



# Can This

**F**inding yourself in a situation in which you have to “save” your restaurant isn’t really something that you planned or ever expected to do. Regardless of how you got into this position, there is a process that will help you make the right decisions for you and for the business. Following this process will ensure that you complete your due diligence, cover all the bases, and allow you to confidently carry out your ultimate plan of action.

Step 1 in the process is to conduct an honest evaluation of the business. You may remember the story of the proud mother who announced to her friends attending the parade, “Did you notice that *my* son was the *only* one marching in step?” This gives you a good idea of how emotionally attached you can become to your business and how absolutely critical it is to find an objective set of eyes through which to view the business. These objective eyes will help you see the forest for the trees and enlighten you in a number of ways.

It is so difficult to remain unemotional when you are up to your elbows in making the business work and be a success. Human nature is to be in love with the business and to defend the situation. To evaluate the viability of your business in a logical, straightforward, open and honest methodical way requires an open mind, a regulated ego, and a strong will to do the right thing.

The outside, objective perspective can prove to be invaluable in getting to the heart and the root of the issues that will make or break the restaurant. Seek an industry expert with no ties to the restaurant that can be “brutally” honest and deliver an assessment that will enable you to make sound decisions. Although the original objective is to “save” the restaurant, it sometimes will make more sense to close a business based on realities.

A second piece to solving the puzzle is to get consumer feedback. This is a critical step when assessing the health and

# Restaurant Be Saved?

(Should This Restaurant Be Saved?) By Jay Goldstein

viability of a business. No matter what you think, it is of little consequence if your customers are thinking something different. You can ascertain the answers to a series of key questions. Some examples would be:

- ✓ What do they think of your restaurant?
- ✓ How are you perceived?
- ✓ When do they use you and for what occasions?
- ✓ What would change their behavior and visit more often?
- ✓ What would you need to do to make a significant difference in their mind?

There are many ways in which to gather this invaluable information and working with an expert in the field should get you the best results with the least expense.

## Why Isn't My Business Working?

What's the real issue? If you work on the wrong thing or things there is little to no hope that you will succeed. You

may succeed at fixing that problem, but you will fail at "saving" the business. No matter how hard you work, if you are working on the wrong things you are wasting your time, money and efforts. Let's examine how you would determine what you need to work on. In most cases it will be something to do with operators, the concept, the financials, and the dynamics of the environment, neighborhood or location. Let's roll up our sleeves and look at each of these areas — objectively, if possible.

## Get Down to the Basics

Ensuring that the "basics" are being consistently executed will go a long way in building a business that works. How your restaurant operates should be well-documented, easy to train and understand, and make sense to all involved. Your guests and potential guests want an experience they can count on and that they consider to be a good value for the money. Execution

## Pain by Numbers:

### Overcoming Financial Challenges

#### Café Aspen – Fort Worth, Texas

**Issue:** Burdened by debt and overhead.

**Action plan:** Hired a restaurant consultant. Hired a restaurant accounting firm. Renegotiated lease. Restructured the corporation. Restructured debt. Put in place management systems.

**Result:** Significantly improved financials to profitability within six months.

#### Origin India – Las Vegas

**Issue:** Struggling with inconsistent revenue.

**Action plan:** Hired a restaurant consultant. Wrote a business plan. Hired a marketing staff member. Developed and put in place management systems and controls. Restructured some debt obligations with creditors and paid others off in full.

**Result:** Improved profitability enough to make the business a reasonable investment of time and other resources.

## Concept Crises:

### What Went Wrong, What Went Right

#### Wyatt Cafeterias – Multistate Chain

**Issue:** Cafeterias went out of style, did not fit with today's lifestyle, demographics and psychographics and the customer base went away.

**Action plan:** Renovate the facilities, upgrade food quality and presentation, and lower menu prices.

**Result:** Went out of business because the new owners stopped the funding and did not execute the action plan. In essence, they gave up.

#### Royal China – Dallas

**Issue:** 34-year-old concept falling out of fashion in a contemporary market.

**Action plan:** Revamp old restaurant into a new concept, with a new design that blends contemporary with tradition. New food and beverage menus combining contemporary offerings along with updated traditional dishes.

Offer unique menu items including dumplings, dim sum and handmade noodles in an exhibition kitchen. New service style and a new marketing plan.

**Result:** Owners believed in their ability to serve the public and carried out their action plan. The makeover yielded a beautiful new restaurant and bar that fits the neighborhood and the target audience.

of your systems, policies and procedures should create a positive experience for the guests. If not, then they need to be revamped so that they do.

What are the “basics”? Staffing, training and being employee-friendly. It is a constant challenge to find the right number of the right people to staff your restaurant. The more “employee friendly” you make your operation, the better your chances of attracting and retaining the right folks. They need to know that they can count on management being consistent, fair, open, honest and direct. Each job function needs to be set up in the most efficient way so that employees don't have to struggle to get the job done. Teamwork and cross-training are essential to a positive work environment.

The public is less and less forgiving with cleanliness issues and this can be a nonstarter for most. Look at your operation from the back dock to the front door, from the restrooms to the dining room, and from the kitchen to the bar.

There should be quality in everything you do. The quality of ingredients, menu items, personnel and management decisions all affect the overall quality of the guest experience. How would you rate your quality quotient right now? Are you purchasing by specifications or by price? Do your portions merit the menu price?

It has been said that service is even more important than food when it comes to choosing a place to eat (although some think it's the food). Define your “steps of service” and “service imperatives” so that everyone knows what is expected. Training should be completed before anyone is permitted on the floor. You should never “practice” on the guest. Is the service friendly? Is the service timely? Is the service personalized for each guest? Is the service accurate?

This gives the guests confidence that their money will be well-spent and they will enjoy a level of satisfaction that meets their expectations. One of the last things we ever want to do is surprise the guest. These “basics” can all be evaluated through:

- ✓ Quality assurance checklists.
- ✓ Mystery shopper programs.
- ✓ Consultants.
- ✓ Comment cards.
- ✓ Customer surveys.
- ✓ Focus groups.

You should employ as many of these resources and techniques as you can afford, if necessary. You cannot “fail” in any of these basics and hope to “save” your restaurant.

## Navigating Concept Crises

Does your concept meet a market need? Sometimes concepts are developed because the owner likes the idea and not because there is a vacuum in the marketplace. The marketplace must like the concept and identify with it. The concept needs to resonate with the “target audience” and cause them to take action in the form of frequent visitation. Identifying your “target audience” is the starting point to understanding how your concept should behave and where it should be located.

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## It's Just a Phase

### Tricky Issues That Occur During Various Times of the Restaurant Life Cycle and How to Manage Them

**Birth and Infancy – Preopening and Year One.** This is the time to brainstorm and make adjustments on a frequent basis. Gather anyone who will be involved in the business. If you know who will manage the restaurant, make sure they are present. You will want your manager and key staff to have authorship in the restaurant's operating plan. If you have a confidant in the industry, enlist their input. This is also a good time to enlist the help of a restaurant consultant. Most consultants have checklists developed to ensure all the major factors leading to a successful concept introduction are considered.

**Toddlers – Years Two and Three.** During this phase you will experience staff turnover. Some will quit because you're too busy and they don't want to work that hard. Or some who are used to making really good tips will leave if business is too slow. Obviously, your better servers will be the first to leave.

Then some owners quit training because they don't want to invest training dollars in a new crew member who might soon leave. Jim Sullivan, an industry training guru, makes an excellent point about this tendency not to train anymore after a few employees defect. "Do you know what is worse than training a crew person and having them leave? Not training them and having them stay." Talk about setting yourself up for failure.

**Adolescence – Years Four Through Six.** Too many operators find themselves in this phase spending an inordinate amount of time trying to squeeze an extra tenth of 1 percent out of labor or food cost, when they could be attempting to find ways to put an extra dollar on the top line and flowing 40 percent to 50 percent of that dollar to the bottom line. Once your sales are substantial enough to cover all of your fixed costs, any additional sales dollars are only subject to variable costs (food, some labor and some incidentals like utilities, cleaning, linen).

**Maturity – Years Seven and Up.** Now everybody in your trading area knows everything there is to know about your concept and restaurant experience. You have been around now for years. You haven't changed much, but your competition probably has. New concepts with new looks will intrigue your current customer base and lure them away from visiting you. Your guest counts may start to drop little by little. Or a powerful chain with "marketing dollars to burn" may open and cut into your sales by as much as 10 percent to 20 percent.

Most restaurant chains look to freshen up the design or décor every five to seven years. The extent of the change depends on the extent competition has improved the experience of the niche you are operating in. If you are an independent casual dining concept and The Cheesecake Factory, P.F. Chang's, Buca di Beppo, and a Sullivan's Steakhouse opens in your trading area, after a while you may not have the menu variety, food quality or energized experience to which the casual diner has become accustomed.

List your points of distinction. This list includes the things in your concept that you cannot find anywhere else in the marketplace. They are truly distinct. Once the list is completed you need to determine if anyone cares about them and whether they create value. This would be an excellent topic to explore and include in your customer research efforts.

How easy would it be for the competition to copy your ideas? What are the barriers to entry? Is it sustainable? Is my concept current? There are a number of concepts that have gone out of date and out of fashion. Consider the brief examples in "Concept Crises: What Went Wrong, What Went Right" on Page 40.

Do I have a clear concept identity? Do people know what I am and what I do? How well can one describe my concept? Your identity should be easy to understand, easy to use, and be guest- and employee-friendly. It should deliver on the brand promise, be consistent and create value in the mind of the guest.

It needs to be relevant to people's lives and serve multiple dining occasions. The design and signage must be recognizable, engaging and distinctive. Your concept should keep a constant focus on being who you are and doing what you do well. Trying to be all things to all people is a surefire path to failure. Choose what it is that you want to do and then do it well on a consistent basis.

## Getting Crunched by the Numbers

A successful business enterprise always includes a sound, attractive financial model with healthy and competitive earnings before interest, taxes, depreciation and amortization. If you accept the idea of "competition for capital" then it only makes sense that the ROI (return on investment) needs to be sound. Why invest in the business if you can make the same return with less risk or a greater return on your money? In evaluating your business and deciding whether it will work you must know what it would take to succeed financially.

A thorough, honest review of your financials can answer many questions. The key financial metrics are:

**Sales.** What is the sales picture? Are sales in a steady decline, did they fall off a cliff, have they ever hit projections? What is the trend regarding guest counts? How much discounting have you done and what have been the results?

**Profits.** What is the profit picture? How healthy and well managed are your cash flow, cash position, general finances, monthly profitability, performance versus budget, prime costs and occupancy costs? What needs to be done and can be done to improve the profit performance?

**Operating capital.** Is funding adequate? Is there enough money, is it readily available, and are the sources reliable?

**Debt.** Is it necessary or possible to refinance? You could consolidate debt and make the load more manageable. You could negotiate debt, extend payments by lowering the monthly amount and adding time, or lower the interest rates.

**Financial data.** Accurate and timely financial data are imperative for success. Do you have the necessary management tools in place? How often do you take inventories? How soon after month's end do you have a P&L statement? What do you use as a management dashboard to monitor performance on a daily and weekly basis?

**Occupancy costs.** Look at your lease terms and overall occupancy costs. You should never be working for the landlord. Negotiate some "tenant improvement" money for the necessary changes to the restaurant. Negotiate the base lease terms so that the economic model makes sense.

See "Pain by Numbers: Overcoming Financial Challenges" on Page 40 for examples of restaurants that overcame financial issues.

## Latitudes and Attitudes

Many people believe that the first rule of building a successful restaurant business is "location, location, location." What may have looked like a good location when you entered the business may be anything but now. Changes in the market can most certainly affect your business positively or negatively.

Assess and analyze the competitive situation. How many new restaurants have entered the market? How many other restaurants do what you do? How are you positioned in the market? How many restaurants have closed and why?

Site criteria are typically built around your target audience — where they live, work and play. Has the marketplace changed? Is it moving up or down? If so, how has that changed the clientele and their tastes? Your target audience may have moved elsewhere and you may need to appeal to a different audience or move the restaurant.

Look for changes in the employment situation for better or for worse. Are you in a growth area or is the area declining? Are new employers moving in or have significant layoffs been announced?

Change in rent or fixed costs will affect your bottom line. If your area has become more popular you may find these costs increasing and that can have a disastrous effect on your bottom line. If the area has become less popular it may be very difficult to drive sales to levels necessary to sustain the business.

Unfortunately, a poor location can be one of the toughest problems to overcome. You can change your menu and concept, but changing location can be all but impossible for many concepts. That said, it has been done successfully by restaurants that have a decent following. If you decide to relocate, bear in mind that high visibility and convenient access are more critical today than ever. Saving money on rent in a poor location often results in spending all that and more on advertising in an effort to get noticed and bring in more business.

## What Now?

Now you need to ask a new set of questions. How much is involved in the "fix"? Understanding the scope and breadth of the undertaking is the key to fairly evaluating a plan of action.

How many things need to be addressed? If you need to address some operational issues, it's one thing; if you need to address the concept, the financials and the location, that's another thing.

What resources will it take to execute the game plan and are those resources readily available? You need the expertise and the manpower to make the plan work.

What are the priorities? Know what to work on first, second, third and so on. There is a logical progression through the list of recommendations that will add up to success.

How difficult will it be to work through the process? Understand all that is involved and commit to completion of the process. There is absolutely no room for the timid here.

How much time will it take to affect the turnaround? Know how long it will take and determine if you have that much time. There is a huge difference between a three- to four-month exercise and one that takes six months to a year.

How much money will have to be invested to make this work and is that money available? Have a very clear picture of what it will cost and where the money will come from. Write a realistic, all-inclusive capital budget and secure the funds before moving forward.

How long is the payback period? Whatever the investment, you will want to know when you will get the money back.

When will we realize a return on the investment and will it be satisfactory for the risk we assume? Investors and bankers not only want their money back, they also expect to make money on their investment or loan. The return needs to be attractive to them.

Numerous articles have been written in this magazine to help you address each of these issues and steps. They are archived and easily searched on RestaurantOwner.com. You might, however, consider that this is the time to hire a restaurant consultant to give you objective advice and counsel. Some restaurant consultants specialize in business turnaround, and can assist you with the above evaluation.

## So, Should This Restaurant Be Saved?

This is the really tough question. If the answer is "no," you will still need to develop a plan to exit the business and do so in an acceptable way. The plan will include how you will communicate your decision to employees, vendors, lenders, investors, landlords and governmental entities. Each of these constituencies will have their own interests and concerns (final paychecks, outstanding account payables, payment of loans and notes, re-leasing the space, payment of sales taxes, payroll taxes, etc.) that will have to be worked out in an expeditious and reasonable manner. By being upfront and honest you will establish the best plan for dealing with each of these parties.

Never, however, "give up the ship" without going through this process and carefully considering each step. Whatever step you take next should be done with the confidence that you have been thorough in your approach and that you did the best you could do in reaching your final decision.

**RS&G**