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How do Restaurant Operators Manage Macro Risks?

It is not easy to operate restaurants in today's world. Operators must have marketing savvy, financial savvy and, of course, operational savvy. Traditionally, operators skilled in these disciplines would have a good chance of minting money as they grew rich in enterprise value (cash flow) and appreciating real estate prices.

However, life for franchisees is no longer as simple as it was in the seventies (when chain restaurant growth was still nascent), or during the eighties when bull markets roared or even in the nineties when easy money from lenders fueled asset value bubbles that benefitted the early adopters. **Today there are serious macro risks that are largely beyond the control of today's operators that can make all the difference in a thin margin business.**

For instance, gas prices go up and consume all the disposable income of a QSR operator's clientele. How do you manage against this? Or unemployment spirals out of control because of the government's mismanagement of the economy – once again, how does a savvy operator manage against this dismal development? How about this? Speculators and burgeoning demand from emerging markets across the globe drive up commodity costs. Sure the franchisor is able to hedge some of that, but what is a savvy operator to do when he/she cannot pass along the remaining price increases without hurting sales?

What are restaurant industry operators to do about all this? (A) Haplessly let the macro rollercoaster determine their profits or losses? (B) Apply some entrepreneurial skill to mitigate these risks?

OK, so everyone chooses B – but what to do? Should operators start trading financial assets (like ETF funds) to hedge against macro risks? For instance, would it make sense to try to profit from higher oil prices by buying an energy ETF fund to offset prospects of resulting sale losses from higher gas prices? Could computer programs be developed to help in this way – essentially creating a macro insurance policy for restaurant operators?

In our opinion, it is time for restaurant operators to begin exploring ways to hedge against increasingly volatile macro risks. Granted, the first steps are likely to be crude at best (but this is always the way of new growth). However, if we start now, maybe in 10 years the industry could be well advanced in developing expertise for a much needed discipline that will eventually become just as important as marketing, finance and operations.

Please email us with your thoughts of this matter at info@ChainRestaurantData.com to begin the discussion. Thanks!

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