TO SUCCEED WITH YOUR NEW RESTAURANT, TAKE A BUSINESSLIKE APPROACH

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How Aspiring Restaurateurs Can Put the Odds in Their Favor and Avoid the Trap of "Ready, Fire!, Aim"

A successful entrepreneur is about to realize a dream. After making a fortune in the technology industry, he's about to open a restaurant. He loves food and fine dining. His tastes run to Iced Hama Hama and Kumayato oysters, so he's going to make sure that both are on the menu. He also wants to maximize traffic. Therefore he's going to put his restaurant in a high-density location favored by families and tourists.

A billionaire wants to do something special for his daughter. She's 22, creative and loves to cook. So he's going to create a restaurant for her. He's named it after her, developed a concept, and he'll give her the keys to run it. After all, he succeeded as a young man with very little experience. Why shouldn't she?

The restaurant business can be a wonderful, rewarding pursuit.

It can also be a trap.

The industry is one of the most challenging in existence. It demands a mix of creativity, inspiration and hard business sense. And like any industry, it imposes its own very specific, very demanding business conditions. As in any other field, experience counts and systematic planning is rewarded.

Many of the people who are attracted to the restaurant business get half of the requirements right. They understand the need for creativity. Often, they're extremely creative. But equally often, they fail to understand the need to be systematic.

This is particularly true for those who first get into the restaurant business in mid- or late career. Some of them have had the restaurant bug for years, but life took them in different directions. Others look at restaurant ownership as something fun and rewarding to do – a mid-life excursion into creativity or maybe just an ego trip. What could be better than establishing once and for all that you're successful – so successful that you can entertain your friends at your own restaurant?

Successful People Are Drawn to the Restaurant Business – But Lack of Industry Knowledge Can Be Their Downfall

What all of these restaurant entrepreneurs have in common is that they've done extremely well in other walks of life – they know how to run businesses and manage investments. But they have no background and no experience in creating or operating restaurants. As a result, the odds of failure are high. Experience and success in one field doesn't necessarily prepare you for success in another, especially one like the restaurant business where the conditions are so challenging, and where the specifics of a solid business plan are so difficult for outsiders to grasp.

What's an aspiring restaurateur to do? The best single move would be to engage one or more restaurant professionals. There's no substitute for the support of a team of knowledgeable, experienced people who know the pitfalls and who know how to overcome them by developing a systematic business plan. Professionals can help you ground your

creative vision and make sure your restaurant survives and thrives, because they know that, as in all business, creative ideas are only part of the battle. Execution is the key to success.

Too many entrepreneurs go into the restaurant business with a plan that says, essentially, "Ready… FIRE!… Aim!" The goal is to transform that into "Ready… Aim… FIRE!"

Professional Advisors Can Help Restaurant Newcomers Plan Systematically – and Avoid the Pitfalls of Impulsiveness and Emotion

How can a team of professionals help? Think about the many pitfalls you'll face if you launch your restaurant without a systematic, thought-through business plan. Start with choosing a location. The location of your property needs to follow your target market. If you are targeting young hipsters, you are probably not going to want to lease a location in a suburban shopping mall next to Chuck E. Cheese. Yet many entrepreneurs, in their haste to implement their vision, will do just that. Perhaps they choose the location because they can get a deal. Maybe they or a friend own the location. But in restaurants as in real estate, location can make you or break you. Choosing the right location is critical.

Similarly, it's critical to choose a menu and a chef with the target market in mind. If you are going for, say, a family location, like the technology entrepreneur in our opening example, a menu with Iced Hama Hama and Kumamoto oysters may not be a good choice. Caesar salads and hamburgers will do better. One of the most common mistakes when it comes to a menu is that too often, entrepreneurs and chefs choose for their own tastes rather than for their target market.

Do you see the common theme? Too much emotion and too much haste lead to problems. Another area where emotion often takes over relates to the design and construction of the venue. Again, you need to take the target market into account. You also need to be mindful of budget, because it's so easy for construction costs to get out of control. While a landlord may agree to a tenant allowance for construction, often, entrepreneurs exceed the allowance and dip into their own pockets for additional funds. If somehow the budget exceeds the landlord allowance, a professional's advice to an entrepreneur would probably be, don't spend it just because you have it. Rather, negotiate with your landlord for a better rent, abatements in your early months or other concessions.

One place not to skimp, however, is in the kitchen. Too often the entrepreneur will try to hold kitchen costs down. He or she may be trying to design the restaurant floor according to a vision and borrow kitchen space to do it. Or maybe the goal is to squeeze in as many tables as possible to seat customers and maximize revenue. I have set foot into some of the most exquisitely designed and constructed venues, only to be horrified at small and/or irregularly shaped kitchens that seem to be designed as an afterthought. There is no better way to guarantee poor service and mediocre food than to design an inadequate kitchen.

Perhaps the most common mistake in this business – as in so many others – relates to management structure and overhead. Too often I have been asked to review a restaurant startup that has managers and sub-mangers, marketing and salespeople, human resource departments, etc. Later, there will be a time for all of these employees, but at the start, it's much better to staff up with "utility players" who have the experience to cover more than one role. That's the industry norm.

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A Successful Restaurant Business Plan is Based on Seven Essential Elements

How, then, do you prevent these mistakes? How do you transform "Ready… FIRE!… Aim…" into "Ready… Aim… FIRE!"?

The "Ready" part of "Ready, Aim, Fire" relates to the formation of a comprehensive business plan. The plan must start with a thorough market analysis. You and your team of professionals need to look at the market and your potential venue unemotionally, interpreting data so that you can make business plan decisions on a strict cost-benefit basis.

The basis for the plan is this: a definition of the target market and a plan for seizing the market opportunity focused on:

1. Realistic assumptions of sales;
2. Tight build-out assumptions;
3. A pre-opening marketing budget;
4. An ongoing marketing budget;
5. Overhead expenses;
6. Stabilized operating costs;
7. A downside scenario that still produces an ROI or at least cash flow breakeven.

Creating realistic assumptions for sales targets is not a simple task. In contrast to other industries, such as hotels and media where there are research organizations that can summarize sales in your market overall and by segment, sales assumptions for a restaurant business plan need to be created in a less sophisticated way. Anecdotal evidence, traffic data from your landlord and experience in other venues, all will play a part. Again, it is important to be unemotional and realistic in creating these assumptions. If you have financial professionals involved, be sure that they have reviewed these numbers and adjusted them or signed off on them based on their experience.

We talked about the design and build–out budget above, so let's spend some time reviewing items 3 and 4, the budgets for marketing in a pre-opening scenario and on an ongoing basis. Marketing presents a classic situation in which owners fire before they are ready and open their venue without conducting a marketing program in advance. I am all for controlling costs, but pre-opening marketing and sales is another place where you don't want to skimp. Creating a buzz before you open can result in a faster ramp-up to breakeven and beyond. Similarly, having sales efforts on the street before opening (and current with the rollout of your pre-opening brand awareness campaign) can result in pre-booked revenue for parties, events, etc.

An added benefit of these pre-opening efforts is that you will be getting feedback on the acceptance of your venue in real time – presumably before it's too late to tweak your plans. How many of us have been involved in restaurants that have opened and then had to re-do their layout, their menu, their pricing or their kitchen within the first year of operation? Good quality feedback from pre-opening sales efforts can help you tweak your offering and avoid the much larger cost of a later, more comprehensive overhaul. That's all the more reason to commit to a pre-opening sales and marketing campaign. Don't hold back your marketing program until after you're open.

We have talked about excessive overhead costs. In terms of operating budgets, I'd like to review a key area of operating expense that is often overlooked, yet is actually a key to achieving your operating expense forecasts. This involves your systems and controls over your key costs, most obviously labor and purchasing. As a business advisor with a background both as an executive and a CPA, I have too often walked into situations (in restaurants as well as many other businesses) where no one can really tell how they are losing money. Everyone understands the need for controls over purchasing, labor time, inventories of foods and beverage, etc. But not everyone implements them properly. Without proper controls, the day's receipts can often be pilfered. On rare occasions, this can be for nefarious purposes. More commonly, managers dip into receipts to cover unbudgeted and unrecorded costs such as last-minute food or beverage purchases, contracted labor and such. Of course, it is impossible to understand the true economics of your business if both your revenue and expenses are understated.

All of this brings us to the last step in being ready. That is to make sure to test your business plan after you have developed it. Call it a sanity check or a smell test, but whatever you call it, it's very important to prepare a sensitivity or downside analysis. If your business is still profitable in a downside scenario and breakeven in a disaster scenario, you truly have a business worth investing in. Furthermore, unless you are a billionaire's daughter, your investor or banker will surely develop his or her own downside scenario. By preparing your own, you'll be ready with answers.

Respect for the Business Realities of the Industry Will Help Turn Your Restaurant Vision into a Thriving Reality

As you can see from this brief review, the restaurant business is full of places to go wrong. In that, it's no different than any other industry. So don't treat it as though it is. Don't treat your restaurant venture as if you can wing it – as if inspiration and creativity will carry the day. Develop your plan, engage your team of advisors and be systematic – just the way you'd be in any of your other enterprises. By respecting the challenges of the restaurant business, and planning accordingly, you'll help ensure that you succeed. Remember the steps and follow them in order – ready, then aim, then fire!

About Lawrence Cohen

Lawrence Cohen is the Hospitality Group Leader at Marks Paneth & Shron LLP. He rejoined the firm after having served for many years as the President and Chief Executive Officer of The Griffin Group, the investment and management company of the late Merv Griffin.

Mr. Cohen has strong roots in the hospitality industry. The Griffin Group and its affiliates owned and managed properties that ranged from high-end resorts to limited service properties. Mr. Cohen spearheaded all aspects of the business including acquisition, development and redevelopment, financing, management team hiring, supervision of operations and eventual sale.

At Marks Paneth & Shron, Mr. Cohen draws on his deep experience and serves his clients as a business "coach." For mature companies, he will advise entrepreneurs, CEOs and CFOs on strategies to reposition their companies in the current business environment. For start-up companies, he will delve into the business plans and advise on the growth of their infrastructure. While Mr. Cohen will usually directly assist in the business plan preparation process and support the money-raising process, he will also often "roll-up his sleeves" and assist with the execution of his advice including negotiating the business points of lender agreements, leases, distribution agreements, etc. as well as hiring and/or terminating employees.

In addition, Mr. Cohen has had business interests in the Los Angeles area for more than 25 years and shares responsibility for the firm's operations on the West Coast.

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About Marks Paneth & Shron LLP

Marks Paneth & Shron LLP is an accounting firm with nearly 475 people, of whom approximately 60 are partners and principals. The firm provides businesses with a full range of auditing, accounting, tax, consulting, bankruptcy and restructuring services as well as litigation and corporate financial advisory services to domestic and international clients. The firm also specializes in providing tax advisory and consulting for high-net-worth individuals and their families, as well as a wide range of services for international, real estate, media, entertainment, nonprofit, professional and financial services and energy clients. The firm has a strong track record supporting emerging growth companies, entrepreneurs, business owners and investors as they navigate the business life cycle.

The firm's subsidiary, Tailored Technologies, LLC, provides information technology consulting services. In addition, its membership in Morison International, a leading international association for independent business advisers, financial consulting and accounting firms, facilitates service delivery to clients throughout the United States and around the world. Marks Paneth & Shron LLP, whose origins date back to 1907, is the 32nd largest firm in the nation and the 16th largest in the New York area. In addition, readers of the *New York Law Journal* rank MP&S as one of the area's top forensic accounting firms for the third year in a row.