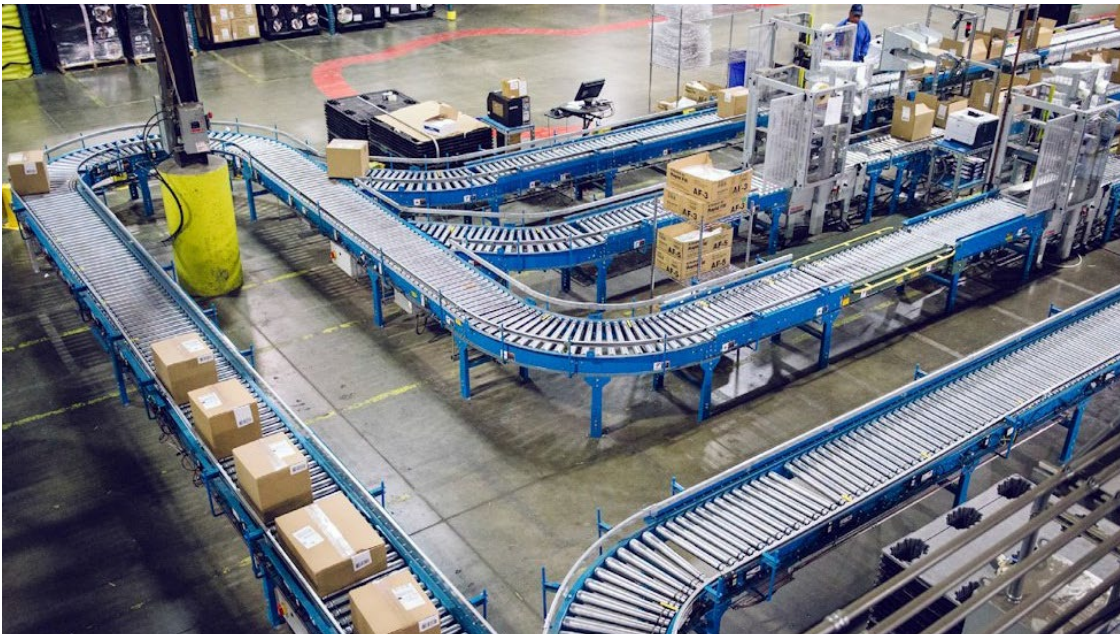
about product purchasing. If they overbuy expensive product, they could lose a lot if they can't move it quickly and are forced to sell at a discount. But they also cannot afford to understock for fear of losing sales and potentially even losing customers if they can't deliver consistently.

2. Continued uncertainty about retail vs restaurant sales.



When the pandemic's first wave hit and many areas were under lockdown, restaurants essentially stopped doing business. There was a big shift to in-home dining which continued through most of the pandemic. This caused significant heartache for food manufacturers and distributors with supply chains and packaging systems designed to serve a known split between restaurant/catering volume and grocery/home consumption volume. Today, the larger concern is knowing how much the split will be after the pandemic is over and consumers are more comfortable eating out. Without that knowledge, food service providers could lose big if they guess wrong and purchase too much of the wrong product.

3. Labor shortage



The current shortage of labor is most severe in industries hiring low-paid/unskilled labor. The food service sector relies heavily on this labor force to pick food in the field, work in processing plants, drive trucks, and

handle products in warehouses. Food service companies are being forced to pay higher wages to attract and retain workers. That goes directly to their bottom lines. It is unlikely that wages will return to their pre-pandemic levels because the supply of workers is shrinking as more have had training and moved into other careers.

4. Inefficient information systems



The food service industry has been a technology laggard traditionally. That means many businesses are using antiquated information systems. At worst, they are mostly using paper and have no analytics to run their business. At best, they are fully digitized and using demand forecasting software. But even these businesses are not able to forecast accurately because of the deterministic algorithms used in the software. Deterministic systems use fixed algorithms to predict the likelihood of a future event. They lose accuracy when many variables are added - such as a pandemic. Ideally, they should be using AI-driven software which uses machine learning to accurately predict future sales and reduces over purchasing of safety stock.

5. Lack of IT investment



By not investing enough in IT, food service companies have put themselves behind the eight-ball. They cannot fix this overnight, even if they had the cash to pay for it. When you have a culture, which is overweight in the power of people rather than computers to solve problems, it is very difficult to transform thinking. But the hard fact is that all businesses will need to invest in new technology to survive - they simply cannot remain competitive with other businesses using technology tools like AI and machine learning for forecasting. The difference between the two could be as much as 10% in margins.

Ultimately, food service companies need to get better at demand forecasting. If they cannot do it as good or better than their local competitor, they will lose the business, no matter how good their sales team is. Success is driven by purchasing the right products at the right time based on highly accurate demand forecasting.