



# The Restaurant Wizard

## Practical Guide to Starting a Restaurant

www.therestaurantwizard.com

The restaurant industry is one of the most difficult industries in which to succeed because prime costs for food and labor can amount to as much as 65% of sales for full-service restaurants, necessitating tight controls to maximize day-to-day profits.

High sales volume is crucial to any restaurant, because only 35 cents of each dollar is generally allotted to cover secondary costs and provide necessary income. **Because prime costs can be so high, there are typically few resources left to market a restaurant and make a profit.**

To produce sales, a restaurant must get it right the first time and stand out in an incredibly competitive marketplace. This guide is a practical take on the factors that should be considered before moving forward with opening a restaurant.

### Franchising

**Successful restaurants are never built by a committee.** There needs to be a single unifying vision of menu offering, food portion, food quality, style of service, location, décor and price. If even one of these elements is out of place, the restaurant is unlikely to thrive.

#### **Quick Tip**

The name alone should sell the restaurant, as signage and word of mouth advertising are essential for success. The name will be the primary message point.

The difficulties of getting all the elements aligned is why franchising is an attractive idea for many. For example, if you can increase sales by 100% with a franchise, because of the brand and advertising support, a franchise fee of 6 percent or 7 percent of sales is a reasonable price to pay for those extra sales, even after food and labor costs. In addition, franchise prime cost is **often reasonably low**~~often below 50%~~ because the concept is tightly constructed with franchising in mind. The franchiser needs to keep the prime costs down to make room for the franchise fee expense.

### Menu Offering

Fast food concepts grew so large so fast because they were a dramatic change from the full-service restaurants in existence at the time. Fast food built a whole new dining niche. Prices dropped to dramatic lows, and service was exceptionally faster. Low prices allowed entire families to dine in or carry out as a reasonable everyday meal option. The expansion of the offerings from hamburgers to pizza to chicken to Mexican food, and the varieties of each cuisine for different tastes, was quickly accepted by the public.

#### **Quick Tip**

New Internet dynamics like **Yelp** and restaurant marketing websites are changing the best practices for promoting independent restaurants, but they only work if your offering is notable, easily understood and coherent.

The number of restaurant seats available to the public began to exceed the number of customers eating out 20 or 30 years ago, and that continues to be a problem. While the number of occasions when someone eats out or brings food home may have doubled or tripled over the last 30 years, the new choices clamoring for attention have increased even faster. Rather than being able to create a large new niche over the years, the niches have become smaller with casual, fast casual, and healthy restaurants, as well as a wide range of cuisine choices establishing followings as freestanding restaurants and in food courts. Even supermarkets' frozen food cases and deli counters have created competitive inroads.

Because of these competitive factors, **a menu alone usually cannot be relied upon as a sustainable sales building focus.** For instance, build-your-own-burger concepts are expanding rapidly at the moment, but they may not have a **sustainable point of difference** as they start showing up competitively close to each other.

#### **Example: Build-Your-Own-Burger Restaurants**

This up-and-coming concept offers a good example of how all of the components of a restaurant must work together to build success.

Hamburgers remain popular and do not need to be explained to the public, which is a large advantage. Pho sandwiches and Greek food are unique and contain a competitive point of difference; however, each needs to be explained, which increases the risk of opening a restaurant. Local demographics also play a more important role for an unusual cuisine.

Because the product is a hamburger, there is a fairly low limit on the price point that the customer will be willing to accept. In most circumstances, a six or seven dollar hamburger is expensive because fast food burgers are a dollar or two.

There is an individual build-your-own selection process, so it will be labor-intensive and the volumes cannot be particularly high. The concept is high quality and fresh, so the décor will likely be light and contemporary.

In-line locations with relatively few seats may be the best option. And carryout might be an important aspect. A steady flow of customers is necessary because of the small likelihood of building a true brand. As the concept expands, convenient access will be a competitive edge versus other build-your-own-burger competitors.

### **Food Quality**

Food quality generally translates to ingredient quality. With few exceptions, like using Black Angus or Kobe beef in a hamburger offering, **food quality is noticeable more in its absence than its presence.** The public expects good quality and will avoid restaurants that are lacking. On the other hand, if ingredient quality is higher than what can be accommodated in menu pricing, food cost will become unacceptably high.

### **Style of Service**

Labor is one of the two biggest costs in a restaurant. Because full service can add 5 to 10 percentage points of cost to a restaurant (depending upon wage rates), relatively few full-service restaurants are now being built. If the menu price or sales volume is high enough, the cost of full service can be accommodated. While lower-price casual and family full-service restaurants are surviving in high-traffic locations, new ones are not being built. Instead, some version of “serve yourself” is being used, with counter ordering and staff bringing the food to the table now striking a popular balance between labor cost and service quality.

#### **Example: Self-Serve Drink Stations**

Self-serve drink stations with all-you-can-drink offerings proliferated because the labor cost on refills was prohibitively expensive compared to the product cost. Even in some fast food restaurants, servers bring food to the table so customers don't have to stand in line while the food is assembled, and fewer counter workers are needed.

**Whatever the style of service, well-trained, friendly and responsive employees are still a large competitive point of difference worth striving for.**

### **Location**

Location is judged by traffic count, visibility and access, and finding the best mix of the three to leverage customer flow is a science. Because of access problems, a location at a very busy intersection may not be as strong as a location away from the corner. Backing up on a freeway may offer great visibility, but poor access can make it meaningless.

If commuter traffic falls at times when the restaurant isn't open, or outside prime meal periods, traffic count may not be valuable. The value of a high traffic count may also decrease in instances when commuter traffic is so heavy it discourages diners from visiting the restaurant.

#### Quick Tip

Freestanding pads at shopping malls are usually prime locations for most restaurants. These locations offer easy access and parking and fairly high-quality all-day traffic, if the mall is right.

**The financial benefits of a great location are clear; therefore, good locations are expensive.** It's extremely difficult to establish a restaurant as a "destination," so customer flow has to come from the location. For example, if sales are \$25,000 per month, a \$3,000 per month rent is unmanageable, at 12% of sales. If sales are \$60,000 per month, however, that rent is only 5% of sales, and great option if your concept will produce the \$60,000 figure.

### Décor

Décor can be much like food quality: unless it is highly themed, **a restaurant's décor only needs to avoid detracting from the dining experience** by being well maintained and keeping aligned with the menu. Today, a wide range of food offerings and average checks can be found in almost any décor. Take for instance restaurant seating. Much is communicated by the style of a chair – high-top tables will create a different ambience than low. Tile and carpet not only have different maintenance costs, they give a different feel to the restaurant. All décor options must be thought through to align with the atmosphere, offerings and quality a restaurant aims to convey.

### Price

Price is probably the trickiest factor. There is almost no upper limit to price, if the customer "feels" the value; **it is all about expectation.** All the previously mentioned factors contribute to the perception of value, and must line up with each other. In addition, the occasion matters in pricing. A customer is going to have a whole different feeling about price if it is Tuesday lunch with a friend versus a Friday evening special occasion with a significant other.

#### Example: Family Restaurants

Family restaurants have been successful for so long because they fulfill occasion needs for a wide variety of clientele at a reasonable price with menu variety. Because the restaurants are full service with comfortable décor, they are special occasion for some customers and everyday dining for others.

## CONSTRUCTION AND OPENING

After all the prior aspects are considered and you feel comfortable that the restaurant you're opening will be a success, **professional help is highly recommended** to confirm that the sales forecasts and operating costs are practical, the potential location is reasonable, and legal and governmental pitfalls are anticipated and dealt with appropriately.

There are strict zoning and health department restrictions in most cities. Some permits and zoning variances can take months or even longer to come through. And in some areas of a city there may be special zones or incentives. One restaurant in my neighborhood recently went out of business, before they had a chance to build their clientele, because they were one block outside a special zone that had substantial funds from the city available for marketing support.

Even if you are opening where another restaurant existed before, you may incur substantial costs to bring your restaurant up to current standards. And even if you are just doing renovations, a construction company familiar with restaurant construction is an important resource.

And as a final note, **after all of the costs to get the restaurant open, you need a financial cushion to pay the bills until you can turn a profit.** You may get a nice surge at opening, but even if you create a successful offering, it can take a long time for the necessary customer volume to build long-term success.

For more information, tips and tools visit [www.therestaurantwizard.com](http://www.therestaurantwizard.com).