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# The Restaurant Start-Up Guide



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and  
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## Introduction

So you want to start a restaurant! You are not alone. Thousands of other people have the same dream, and many actually start restaurants. Others never get that far.

It's New Year's Eve, 1996, and I'm sitting in a beautiful log home owned by Jan and Bill Van Straaten in Clark, Colorado which is about 25 miles north of Steamboat Springs in the middle of the Routt National Forest. There's a fire in the fireplace, it's snowing outside, and Bill is cooking something that smells wonderful. The idea for this book originated here.

Jan and Bill are wonderful friends who have been kind enough to invite my family and me to spend New Year's with them for the past four years. Bill loves to cook, and when he designed their log home he decided to put in a commercial kitchen. Bill and I do the cooking and try to stay out of each other's way and the rest of our families do the eating. (We won't discuss the clean up aspects!) In any case, several years ago Jan and Bill were thinking about opening a restaurant and much of our conversation during that holiday was devoted to discussing how to do so. Jan and Bill asked lots of questions. I answered some of their questions. I stared blankly at others. As a result of that discussion, I realized that other hopeful restaurateurs probably had similar questions and the idea for this book was developed.

With annual sales exceeding \$300 billion, the food service industry is the largest retail industry in the United States. The industry employs over nine million people in more than 750,000 food service establishments and, on a typical day, almost one-half of all adults are food service patrons.

The typical restaurant is really a small business. Consider the following statistics from the National Restaurant Association:

More than nine out of 10 restaurants had fewer than 50 paid employees in 1992.

More than two out of three restaurants had annual sales of less than \$500,000 in 1992.

Forty-five percent of all restaurants are either sole proprietorships or partnerships.

Three out of four restaurants are single-unit operations.

Forty-two percent of adult females and 31 percent of adult males have worked in the food service industry at some point in their life.

Successful restaurateurs need all the skills and knowledge that other small business owners need to succeed. This book is designed to help you evaluate whether or not your restaurant idea makes sense, to increase your chances of success, and to reduce the chances of failure.

It is difficult to say how many business start-ups let alone restaurants actually survive. A number of studies reveal a wide variety of statistics and most deal with small businesses in general. To get a better understanding of restaurant failure rates (or, more properly, restaurant success rates), I asked one of my colleagues here at the Cornell University School of Hotel Administration, Professor Chris Muller, since he has done extensive research on the subject. Professor Muller's research has shown that about one-third of all restaurants will fail in the first year of operation. Of those remaining, another one-third will fail in the second year of operation. For those still in operation in year three, the chances of success become much better 65 percent will make it to 10 years. Therefore, the third year is critical. If you can make it that far, your chances of success are greatly enhanced. Professor Muller suggests that, if you are thinking of buying or selling a restaurant, do so in its third year of operation. These figures are reflective of all restaurants. For franchised restaurants, only 10 percent fail in the first year and 85 percent are still operating under the same ownership after five years. This book doesn't specifically examine franchises although many of the principles and suggestions certainly apply but they are an important part of the industry and may be something you want to explore.

This book is directed to another segment of restaurateurs those of you who are planning on succeeding in the restaurant business. Our credentials as authors

come from over 60 years of combined small business experience and surviving most of the mistakes newcomers to small business ownership tend to make. In 1977, David H. Bangs, Jr. started his own small business, Upstart Publishing Company, Inc. It was a fairly typical start up: undercapitalized; uncertain about markets, products, and pricing; and touch and go

for the first few years. His only regret was not having embarked on his enterprise sooner. In addition to my responsibilities as a faculty member at Cornell University's School of Hotel Administration where I have taught a variety of courses in food and beverage management and where I am now teaching one course in strategic management and another in entrepreneurship and small business management I have owned and operated a variety of small businesses (including five years as a restaurateur). Some have been successful. Others have not. And my failures are probably more valuable to you than my successes.

In addition to our own experiences, we thought it might be helpful to provide you with a broader perspective about the trials and tribulations of starting your own restaurant. In order to do so, we designed and sent a survey to successful restaurateurs success being defined by the fact that they were still in business. Eighty-nine restaurateurs responded and took the time to answer the 67 questions we asked. The typical respondent has been in business for almost 15 years and operates a full-service restaurant which has an average check of between \$10.00 and \$14.99 and has annual sales of between \$501,000 and \$1,000,000. Almost all are independent rather than franchised restaurants. We are extremely grateful for the comments and information that these restaurateurs provided and even more grateful that they took the time out of their busy schedules to complete the questionnaire. Throughout this book we will share their valuable thoughts, ideas, and comments with you.

Most small businesses will succeed, provided their owners are determined, stubborn, and willing to take control of those variables that can be controlled. Changes in markets, competition, products, and customer perceptions are inevitable. Restaurants that can adapt to such changes because of their owner's foresight and careful planning will profit. Those that become rigid won't make it.

*A restaurant owner who fails to plan plans to fail.* We believe this cliché and have noticed time and time again that small business owners who take the time to think through their strategies, use information to balance their enthusiasm, and are smart enough to recognize their own limitations don't fail. A formal written business plan is a great tool for controlling a business and maintaining focus but we've also seen very successful restaurants where the owner keeps the plan in his or her head. Because none of us is immortal, however, this risk is unnecessary. Restaurateurs face plenty of risks as it is

without adding to the list. A written business plan is helpful in so many ways that the time and effort to write and update it are trifling in comparison to the benefits it gives. This book is not designed to show you how to write a business plan, although much of the information will have to be included in a business plan. For a detailed guide to writing a business plan for a restaurant, we strongly recommend *The Restaurant*

*Planning Guide.* It's extremely well written and extremely useful. (It's also written by us!)

Since the process of starting a restaurant is long and complex, be aware of the benefits of allowing yourself the full amount of time that this book suggests (or longer). Spending six months to a year before making one of the biggest investments you'll ever make (both financially and personally) gives you time to modify your initial ideas, acquire the skills and information that will set your restaurant apart from the ordinary, and ensure your success. Potentially disastrous management errors such as undercapitalization, negative cash flow, poor hiring choices, and choosing the wrong location can and should be avoided. For example, in a Small Business Administration survey the most common answer to the question "Why did you choose this location?" was "noticed vacancy." Don't make the same mistake unless you want your restaurant to fail.

To help you organize both your thoughts and your time, we have included extensive checklists to get you started. The chapters in the book are organized according to time periods measured in the number of months before you open for business. At the end of each chapter is a detailed action plan which reminds you of the items that need to be accomplished and provides space for you to plan your tactics and check-off the item once it has been completed. We have also included a detailed restaurant facilities and operations review as Appendix A. It contains over 700 items that you should be concerned with once your restaurant opens. It should also be extremely valuable to you before opening to identify those things both physical facilities and operational issues that you must plan for.

Take your time. If you can, work for someone else or better yet, several different people for a while to learn the ins and outs of the restaurant business. Take courses to improve your general management and restaurant management skills. Keep a notebook with ideas about your restaurant's benefits, the markets you plan to serve, the competition, and any other scrap of information that might give you a competitive edge. Jot down ideas about how to serve your new boss (that is, your customers and guests) better than anyone else. What kind of prices will you charge? What level of service makes sense for your restaurant? Etc., etc., etc.

Most important of all, make sure that meeting the demands of business ownership is consistent with your other goals in life. Small businesses can

make you rich, but that might not be worth the dedication such a goal calls for. You have to balance your business and personal goals, or you won't attain either. By now you should have noticed that we refer to restaurants as well as "your business" or "small businesses." It's intentional. Restaurants are businesses, and as such you will need a whole variety of skills and talents to succeed. If you like to cook and, therefore,

think that's all you need to know to open a restaurant, stop now! You won't succeed!

Good luck with your restaurant. I hope you'll find owning your own restaurant as exciting and rewarding as I have.

PETER RAINSFORD  
CLARK, COLORADO  
DECEMBER 31, 1996

(P.S., In case you're wondering, Jan and Bill Van Straaten decided not to open a restaurant in Steamboat Springs, Colorado. They did, however, start several other successful entrepreneurial ventures including Ceramica, a delightful store in Steamboat Springs that sells the most wonderful hand painted Italian pottery. Give Jan or Bill a call at 800-467-8989 and get a catalog!)

## Chapter One

### The Basics of Business Ownership

You can do it. You can be one of the thousands of people who will start a successful restaurant during the next 12 months. This book will help you establish and follow a process which will culminate in establishing the right restaurant for you, based on your abilities, interests, goals, and resources.

It will take hard work. The most this *Guide* can do is to show you directions, pose questions, and suggest ways to arrive at the answers. You have to provide the detailed answers and, in the process, will learn a lot about whether or not you should be in business for yourself.

This is particularly important for those of you who have suddenly found yourself unemployed due to downsizing, outsourcing, corporate re-engineering, or any of the other euphemisms for unanticipated early retirement. The lure of self-employment is strong but the very qualities which made you successful in a larger business or organization may work against you. For example, the ability to follow instructions flawlessly is useless if you have no instructions. High technical abilities in a limited area, such as corporate finance, are not readily transferred to a small business, where more general skills are needed. Few people in a Fortune 1,000 company get to see the entire "big picture" including the competitive, economic, political, environmental, social, and strategic environments the restaurant operates in. As discussed in the introduction, most restaurants are small businesses and in a small business you have to do it all: finance, operations, marketing, personnel, sales, public relations and on and on. You won't have corporate services to rely on. It isn't that you cannot transfer many skills and much experience. The small business experience is just so very different from the corporate experience that a lot of un-learning has to take place before you can move forward.

As an example, Andy once started a business with a high-level banker, a highly intelligent and skilled man with a DBA and years of experience. The small

business world was utterly foreign to him, full of uncertainties (such as an irregular paycheck!) and duties that he hadn't had to perform before: running the copier, sweeping the floor, calling slow-paying accounts, and hardest of all, selling a product to a reluctant market. He missed the benefits, status, and power of his banking job. He missed the socializing too, the long lunches with other executives, the meetings with interesting and powerful clients. He lasted less than a year before scurrying back to a comfortable institutional position. In that world he was and is very effective. He wasn't able to make the transition to the alien and uncertain world of small business. This is no reflection on him; it is simply the way small business affected him. We couldn't last a month in his world. He at least lasted ten months in ours.

The conflict between the structures and practices of big vs. small businesses can be overcome, of course. Many people have made the jump successfully. But it takes time. As more and more people in the entrepreneurial '90s make the shift from working in big organizations to starting and running their own businesses, those of you who make haste slowly will come out ahead. Take your time. Habits and expectations that took years to develop don't go away overnight.

Chapters Two through Eight contain Action Plans to help you organize your time and use it effectively and purposefully. Some of the suggested actions can only be done by you; others should be done with the help of others; some can only be performed by experts, those professionals whom experienced business owners make sure to have on their team. The suggested actions should be taken in sequence, but you may have special talents or experiences which will help you shorten the cycle by combining various steps. You may choose to ignore or minimize some of the actions. That's up to you, but you do so at your own peril. For example, you may not feel you have the time or opportunity to work for someone else and gain experience in the restaurant business. Ideally, you should work for a similar kind of restaurant for a year or so in a management capacity, but you may have experience that is equivalent, or perhaps you can find courses or workshops to speed up the learning and experience the curves.

Even before starting the process, ask yourself some tough questions about your fitness for owning and operating a business. Business ownership is an important part of the American dream, but it is not right for everyone. Qualities that make a difference between success and failure include

perseverance, stamina (emotional as well as physical) to put in the energy only the owner provides, courage to ride out tight times, ability to make decisions on incomplete knowledge, communication skills, and willingness to take limited (not careless) risks. Not everyone has these qualities.

You needn't be a genius to have a profitable start-up. You do need common sense, and should be willing to face and accept your own limitations.