



Limited-Service, Unlimited Possibilities

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What to Expect from Commodities in 2017 ^[1]

Meat may cost less and cheese could fetch a higher price, but operators would do well to take it all with a grain of salt.

Cost forecasts for the most popular commodities are in, leaving operators to decide whether they should take action or view the results with some caution.

A promotional banner for Oracle Hospitality. On the left, the Oracle Hospitality logo is in a red box. The main text reads "What Do Guests Want From A Restaurant Loyalty Program?". Below this is a red button that says "GET REPORT" and the text "Find Out Now". The background features a network diagram with icons for a smartphone, a laptop, a cloud, and social media symbols (Facebook, Twitter, Pinterest).

According to the annual purchasing forecast by supply chain–management firm SpenDifference, pork, beef, and poultry costs are projected to drop in 2017, while wheat and soybean oil are predicted to increase. As for dairy products, butter is projected to drop in cost, whereas cheese prices are expected to rise.

Experts say operators could consider adjusting menu prices based on commodity costs. For example, DeWayne Dove, SpenDifference vice president of purchasing, says that if ground beef costs go down, restaurants might lower prices on beef items or run more limited-time offers on those items to drive margins and foot traffic.

But while one item expected to increase in price in 2017 happens to be the star of the show at The American Grilled Cheese Kitchen, CEO and general manager Nate Pollak says he isn't changing the menu.

"For me to consider a major menu change based on predicted price increases for cheese would be a little challenging, because cheese is in our name," Pollak says. "It's important to offer a consistent experience. Our menu prices don't fluctuate [in tandem] with prices in the market." Instead, he adds, the brand looks at all commodity and operating costs once a year to determine if an adjustment is necessary.

Pollak says a slight increase in prices on The American Grilled Cheese Kitchen menu in November was due to increased labor costs rather than food prices.

He says, however, that using artisan cheeses and buying from a variety of cheesemakers somewhat insulates his two-store operation from swings in the commodities market.

“We work with a lot of cheese companies on the West Coast, and we have an outstanding relationship with our vendors,” he says.

Pollak says only one of the many cheeses used at The American Grilled Cheese Kitchen is affected by changes in commodity prices. The brand uses a good deal of Monterey Jack, which fluctuates with the market. Fortunately, Pollak says, the Monterey jack is used on the most profitable menu items, including a mac and cheese grilled cheese sandwich.

Mac and cheese is a big seller at Chicago’s four-unit Blackwood BBQ as well, but increases in cheese prices are likely to be offset by decreases in meat prices. A balanced menu protects this meat-centric concept from feeling too much of an impact when commodity prices fluctuate. Rather than just focusing on pork like some barbecue restaurants, Blackwood BBQ offers pork, beef, and chicken.

Aaron Jacobson, operations director for Blackwood BBQ, says the short answer to the question of what his company does differently in reaction to commodity forecasts is “nothing.”

“Commodity prices can make a difference between making a profit and not making a profit, but we don’t want those fluctuations to affect our guests,” he says. “We have a pricing structure in place so we can handle those fluctuations. The more diversified your menu is, the more those changes even out.”

Blackwood BBQ serves premium meats sourced from the farm, including pasture-raised beef and pork raised without hormones or antibiotics.

“Because we source directly, price increases may be harder on us,” Jacobson adds. “If you have a middleman, you may not feel it as much. We’re closer to the product and what might affect those products. But that’s the price we pay for that type of buyer relationship.”

With commodity prices falling, some operators may worry that the accompanying decrease in grocery-store prices will inspire consumers to cook and eat at home. That’s not a concern for Jacobson, who points out that Blackwood BBQ’s products take more than a dozen hours to prepare. He says consumers aren’t willing to put that much time into their own cooking, no matter how much the grocery prices drop.

Jacobson adds that forecast price increases don’t always materialize. Other times, costs skyrocket due to unforeseeable factors, such as the avian flu outbreak, which increased the price of turkeys and eggs in 2015.

Some mainstream sandwich shops were unable to get enough turkey, Jacobson says, but Blackwood BBQ found out early enough that it could stock up for a Thanksgiving special. If the brand hadn’t been able to get the turkey it wanted, the special would not have been offered, because one thing Jacobson says he won’t do is switch to an inferior product when prices increase.

“If I see big price spike, I will shop around to different suppliers—always for the same product, though, never for a lower grade,” he says. “Sometimes a supplier will say there’s a huge price hike on something and it is affecting everyone, and I find out that’s not the case.”

Spence’s Dove says there are so many drivers of commodity prices that it can be difficult for a single operator to keep up. Restaurants with a robust system, as well as supply chain partners like Spence, can buy in volume to secure the best pricing.

Because fierce competition and so many other factors affect menu prices—including minimum wages and healthcare costs—operators have to use whatever tools they can to contain costs, Dove says.

“The biggest tool restaurants have right now is a sound supply chain,” he says. “Commodity forecasts allow you to predict costs and manage that supply chain.”

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