Charter

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behind the menu

Running a restaurant requires more than just a love of food.

Story Melissa Wilkinson

If you're ever tempted to throw in the accounting towel and pursue your dream of running a restaurant, you may need to think again. The romantic illusion of spending all your time surrounded by good food, jovial guests and fine wine is unfortunately just a fantasy.

The reality is that when compared to the restaurant game, working in professional services looks positively easy. Running a successful restaurant demands creative flair, business savvy and a sturdy marriage. Perseverance and sheer grit also seem to be common traits for restaurateurs who work late mingling with diners, only to be up again at 4am buying fresh produce at the markets.

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People who go into the restaurant trade with only an urge to be around food and a limited understanding of the business of hospitality will run aground very quickly. Unfortunately, many only seem to discover this sad truth once they've signed a 10-year lease and invested a chunk of capital in an expensive fitout.

The folklore in the industry suggests that up to 80 per cent of a restaurant's success is sealed before the doors are even opened. A new restaurant owner must have a decent business plan, a realistic budget and a deep understanding of the importance of a unique offering. Good staff and, of course, a great chef are essential. The restaurant's location must fit with the business's positioning and the lease costs must be manageable through all types of market conditions.

While there is a shortage of data in Australia on restaurant failure rates, according to some US research undertaken by Ohio State University over the period from 1996 to 1999, the highest failure rate for restaurants was reported during the first year when about 26 per cent came a cropper. About 19 per cent failed in the second year and 14 per cent in the third year. The cumulative failure rate for the three-year period (1996-99) was 59 per cent. Interestingly, just over half of the franchised chains (57 per cent) still failed over the three years and among independent restaurants, the rate was slightly higher at 61 per cent. Some of the common reasons cited for failure were not all due to poor financial mismanagement. Many restaurateurs could simply not cope with the hours and resulting stress on their family life. Family issues such as divorce, poor health or a desire to retire drove many owners to shut their doors.

The pressure to understand the business of running a restaurant is even more real at the moment given the weaker economic conditions forecast over the next 12 months. According to some research from IBISWorld published in *The Sydney Morning Herald*, consumer demand and industry revenue in the restaurant sector are expected to decline during 2010. The IBISWorld report is predicting a 2.7 decline in the overall industry revenue in 2009-10 as uncertainty about the future continues both in Australia and overseas.

As average restaurant profit margins in Australia are about only 4 per cent per year, business owners cannot afford to take their eye off the ball or make too many strategic or operational mistakes. Hospitality can be a brutal business with fickle diners and influential food writers. That's why it is critical to know which operational levers need to be pulled to increase profit and keep cash flow steady.

REVENUE GENERATORS

Like any other business, a restaurant owner can drive profit by increasing revenue or decreasing costs. Increasing a restaurant's sales relies on attracting more customers, getting more repeat customers in the door or encouraging your current customers to spend more during each visit.

One of the must-have ingredients to increase a restaurant's revenue is a strong value proposition. Are diners buying convenience or are they buying an experience from you? With more than 40,000 restaurants, cafes and caterers in Australia in 2009, it's a crowded marketplace with low barriers to entry. That's why there is no room for any confusion about your point of difference or unique value you're offering to customers.

According to Craig Davidson, the chief operating officer of boutique travel experience company Anthology Travel and former executive general manager of Hamilton Island, trying to be all things to all people is a sure recipe for failure.

"A lot of people who get into the restaurant business think it's going to be easy but it's actually highly competitive because there's so much choice in the market. Like any business owner, you have to be really clear about what gap you're trying to fill in the market. You need to really narrow down your value proposition which includes the type of food and the style you're offering and which target market you're pursuing. You can make money out of both mass service and fine dining, but whatever you choose, keep your offer nice and simple. This means not offering too much choice."

Serge Dansereau is the chef and owner at Sydney's Bathers Pavilion and he agrees that finding the right project to create consistent revenue is a must.

Photograph: James Braund

CORKAGE AND CAKEAGE

Many restaurateurs believe that charging for additional services like corkage and cakeage is fair given the costs associated with these services. Some restaurants charge $10 a bottle while others $5 a head. In BYO restaurants corkage can be a real money spinner but in restaurants which are both licensed and BYO, then corkage really only helps to recoup the service costs.

In terms of cakeage, some restaurants charge as much as $10 a head to cut up and serve cake which diners have brought in for a special occasion.

Martin says these charges are legitimate as restaurants run a service business.

"I support corkage and cakeage charges 100 per cent because you can't have people sit there and drink their own wine and eat their own food. These situations represent lost money to the restaurant owner, plus there are service costs involved which must be accounted for," he says.

"If you're going to take out a loan over 10 years to fund your investment, you need to make sure that the business will still be running beyond the first two to three years. I have a 20-year lease down at Balmoral beach, so I have to make sure that we have good trade for at least 15 years to have a decent return on that investment. I wanted to create a restaurant that was part of the community so that it would last the distance. It is important to pick the right food, attract the right people at the right price point all the time."

Dansereau has also been canny by diversifying his revenue stream and spreading his financial risk by adding on a more casual cafe and kiosk to the original fine dining restaurant. The seasonal nature of beach side dining was an important factor behind this decision.

"The cafe and kiosk have helped us cushion the blow in tough times. It has been a pretty soft market over the last 18 months, particularly as the corporate function market has dried up as a result of the global financial crisis."

KEY COSTS

With a very tight grip on the key financial levers in his business, Dansereau knows how to quickly adjust his cost base to deal with softer economic conditions.

"The major cost in any restaurant business is always labour. It can be 40-50 per cent of revenue depending on your value proposition. In our business we have key performance indicators and targets for each area and we match these against the actual payroll. It's important for employees to understand this relationship. We also have to ensure that we have a lot of internal flexibility so we can move people around when required.

"For example, we can take someone from the bar to help in the kiosk which allows us to direct resources where they are needed most. The key issue is getting a balance between offering the right amount of service and maintaining a high level of internal efficiency. It's so easy to slip if we don't stay on top of the labour figures all the time."

With more than 25 years in hospitality,

Davidson says that a good restaurant starts with a good kitchen.

"Your food will make or break you. If it is not consistently good, then you can't possibly succeed as people turn away from restaurants very quickly. If I was a financial adviser or an accountant, the kitchen would be the first place that I would be investigating. It's a very high cost part of a restaurant and you need to know what's going on in there and what your food costs are going to be," he says. "Food costs can be about 30 to 35 per cent of your revenue so it's very important to manage well and avoid wastage from poor ordering or stock control. Menus have to be designed with the seasons in mind and your pricing structure should move around throughout the year to reflect this."

Davidson notes that some restaurants typically make more money on alcohol than on food.

"Beverage costs represent about 30 per cent of revenue and mark up can be as high as four times the landed unit cost which includes delivery and taxes. For example, a bottle of wine bought at $9 can be sold at $27. Generally, the higher the landed unit cost, the lower the mark up. Beverage control is important so you need to do regular stocktakes and watch stock control. A lot of restaurants also carry too many lines of beverage which has negative implications for stock turnover. It's also critical to monitor the bar because it is more prone to theft and bad practices."

To really fill a gap in the marketplace, a restaurant must be a customer-driven product as opposed to an entrepreneur-driven product

RECIPE FOR SUCCESS

The global financial crisis has done a service to the Australian restaurant scene as it has forced quite a number of businesses to smarten up – and quickly. In the past, some commentators have described the restaurant industry as a two-speed sector. That is, there are those that perform well and who make decent profits and then there are those who are continuously on Struggle Street.

Stephen Shaul, a lecturer at Southern Cross University Hotel School with 21 years in hospitality, says that there are a number of key mistakes that restaurant owners make.

"Restaurant owners can't just simply take the things they like and then offer them to the public assuming that this plan will automatically be successful," says Shaul. "To really fill a gap in the marketplace, a restaurant must be a customer-driven product as opposed to an entrepreneur-driven product. The problem is an owner can try too hard to make art instead of running the restaurant like a business.

"One of the other common issues I see is when the owner constantly takes cash out of the till for personal purposes. You can't control what you don't measure so without the right systems and processes in place, the owner will never really know what's going on in the business.

"Recruiting and keeping good staff are also very important. Unfortunately, the hospitality industry is the home of entry level staff and staff who have other priorities in life. A lot of people see it as the job you do when you're looking for what you really want to do. Luckily professions like head waiters and restaurant managers are re-emerging and there are more people being hired who take the profession seriously.

"An owner must also have a good relationship with the restaurant's chef. It's common for chefs not to be focused on controlling costs so that's why an owner must really understand how to produce food so that he knows what's going on. It is definitely a mixture of art and business."

Ian Martin is president of Restaurant and

Catering NSW/ACT, the largest industry association representing the hospitality industry throughout New South Wales and the ACT. He agrees that a key potential threat to a restaurant's success is the chef, particularly if the chef has a high profile.

"Most of the top chefs are involved in some form of profit sharing because essentially they are the business. This form of incentive or golden handcuff is quite common in the sector."

Martin also urges restaurant owners to keep up to date with what diners want.

"We work in an extremely dynamic environment which is constantly changing. Australians in particular are a lot more discerning today about their food and levels of service. We have a pot pourri of different influences here so it's important to keep your offering fresh and meeting the needs of the market."

Keeping a tight control of a restaurant's initial fitout costs is also very important. Some figures suggest that a greenfield site may cost as much as $300,000 for equipment like industrial cooking and ventilation equipment, refrigerators, freezers, tables, shelving and counters with stations for cutting, heating and cooling.

Tablecloths and linen alone can be expensive and these small decisions can soon cost you a lot of money during the year. Many would-be restaurateurs stumble before they even open their doors because they have seriously overcapitalised with no chance of making a decent return on their initial investment. The burden of too much debt and an unclear idea of the numbers required to breakeven can be all-too-dangerous traps.

Renovating an existing restaurant is likely to cost less, although the rent may be comparatively higher.

Rent is a restaurant's biggest fixed cost so it's critical that the initial site chosen hits some of the old real estate criteria including position, position, position.

Hamilton Kings, owner of casual dining restaurant Bondi Social and Chilterns Catering, says that his point of difference is definitely his location.

"Our view and balcony are phenomenal and much better than many other restaurants at Bondi because we have views of both the beach and the streetscape. We're one of the longest serving restaurants in the Bondi area with the same owner because we know how important it is to have provisions to deal with the seasonal nature of the business. This area has notoriously low restaurant success rates because we have amazing summers and terrible winters in terms of revenue. For example in summer, we can do three times what we would turn over during the winter. The restaurant trade can be very glossy and driven by the latest trends, so that's why you need good financial management to know where you costs are and how to control them."

CATERING AT THE INSTITUTE

The Institute offers gourmet catering services for members who host events and functions. There are a variety of packages available to choose from including finger foods, sandwiches and wraps, salads, hot meals, sushi and tapas. Alcohol can also be added to any catering packages. Contact your local Institute office to find out more.