

The State of Restaurants
in 2022

Los Angeles Report



Introduction

Back in early 2020, we released our annual State of Full Service Restaurants Report. We surveyed hundreds of restaurateurs and our findings set a benchmark for what was happening at FSRs across the U.S. in terms of financial health, technology, staffing, and more.

Then, the COVID-19 pandemic happened.

Since our 2020 report was released, the pandemic has turned the entire restaurant industry upside down. These changes have been especially striking in major restaurant hubs like Los Angeles, where repeated dining room closures and shifting safety protocols have radically transformed the experience of dining out.

To find out how these changes have played out across the U.S., we recently surveyed more than 500 restaurant owners, presidents, CEOs, and general managers. We also spoke directly with nearly a dozen restaurateurs to dive deeper into the stories behind the numbers.

In this report, we offer an in-depth look at the state of restaurants in Los Angeles. You'll be able to see how location-specific factors have impacted the restaurant industry in California's biggest city.

Our findings reveal that restaurants in Los Angeles relied heavily on government support programs – such as Paycheck Protection Program (PPP) loans and Employee Retention Tax Credits (ERC) – to help them stay financially afloat during the pandemic. We also learned that expenses such as rent and labor costs continue to be major sources of financial strain causing average profit margins to stall at 11%

Continue reading for a complete look at how full service restaurants in Los Angeles compare to FSRs elsewhere in the U.S.

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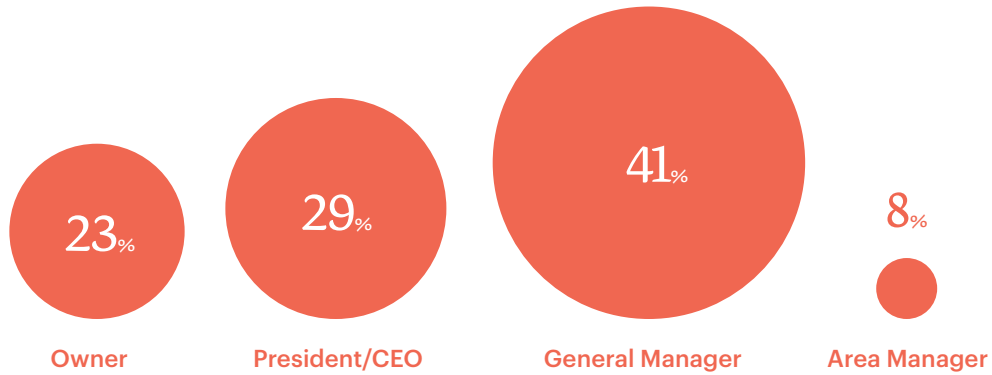
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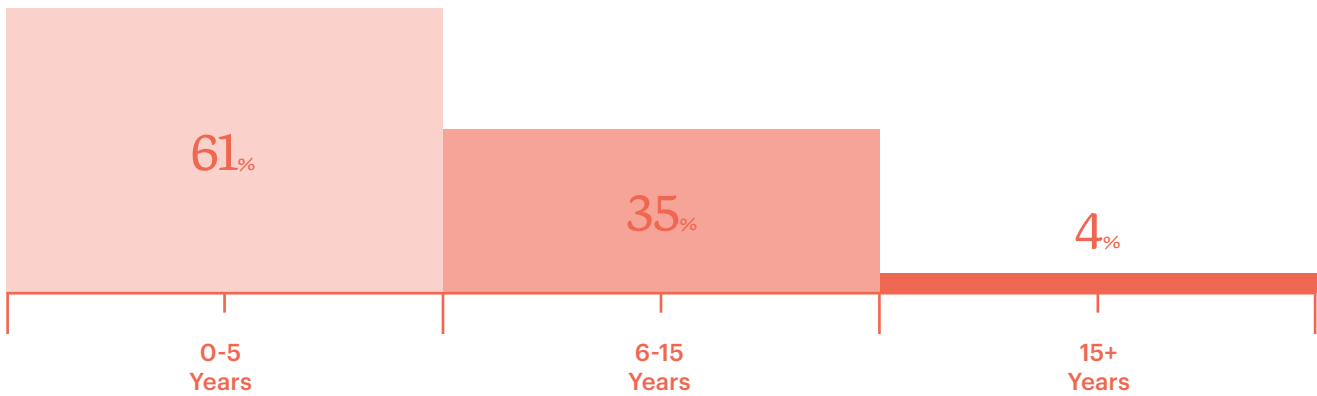


Respondent Profile

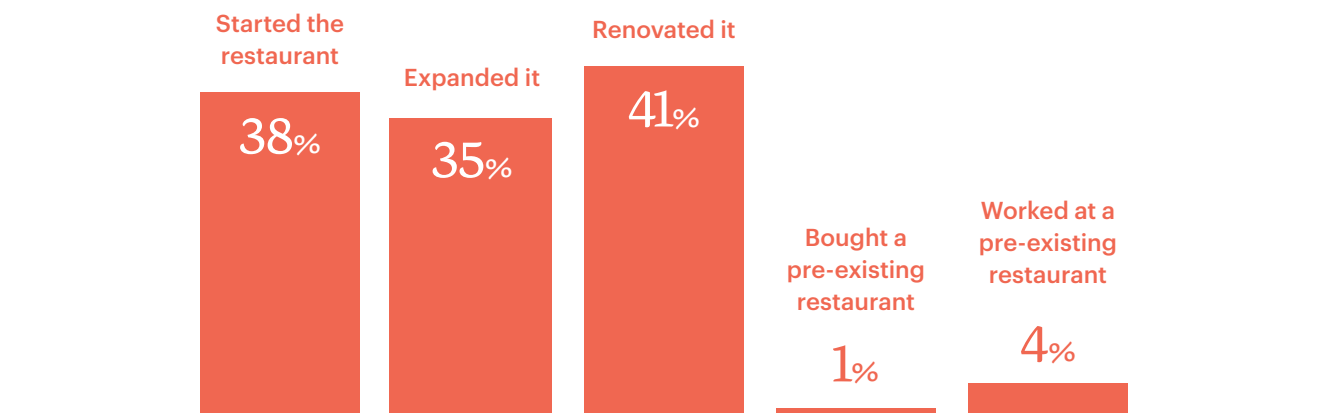
Current Role:



Years in the Industry:

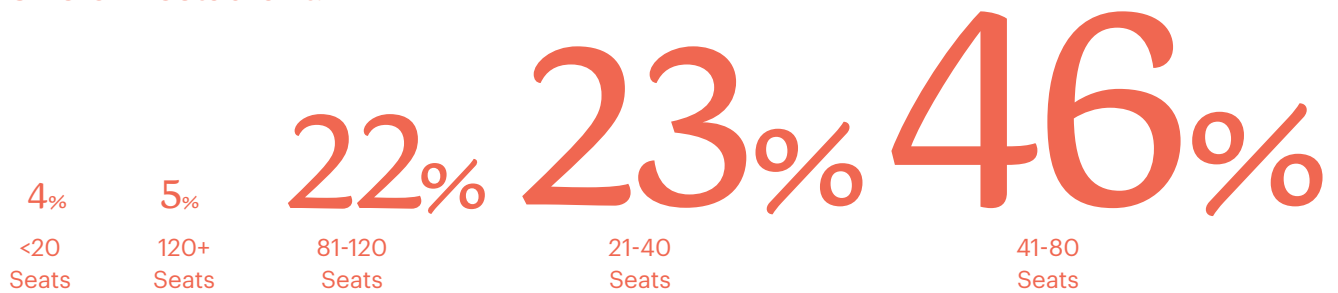


Relationship to Restaurant:

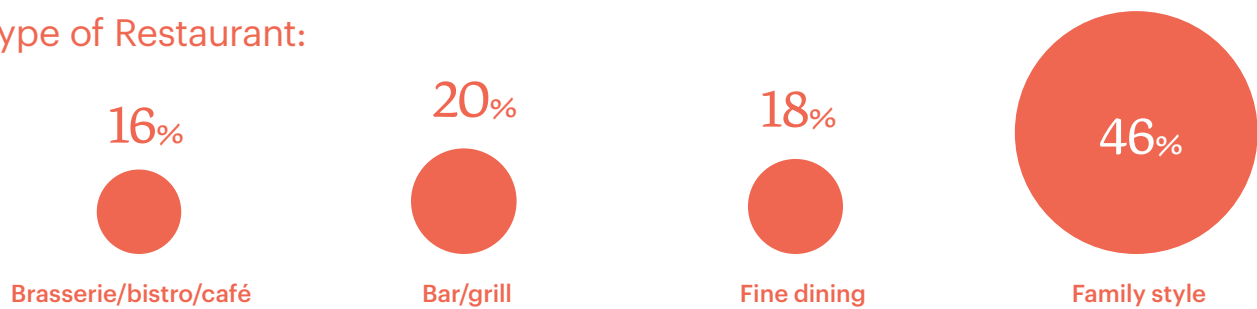


Respondent Profile

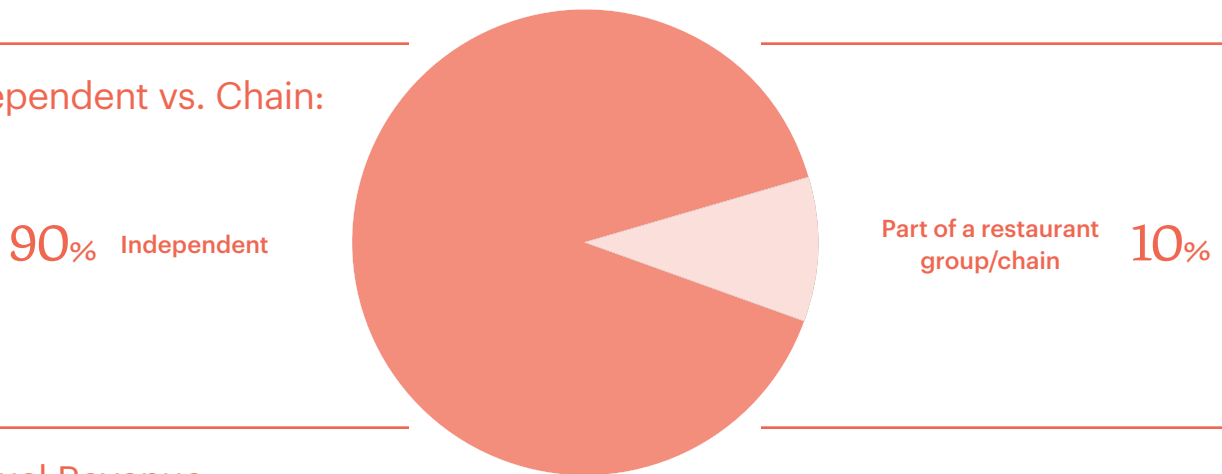
Size of Restaurant:



Type of Restaurant:



Independent vs. Chain:



Annual Revenue:



Financial Health

Like restaurants across the U.S., Los Angeles venues took a major financial hit during the pandemic. However, Angelenos also proved to be incredibly resourceful when it came to finding new sources of funding to bridge the gap.



While 54% of restaurants across the U.S. dipped into their own savings to stay afloat during the pandemic, only 27% of Los Angeles restaurateurs followed suit. And unlike their counterparts in Dallas and New York City, restaurants in Los Angeles were much more likely to rely on grants and other forms of government support during the pandemic. 22% said they relied on PPP loans, while 30% turned to online lenders and Small Business Administration (SBA) loans.

Pandemic Support

27% My Own Saving

36% Banks and traditional small business owns

22% Family and Friends

30% Online lenders and SBA-Guaranteed Loans

19% Grants

9% Crowdfunding

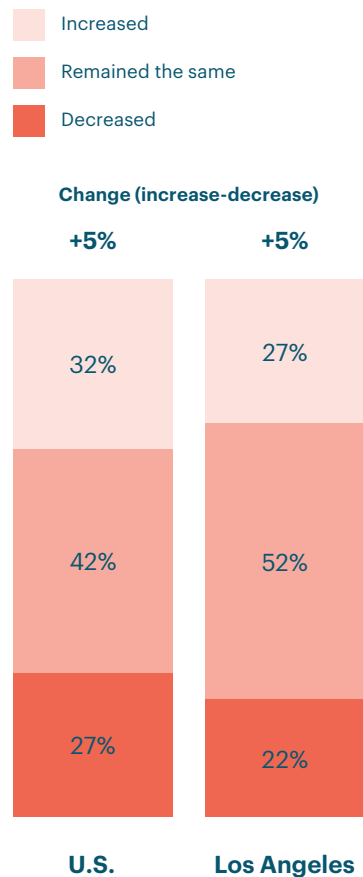
22% Paycheck Protection Program (PPP) Loans

23% Employee Retention Tax Credit (ERC)

1% None

These sources of emergency funding not only helped Los Angeles restaurants make it through the pandemic, but the greater cash flow also fuelled some growth. Overall, 27% of Los Angeles restaurants were able to increase sales volume over pre-pandemic levels, while 52% were able to maintain the same sales volume.

Change in Sales Volume vs. Pre-Pandemic



Unfortunately for many restaurateurs, the majority of these gains were wiped out by rising operating costs. 38% of Los Angeles restaurateurs said that labor costs were their biggest source of financial strain, while 35% pointed to rent. In contrast, restaurateurs in New York City were much more likely to feel pressure from rising inventory costs.

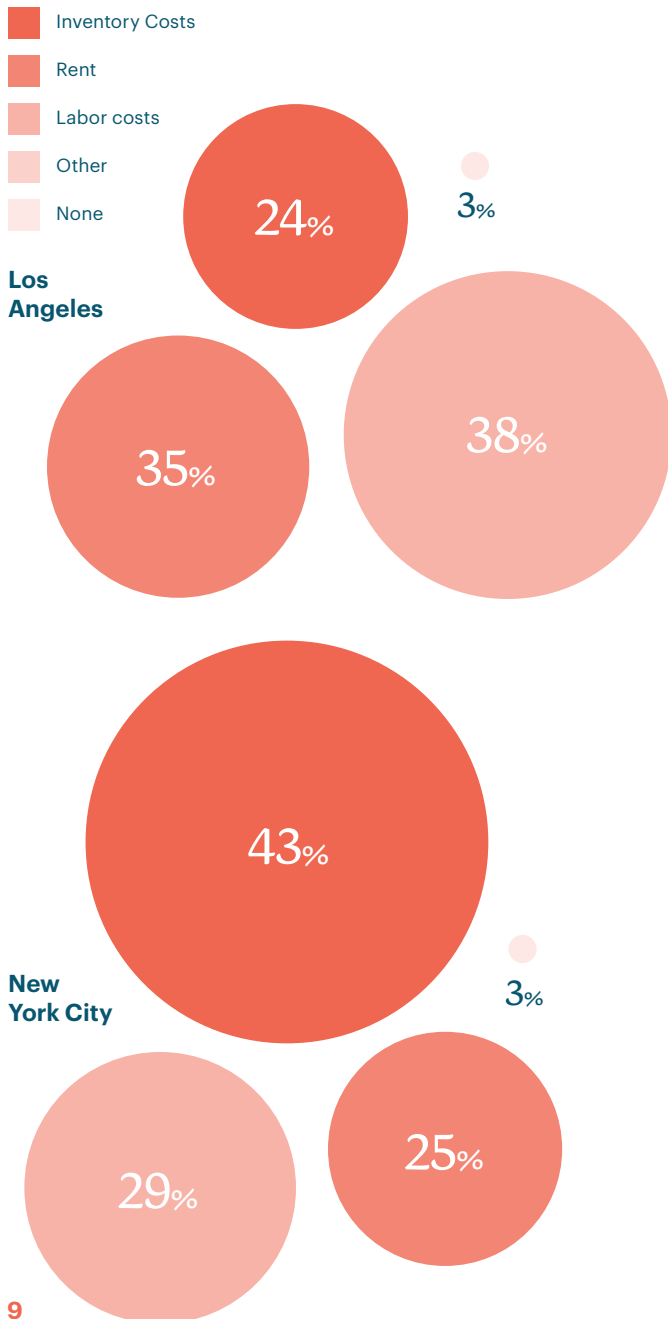
“I knew that we were in trouble for some time, but I've been in the restaurant industry for eight years. I wasn't really going to shut it down unless I went like 2 years without any revenue. I have a lot invested in it and I've been at it for a long enough time to know that whenever things do come back up, my business is going to be back to normal, if not better.”

(Owner, Independent Fine Dining,
Los Angeles)

“It kind of worked out because the business was able to stay afloat, but I didn't make any money.”

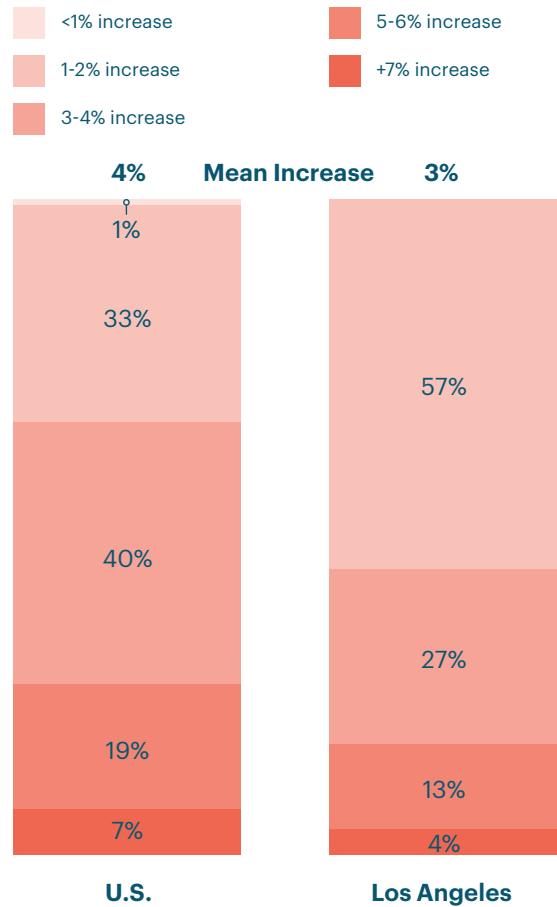
(Owner, Independent Fine Dining Restaurant, Los Angeles)

Greatest Causes of Strain in Past 12 Months



The situation in Los Angeles is reflective of a wider trend across California, where a rising minimum wage has caused many restaurant operators to struggle with payroll. In fact, restaurants in Los Angeles are the least able to afford an increase in minimum wage, with slightly more than half saying they are only able to afford an increase of up to 2%.

Affordability of Minimum Wage Increases



As a result of rising labor costs and other expenses, the average profit margin for Los Angeles restaurants remains flat at 11% – just slightly above the national average.

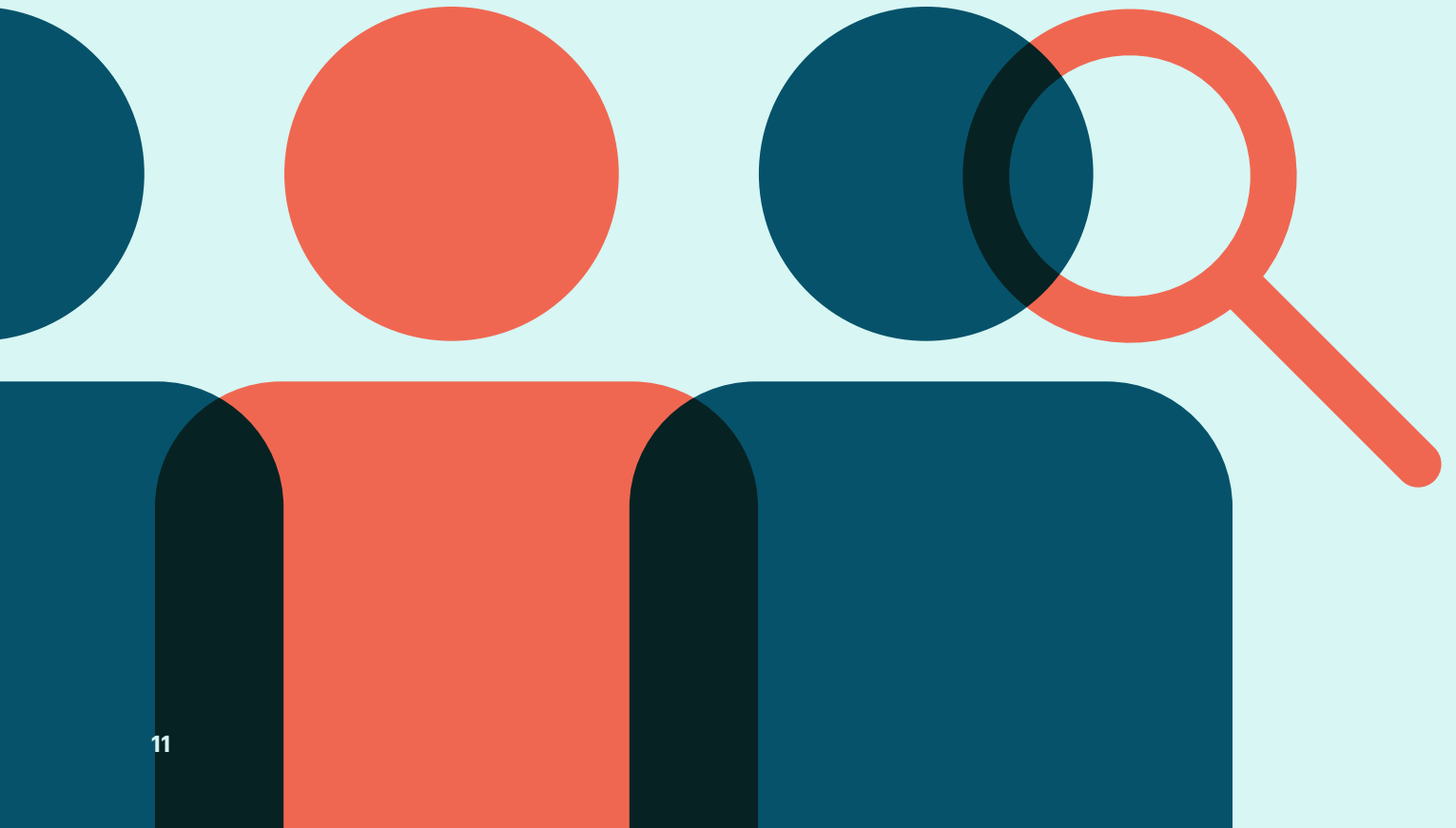
Average Profit Margins: U.S. 10%, Los Angeles 11%

“Keeping up with that demand has been difficult because it's been hard for me to find as many employees as before and it's not pandemic related. It's more like I've had to be more competitive in pay to find employees... the minimum wage in California is already \$15.00 an hour. I'm now offering \$18.00 an hour, \$20.00 an hour, so that's cutting into my profits.”

(Owner, Independent Fine Dining Restaurant, Los Angeles)

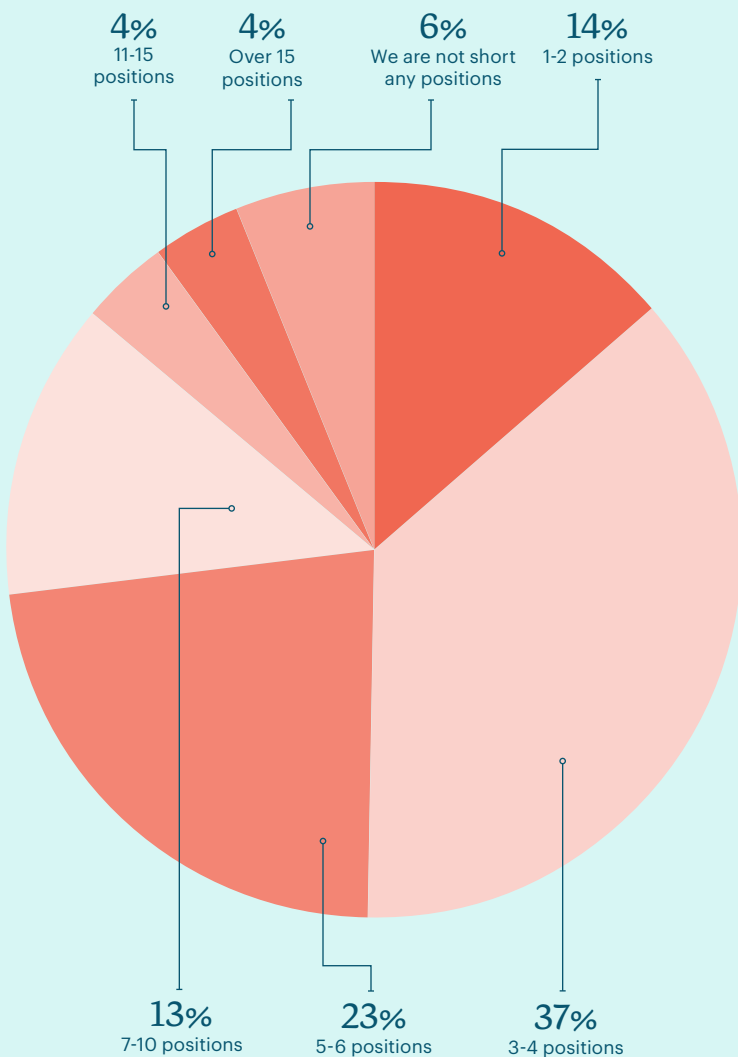
Staffing & Labor

Back in 2019, Los Angeles seemed to escape the worst of the nationwide labor shortages. In fact, nearly a third (31%) of restaurants reported no regular labor shortages at the time. But, as mentioned, the pandemic has dramatically changed the Los Angeles labor pool and finding (and keeping) staff is now a top concern for restaurants.



According to our data, 37% of Los Angeles restaurants are currently short 3-4 positions and an additional 23% report a shortage of 5-6 positions.

Number of Staff Shortages Los Angeles Restaurants are Experiencing



Of these positions, the biggest demand is for dishwashers and servers, with 42% of operators short of dishwashers and 33% short on wait staff. This data is consistent with 2019 when dishwashers and servers were also the most in-demand positions.

Staff Shortages in Los Angeles

2021: 33%	2019: 31%	Servers
2021: 24%	2019: 14%	Bartenders
2021: 13%	2019: 19%	Hosts
2021: 25%	2019: 27%	Chefs
2021: 14%	2019: 18%	Line Cooks
2021: 10%	2019: 24%	Prep Cooks
2021: 42%	2019: 27%	Dishwashers
2021: 20%	2019: 18%	Managers
2021: 13%	2019: 31%	I'm not facing regular labor shortages for any positions

“I’m still short. I have not been able to find staff that want to come in. It’s so hard for me to find full time employees because people still don’t want to work. Last month the unemployment benefits ended, so because of that, I think I’ve been getting more applicants applying for my jobs. But you know, it’s still been hard to find staff.”

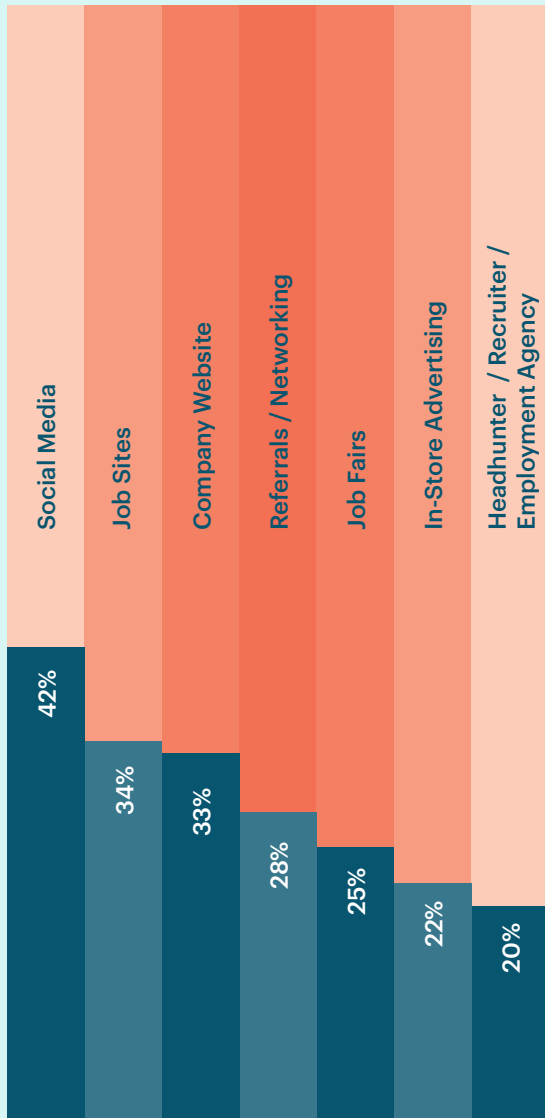
(Owner, Independent Fine Dining Restaurant, Los Angeles)

And when it comes to filling those open positions, 42% of Los Angeles operators reported using social media as their primary recruitment channel – a trend that’s reflected across the U.S. The use of other digital recruitment tools, such as job sites and posting on a restaurant’s website, are also up, while traditional strategies like in-store advertising are down.

To try to sweeten the deal for staff and to stay competitive, nearly half (49%) of Los Angeles restaurants offer benefits such as health insurance.

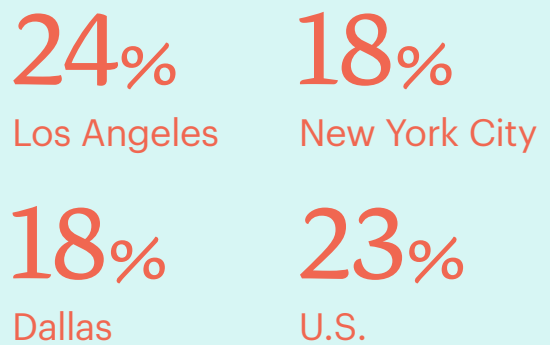
#1 retention strategy for Los Angeles restaurants is offering benefits

How Restaurants Find New Employees



But despite many operators offering benefits, staff turnover remains high in Los Angeles. In fact, Los Angeles has one of the highest turnover rates at 24%. This is well above its counterparts in New York and Dallas, and slightly above the national average of 23%.

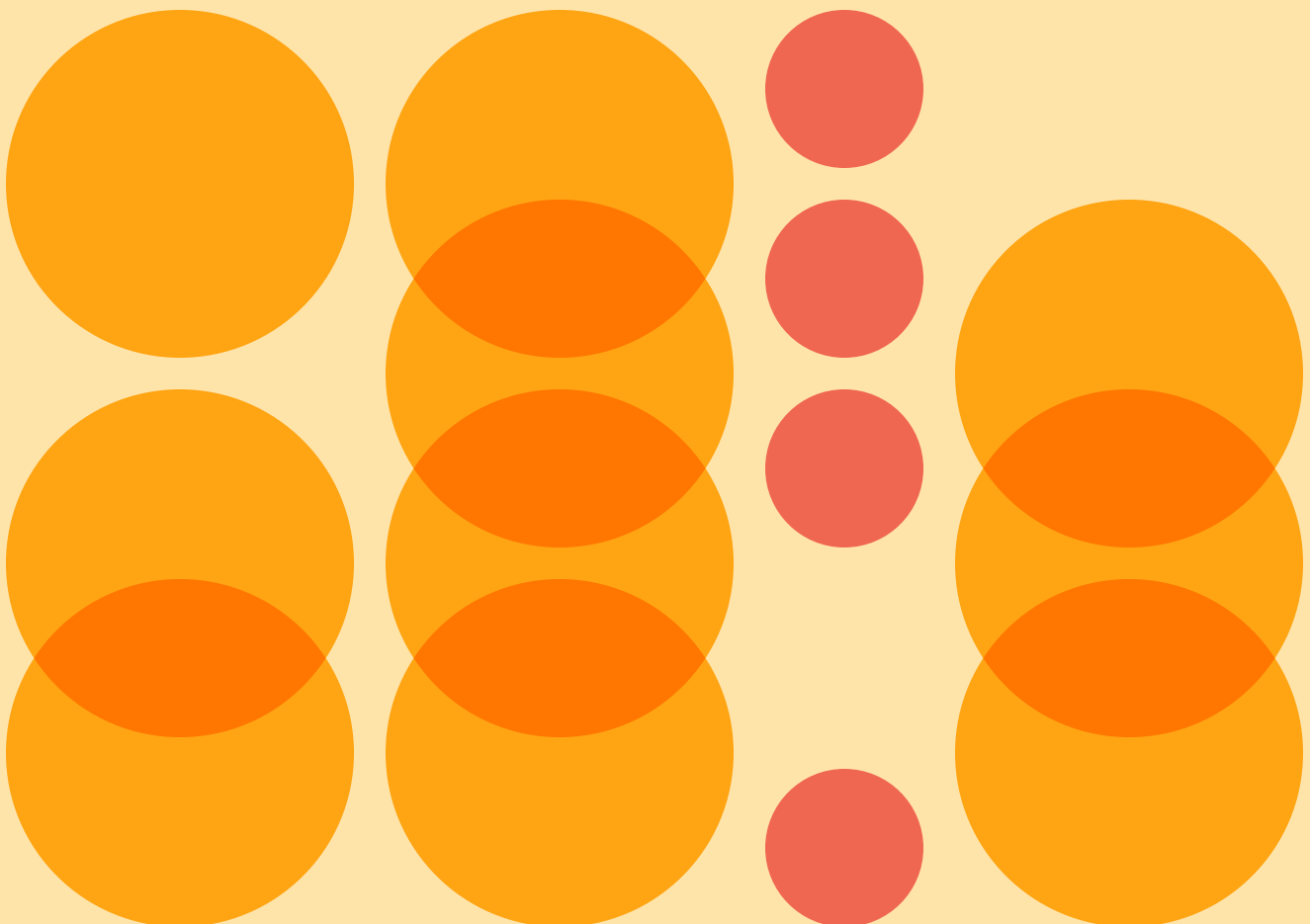
Average Employee Turnover Rates



In part, high turnover may be linked to an increasingly heavy workload, with 43% of Los Angeles operators saying they’ve sought to increase productivity among existing staff as a way to reduce their labor costs.

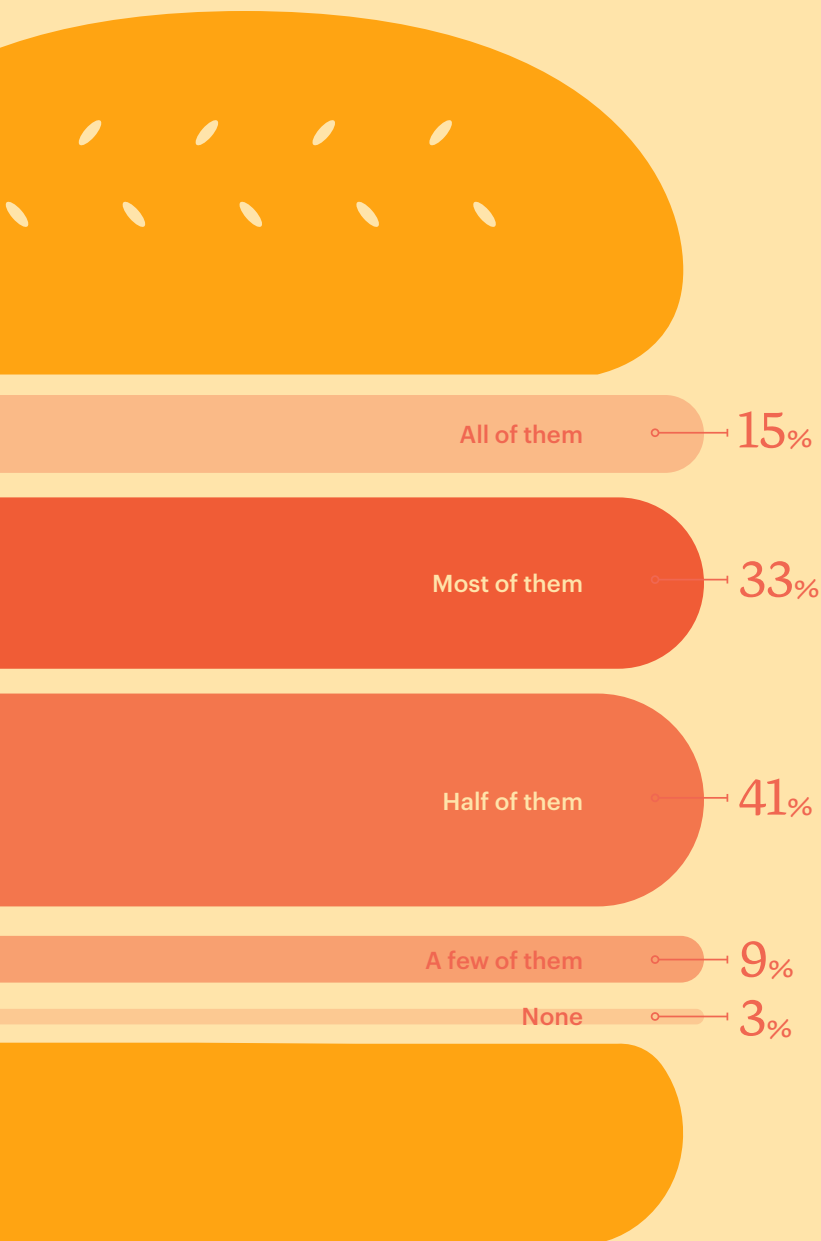
Inventory & Menu Management

While labor costs may be the biggest source of financial strain for restaurants in Los Angeles, the rising cost of ingredients has also hit the city's operators particularly hard.



Like many restaurants across the country, restaurants in Los Angeles are facing supplier pricing increases across the board. In fact, 41% of L.A. restaurants said that half of their suppliers had increased costs, while 33% said that most of their suppliers had increased their costs.

Incidence of Increase in Supplier Pricing During the Pandemic

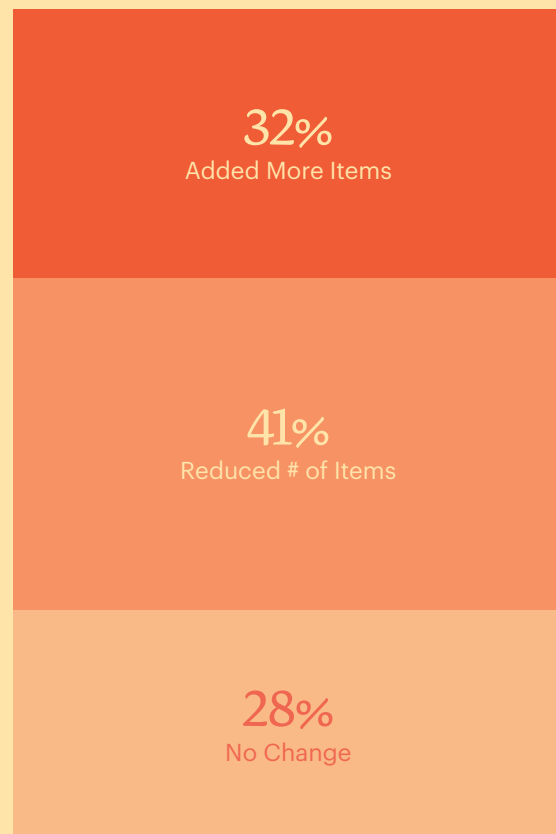


The response to these rising ingredient costs has been mixed. While 41% of Los Angeles restaurants made the decision to shrink their menus, nearly a third (32%) added more menu items.

“We did hear that a lot of stuff was out of stock. Thankfully, we're a little bit smaller so we were able to modify things and change some of the things that we do.”

(General Manager, Independent Bar & Grill, LA)

Changes to Menu Size During the Pandemic



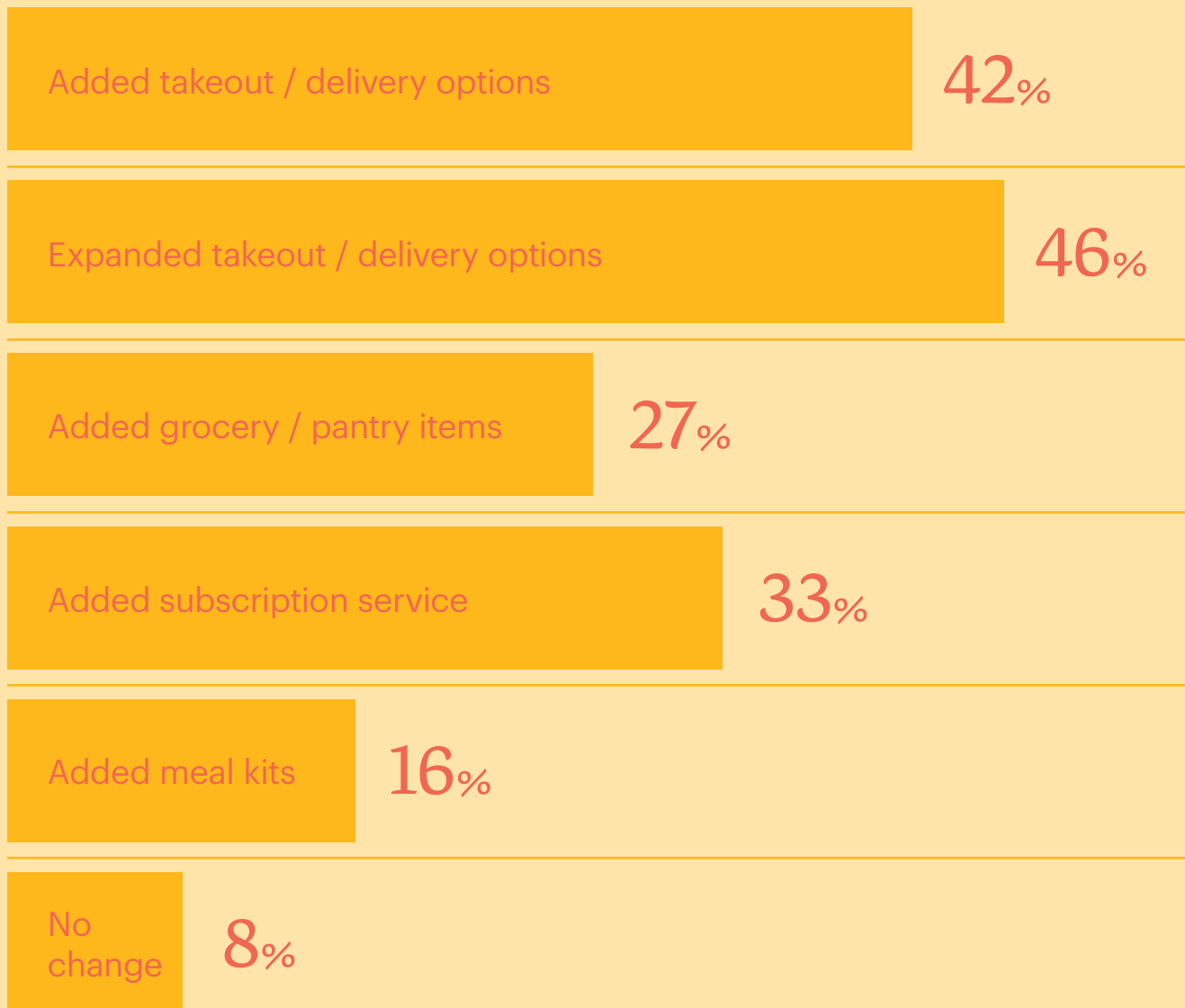
Los Angeles

In most cases, adding new menu items was done out of necessity to keep up with the rising demand for takeout and delivery. In fact, Los Angeles operators were the most likely to adjust their menus for takeout and delivery, with 73% adjusting their offerings, compared to 70% in New York City and just 53% in Dallas.



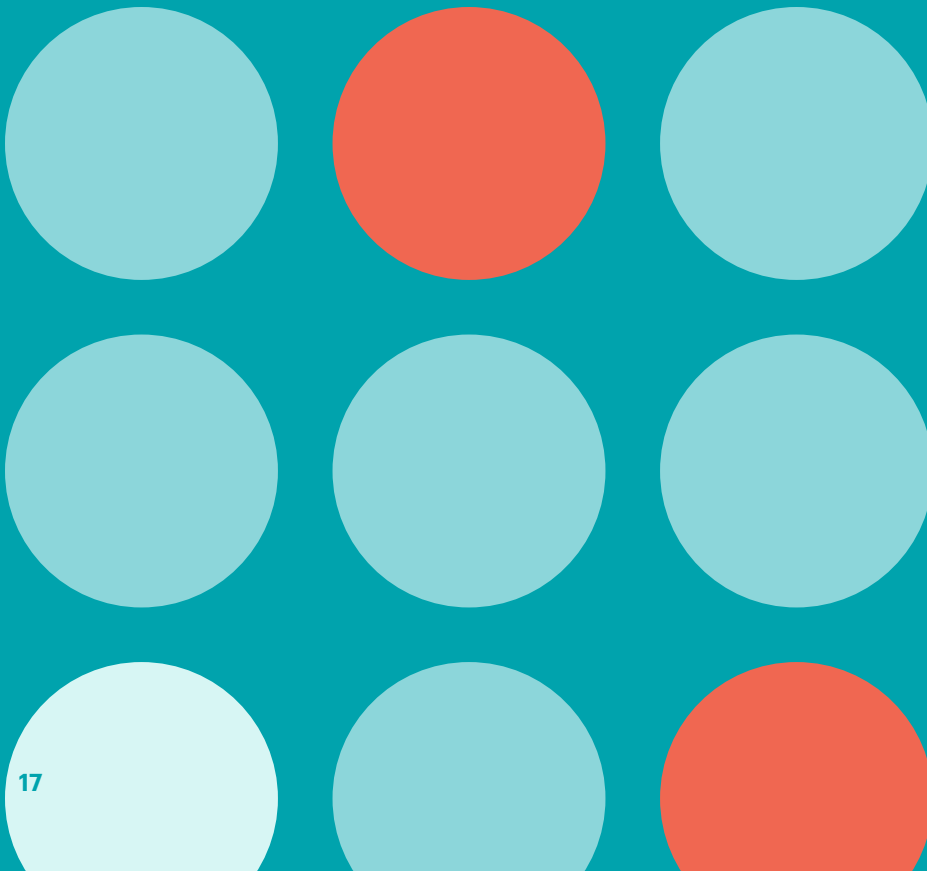
Dallas restaurants were least likely to adjust takeout/delivery options

Changes to Menu Offerings in Los Angeles During the Pandemic



POS & Payments

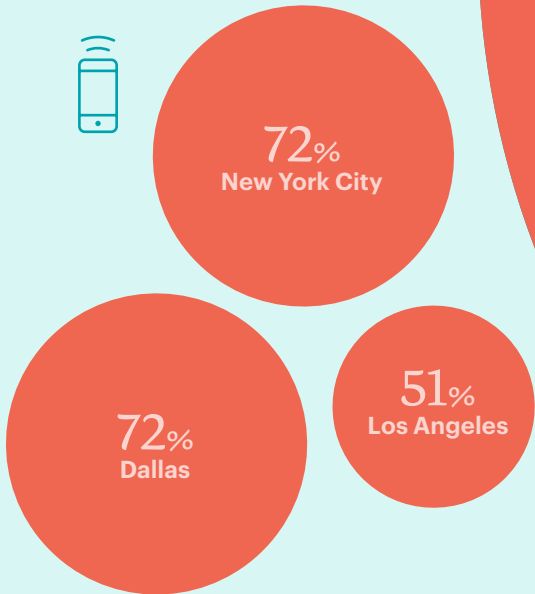
Like many restaurateurs across the U.S., operators in Los Angeles have historically been hesitant to adopt contactless payments. In 2019, 89% of restaurants in Los Angeles still accepted cash.





However, the pandemic proved to be a major tipping point in the use of contactless payments, and restaurant operators in Los Angeles were quick to adopt these new payment methods as a way to promote social distancing. QR code payments proved to be the most popular with 68% of Los Angeles restaurants implementing this payment option.

While the use of contactless payments is up in Los Angeles, the city's restaurants and its residents still lag a bit behind when it comes to mobile pay. While 71% of restaurants across the U.S. adopted mobile pay, just 51% of Los Angeles operators began offering this contactless payment option.

Mobile Pay Adoption



 **51%**
Mobile Pay

 **68%**
QR Codes

 **49%**
Tap to Pay

None

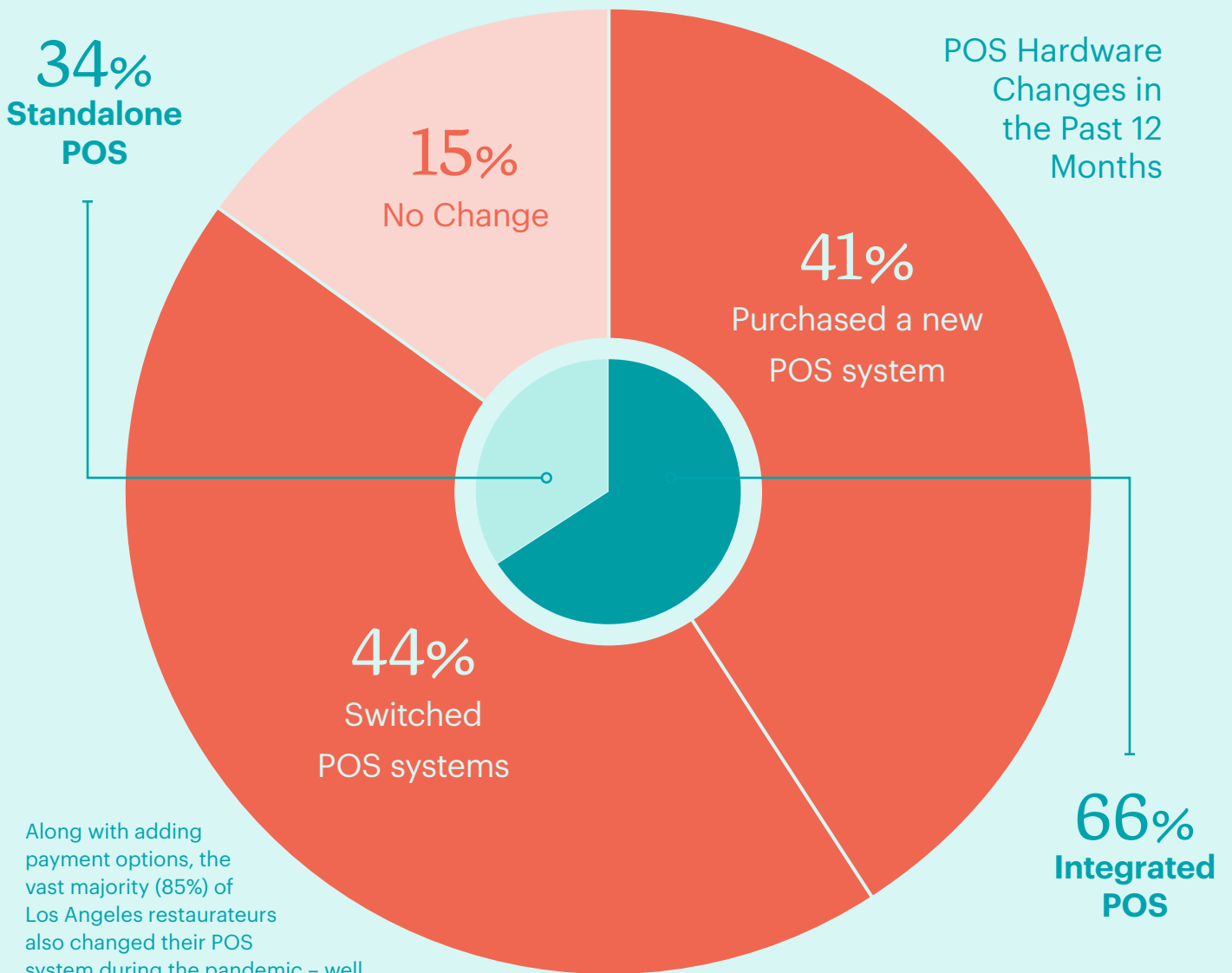
Contactless Payment Types Implemented During Pandemic

Part of the hesitancy to adopt mobile payments may be due to a lack of trust, as more than a quarter (29%) of Los Angeles restaurants said that a lack of transparency on pricing was their number one frustration with payment processors.

#1 frustration with payment processors:
The lack of transparency on pricing (hidden fees, etc.)

“We were trying to move technologically forward with contactless payments. With recent events, a lot of people are not carrying cash. So that was something that we thought, even though we don't have a clientele for that, it would be nice to offer it. Especially for the younger generations. It's just an easier option for them to not carry anything and just have it on their phone.”

(General Manager, Independent Bar & Grill, LA)



Along with adding payment options, the vast majority (85%) of Los Angeles restaurateurs also changed their POS system during the pandemic – well above the national average of 67%. 41% reported purchasing a brand new POS system, while 44% switched from one POS provider to another, suggesting that many restaurateurs sought out a system that could help them better navigate the changing industry landscape.

Online Ordering

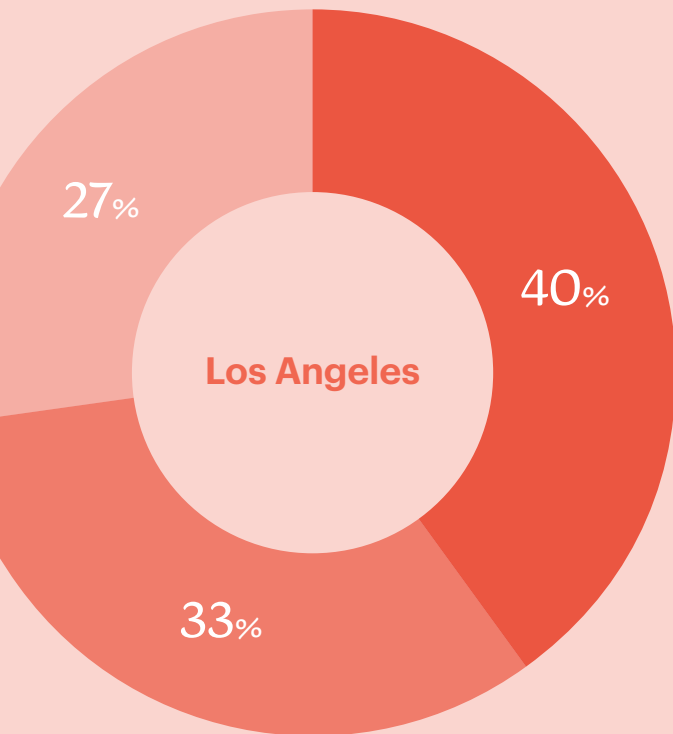
In the wake of stay-at-home orders and repeated dining room closures, the pandemic created an unprecedented demand for online ordering across the U.S. and restaurants in Los Angeles responded swiftly.



After the pandemic began, 27% of Los Angeles restaurants began using online ordering for the very first time, while 33% added additional online ordering platforms.

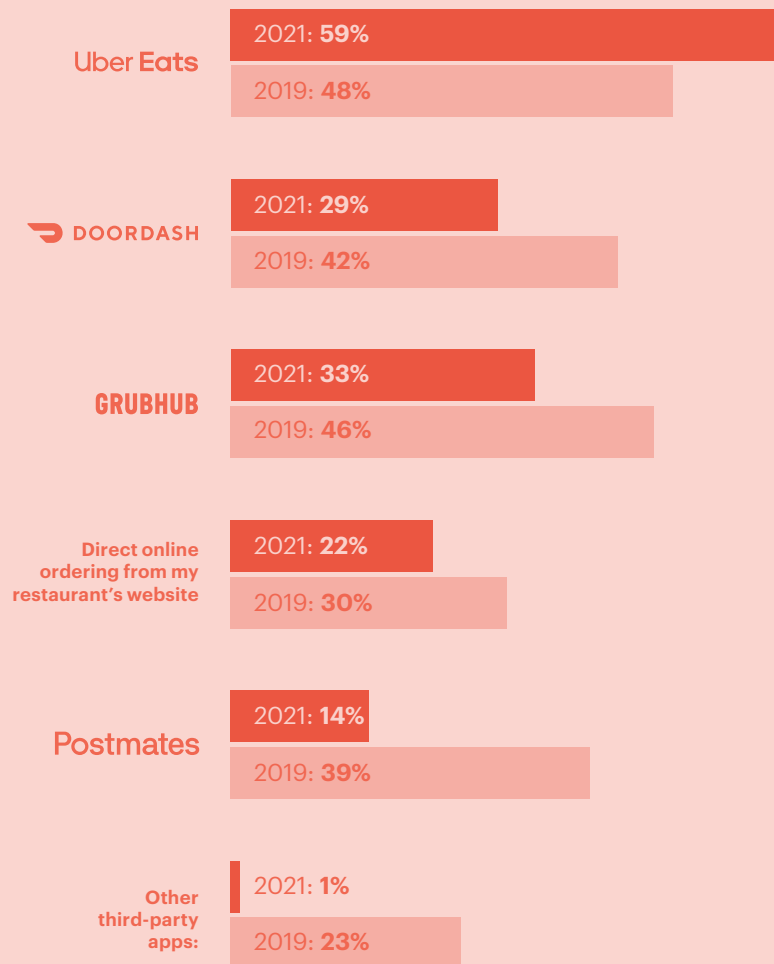
When Online Ordering Platforms were Implemented

- Implemented all BEFORE the pandemic started
- Used some platforms before, but added new platforms during the pandemic
- Implemented all AFTER the pandemic started



Of these online ordering platforms, Uber Eats is the top choice for restaurants, with more than 59% of Los Angeles' full service venues using the platform. This is up 11% from 2019, when just 48% of Los Angeles restaurants reported using Uber Eats. In contrast, the use of third-party apps such as Postmates, Grubhub, and DoorDash have all fallen since 2019.

Use of Online Ordering Platforms



“If customers order online and they eat at home, I make more money doing that. It's less costly per order because I don't need to have a server. And [I use] disposable plates and utensils so I don't need someone to clean and all that. So for me, the online sales model works better.”

(Owner, Independent Fine Dining, LA)

Interestingly, restaurant operators in Los Angeles are the least likely to use low-cost direct online ordering solutions. In fact, just 22% of Los Angeles restaurants allow consumers to order directly from their website, versus 34% of restaurants across the U.S. This is likely due to the fact that a built-in delivery network is the number one factor Los Angeles operators look for when choosing an online ordering platform. However, it also means that operators in Los Angeles are losing a significant portion of their online ordering revenue because of the high commission fees charged by third-party apps.

#1 thing Los Angeles operators look for in an online ordering platform: **delivery options**

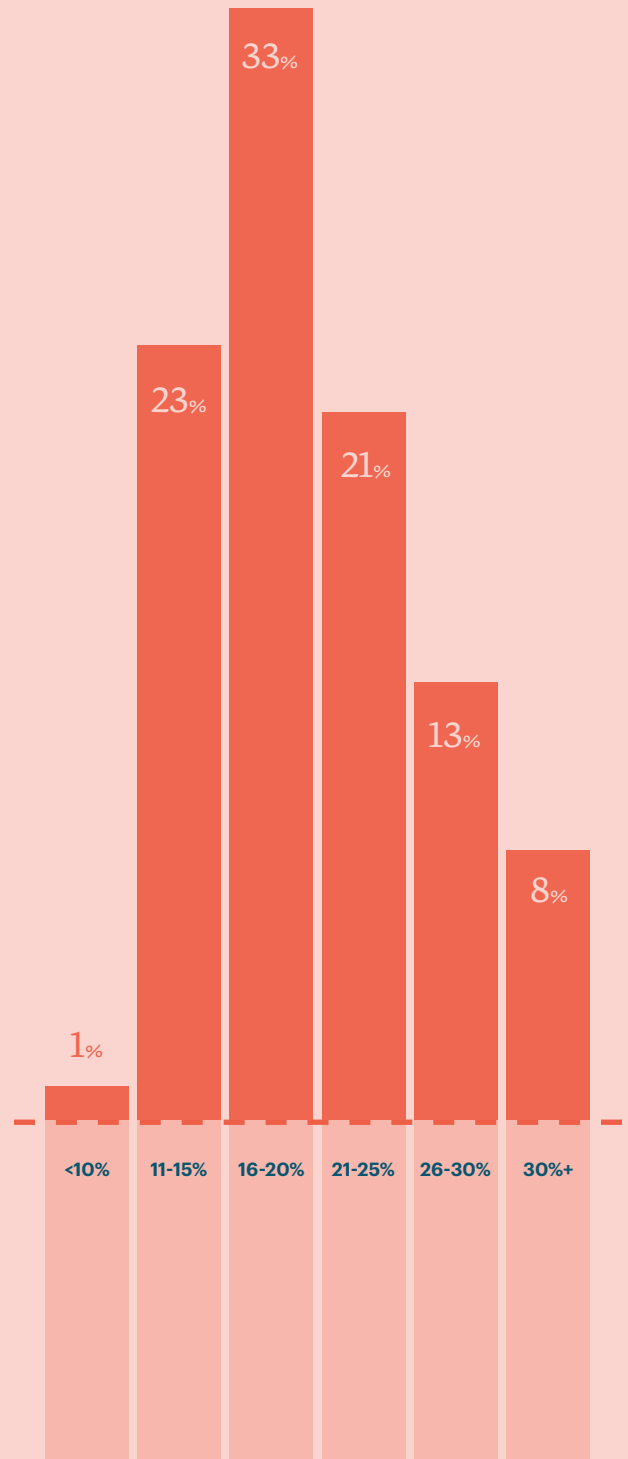
#1 thing Los Angeles operators say is missing from current online ordering platforms: **marketing / advertising tools**

Regardless of which platform Los Angeles restaurateurs are using, embracing online ordering platforms seems to be paying off. A third of operators (33%) say they've seen a 16-20% increase in sales volume since they started using online ordering platforms and 8% report that they've seen an uptick of more than 30%. Moreover, a whopping 39% of Los Angeles restaurants say that 21-30% of their business is now done through online ordering platforms.

“So online ordering is, I would say, about 70% of the business at this point. Pre-pandemic, it was more like 20%, 30%, not even that.”

(Owner, Independent Fine Dining Restaurant, LA)

Sales Volume Increase After Implementing Online Ordering

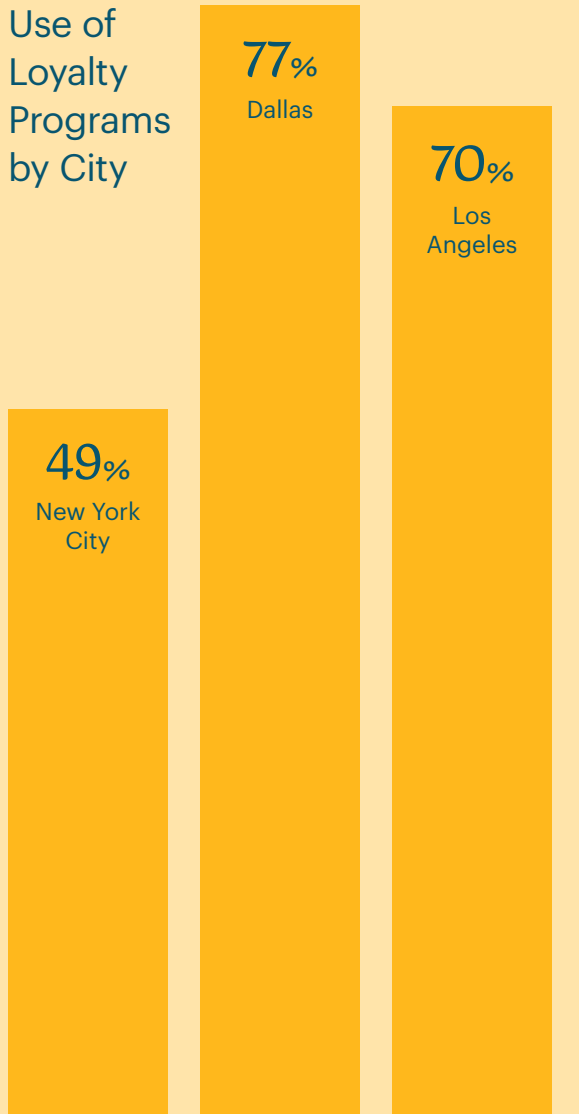


Loyalty

Like online ordering, loyalty programs are another strategy that Los Angeles restaurants have turned to in the wake of the pandemic.

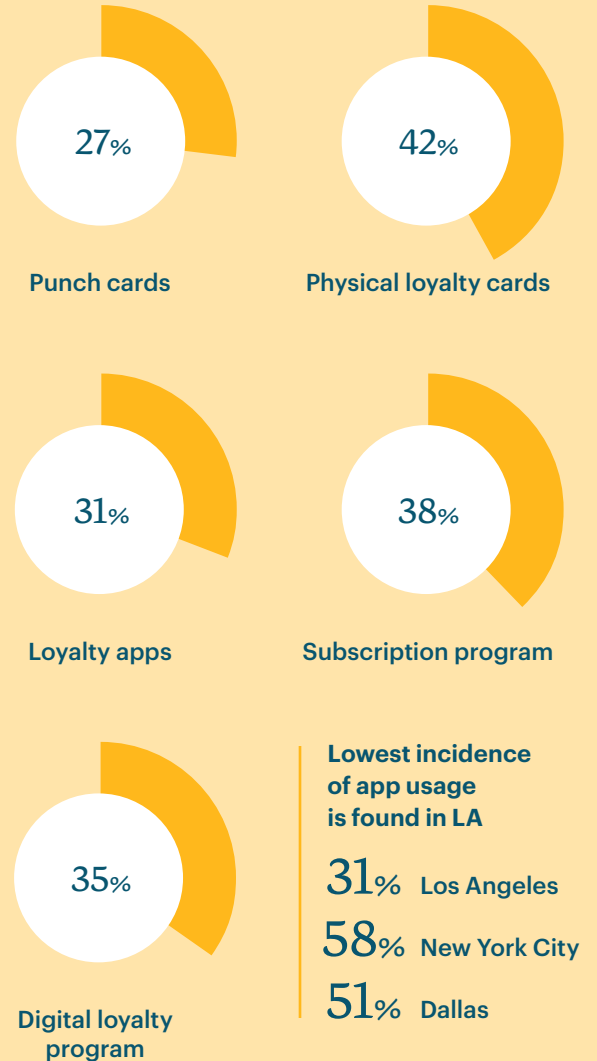
A whopping 70% of L.A. restaurants report currently offering a loyalty program and 51% say that their loyalty program was introduced in the last one to two years.

Use of Loyalty Programs by City



Interestingly, restaurateurs in Los Angeles seem to favor more traditional reward programs over digital solutions. In fact, 42% of operators reported offering physical loyalty cards and 27% say they still offer punch cards. Furthermore, Los Angeles restaurants are the least likely to offer a loyalty app with just 31% offering a mobile loyalty program, versus 58% in New York City and 51% in Dallas.

Types of Loyalty Programs Used



While Angelenos may have a preference for more analog loyalty solutions, customer engagement remains high. More than half (53%) of Los Angeles restaurants report that 51-80% of their customers regularly engage with their loyalty program. Not to mention, 35% of operators say they see more frequent visits from loyalty program members.

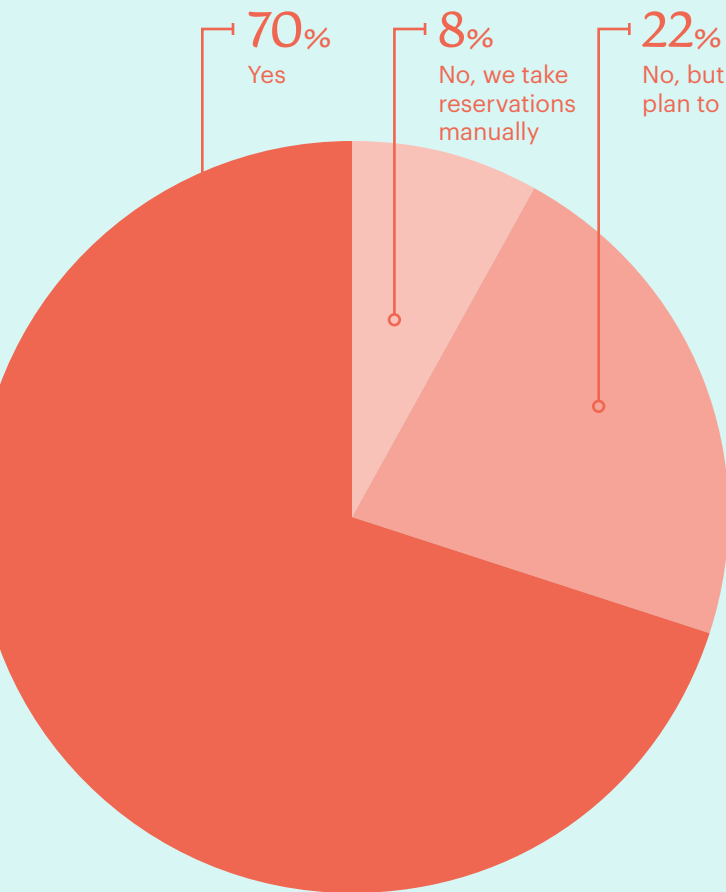
#1 benefit of loyalty programs: **more frequent visits**

Reservations

Despite facing extensive indoor dining room closures, strict capacity limits, and other public health mandates, reservations technology has remained popular among restaurants in Los Angeles.

Of the Los Angeles restaurants that said they do take reservations, 70% reported using a reservation management platform to manage bookings (up from 46% in 2019), and a further 22% said they planned to start using a reservation management platform.

Use of Reservation Management Platforms



And in Los Angeles, guests appear to be using these reservation platforms more than in the past. In 2019, just 12% of reservations were made via third-party platforms. In 2021, that figure is up to 16%. Moreover, the number of reservations made by phone is down from 41% in 2019 to just 33% in 2021.

“We do have a reservation system and we still take calls. It’s actually nice to know who’s coming and to know how we can prepare.”

(General Manager, Independent Bar & Grill, LA)

How Angelenos Make Reservations

Phone	33%	Vs 41% in 2019
Walk-in	23%	Vs 22% in 2019
Google	14%	Vs 12% in 2019
Restaurant website	13%	Vs 14% in 2019
Third-party reservation platform	16%	Vs 12% in 2019

The rise of reservations tech in Los Angeles may be partially due to the fact that the city’s restaurateurs seem to be spending less on reservations software than their peers across the country. More than a quarter (28%) of restaurants in Los Angeles say they spend between \$201-\$300 per month on reservations software, whereas one in five New York City restaurateurs reported paying between \$401-\$500 per month.

Conclusion

There's no question that the pandemic has had a major impact on Los Angeles' restaurant industry. Not only did the city face repeated indoor dining closures, but it also faced significant financial strain due to rent, labor costs, and supplier pricing increases.

However, restaurants in Los Angeles were quick to take advantage of government programs such as PPP loans, ERC, and SBA-guaranteed loans. These supports helped to keep Los Angeles restaurants afloat during the pandemic and gave them enough breathing room to invest in technology such as online ordering platforms, loyalty programs, and reservations platforms – solutions that are already proving popular among customers.

“It's kind of like a step by step, but I think it's a lot easier. Now we know what's going on. We know what this virus is and we know exactly what's happening, so it's a lot easier now. There isn't really a huge challenge for us. It's kind of almost back to normal, which is really nice.”

(General Manager, Independent Bar & Grill, Los Angeles)

With Los Angeles restaurants currently reporting a mean profit margin of 11%, there are clear signs that the industry is beginning to bounce back. In the year ahead, the biggest challenge for operators will be recruiting and hiring new staff, in addition to lowering employee turnover rates.



“We were always running it as a family and we love what we do. It hasn't really changed how we do anything really. It was just a stressful time and period that we've kind of moved past. So at no point we're we just packing it in and walking away from this.”

(General Manager, Independent Bar & Grill, Los Angeles)



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