

Soaring food prices add pinch to area menus

By ERIC SNYDER

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Your next business lunch is poised to cost a little more dough.

Caught between rising food costs and price-weary consumers, most local restaurants have been slow to pass their costs on to diners. Now, however, they're finding there's little slack left to give.

"Most restaurants have already cut the fat and well into the bone in the last 3 1/2 years," said Randy Rayburn, owner of local restaurants Sunset Grill, Midtown Cafe and Cabana.

According to the United Nation's Food and Agriculture Organization, world food prices hit an all-time high in December, and the U.S. Department of Agriculture is forecasting that U.S. food prices will increase another 2 to 3 percent this year. The increases reflect the global nature of our food supply, attributable to everything from rising oil costs to droughts in Russia and floods in Canada and Australia.

Thus far, Rayburn said his family of restaurants has "held the line on price increases because of consumer resistance during this business cycle."

He's hardly alone.

"The last resort for us is to raise menu prices," said Benjamin Goldberg, co-founder of Nashville-based Strategic Hospitality, which owns Paradise Park, The Patterson House and Merchants.

Many restaurants have modified their menus, substituting more affordable options. Rayburn said an increased sense of adventure among American diners has made this easier for restaurateurs, allowing them to use ingredients like quinoa or Israeli couscous as cheaper alternatives to, say, asparagus.

With thin margins, the restaurant industry is particularly pinched when food costs go up. According to the National Restaurant Association, the average pre-tax profit margin for a restaurant is between 2 and 6 percent. Food and beverage costs represent about a third of an average restaurant's expenses, according to the association.

Among the various food staples, owners said meat and dairy have shown some of the largest increases.

B & C Market BBQ co-owner Paul Johnson said the restaurant's costs for brisket have jumped by more than 21 percent, from \$1.65 a pound to more than \$2.

"We haven't really decided what we're going to do" about their increased costs, Johnson said. "Do we just make less money because the consumers aren't going to pay extra?"

At The Melrose, whose cheeseburgers make for another meat-heavy menu, they're leaning toward raising prices, owner Austin Ray said.

The Melrose previously raised prices on its burgers by 25 cents a year ago, when it switched to beef raised and processed in Williamson County. This increase was understood by customers, Ray said, because they knew they were getting local, tastier beef. But he expects them to be less understanding about droughts in Russia.

The Melrose is not the only restaurant to source its food locally, but owners disagreed on the extent to which this



Rayburn

protects them from price fluctuations. Goldberg said his local suppliers are "less apt to raise their prices than some big, wholesale grocery company."

But Ray said his Williamson County beef provider is more susceptible to price increases, because he doesn't have the same economies of scale as larger providers when buying cattle.

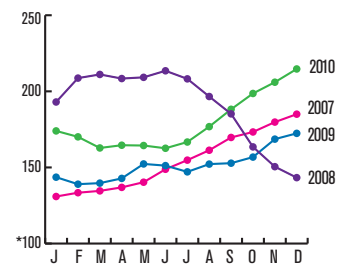
Still, Nashville's large chains have not been able to avoid price increases.

In the company's latest quarterly report, J. Alexander's Corp. President and CEO Lonnie Stout noted that food and beverage costs remain above the company's targeted levels.

"We have started to take some modest price increases and may need to continue raising prices in the fourth quarter," Stout said in the November report. "We have been very cautious in taking price increases under current economic conditions. However, we believe food costs will continue rising, especially beef and probably seafood and produce as well."

Rising food costs

Driven by a number of factors, the index of world food prices hit a new high in December. The increase is attributable to a number of factors, including higher gas costs, droughts in Russia and floods in Canada.



* The average Food Price Index was 100 from 2002-2004
Source: Food and Agriculture Organization of the United Nations



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