

Developing the concept

Introduction

Starting a new business can be a daunting task for any food and beverage manager/entrepreneur. In London, UK there are around 100–120 closures per year in 2002 to 2003 although these reduced to 60–65 in times of high economic growth such as 2005 and 2006 and although the numbers for new restaurant openings are countering the closures (Akbar, 2007), one can not help but wonder why so many establishments close, often within one or two years of their operation. The answer could very well be that many investors fail to understand their market and often they rush into an investment without ensuring that the potential is there. Often they allow their ‘Gut Feeling’ to lead their business decisions without taking any steps to minimize the risks involved. It is important that the market is understood and that an initial investment is undertaken to ensure that the much larger investment into the project will be justified. Understanding the first steps that are needed to take in starting a new restaurant will give the reader an insight into the food and beverage business and the key issues that need to be taken into consideration. This chapter aims to give an initial understanding of some of the tools available to prospective food and beverage managers and how current managers approach a new operation (Table 4.1).



Chapter objectives

After working through this chapter you should be able to:

- Have an understanding of a restaurant feasibility study.
- Understand the main parts of a restaurant business plan.
- Have a basic understanding of ways that an operation can be financed.
- Have a basic knowledge of facility design and layout.

Company	Brand name	Number of outlets 2002	Number of outlets 2004	Number of outlets 2006	Change 2002–2006
Bank Restaurant group	Zinc Bar & Grill	4	6	5	1
	Individually named	3	3	3	–
Caprice Holdings Ltd/Richard caring	Individually named	7	6	8	1
Clapham House Group	Gourmet Burger Kitchen	–	–	9	–
	Real Greek	–	–	6	–
	Bombay Bicycle Club (restaurants)	–	–	3	–
Conran Restaurants	Individually named	18	18	19	1
Craftbutton–Paramount plc	Caffé Uno	63	61	53	–10
	Chez Gérard/Le Petit				
	Chez Gérard/Brasserie				
	Chez Gérard	13	11	14	1
	Livebait	9	5	4	–5
	Bertorelli/Café Bertorelli	3	3	6	3
	Café Fish	1	1	1	–
Gaucho Grill Restaurants	Gaucho Grill	7	7	7	–
	Destino	–	1	1	–

Table 4.1

Examples of main restaurant operations, by outlet numbers

Company	Brand name	Number of outlets 2002	Number of outlets 2004	Number of outlets 2006	Change 2002–2006
La Tasca Restaurants	La Tasca	17	35	53	36
	La Viña	–	–	3	–
Living Ventures	Est Est Est	22	19	17	–5
	The living room	–	–	13	–
	The bar and grill	–	–	2	–
Loch Fyne Restaurants	Loch Fyne	17	23	25	8
Ma Potters	Le Petit Blanc	–	4	5	–
	MA Potters bar and restaurant	–	–	8	–
	Ma Potters Chargrill	–	–	7	–
Mitchells & Butlers	Browns	13	15	15	2
Noble House Leisure	Yellow River Café	7	8	7	–
	Oriental Restaurant Group	7	6	7	–
	Arbuckles	–	21	11	–
	Jim Thompson's (JT's)	–	14	10	–
Punch Taverns plc (formerly the Spirit Group)	Old Orleans	35	31	33	–2
Rank	Hard Rock Cafe	6	8	7	1
The Restaurant Group	Frankie & Benny's	67	86	105	38
	Garfunkel's	33	30	30	–3
	Chiquito's	26	25	29	3
	Blubeckers	–	–	17	–
	Edwinns Brasseries	–	–	5	–
Town Centre Restaurant Group	Auberge	–	8	9	–
	Azzurro	–	5	4	–
Tragus Holdings	Café Rouge	–	–	82	–
	Abbaye	–	–	3	–
	Oriel	–	–	1	–
	Leadenhall Wine bar	–	–	1	–
Urban Dining Group Whitbread	Tootsies	–	–	30	–
	T.G.I. Friday's	40	41	46	6

Source: Mintel, 2006

Table 4.1

Continued

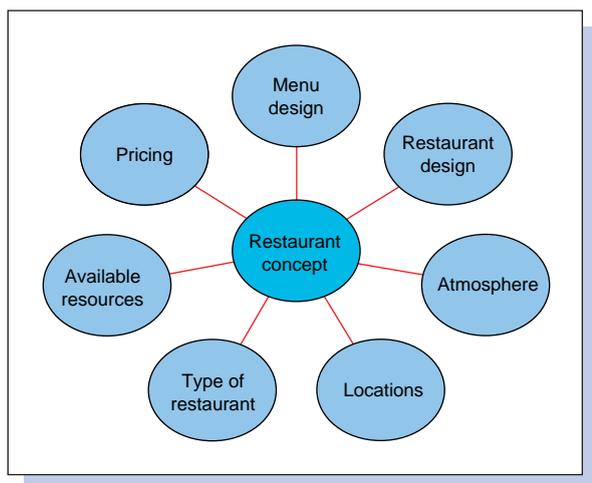


Figure 4.1
Key restaurant concept considerations

THE CONCEPT

Restaurants are businesses that require a creative flair and passion, a good concept is often what separates success from failure. Sometimes the concept will become apparent only after the feasibility study is conducted, but most often the future restaurateur has a good idea as to what she wants to achieve, based on his/her experience and available talent.

The problem arises if the restaurateur is so engrossed in his/her concept that even if the feasibility study clearly shows that the concept is unlikely to work in a particular location they go ahead anyway. There are many examples of concepts that although successful with their first operation they then branched out and found failure when trying to establish a chain of restaurants. For example, the cases of Fish! and Chez Gerard, with extremely successful original concepts they expanded too quick and have had to close a number of their restaurants. A good restaurateur must always keep an eye on the pulse of the market and plan ahead before making key decisions that will affect the business whilst remaining flexible enough to be able to respond to sudden market changes (Figure 4.1).

In choosing a concept there are three primary categories.

1. Restaurants that rely on low margins but high volume of sales (fast food, takeaways, etc).
2. Mid-scale restaurants that offer a full meal but at relatively low prices.
3. Upscale restaurants that rely on high margins (see Michelin star restaurants).

Furthermore, the restaurant may be themed with food from a particular ethnicity such as Chinese, Japanese, Korean, Italian, Greek, Mexican, Caribbean, English, French, German, Indian and Thai to name a few. In the UK, the two most popular Ethnic type of food is Chinese and Indian (Mintel).

The Acorn House Restaurant is a great example of a restaurant concept development focusing on sustainability

Waste management, water usage and energy costs are the three biggest challenges we face today in restaurant management. Governments will charge more and more for commercial waste, it is therefore imperative that we find new and innovative ways to ensure wastage is minimized.

Water is the most underrated resource in our industry. In the future water costs will probably rise to such a degree that it will have a detrimental effect on restaurant profit margins. Restaurateurs should think ahead and manage their water usage effectively, today.

Energy costs will continue to rise and energy efficient restaurants will not be a luxury but a necessity in the near future.

At Acorn House Restaurant (AHR) we carefully consider our suppliers, our use of water and energy, as well as our waste management and the transport of our goods. What we do should not be considered special or different; we are doing what is obvious in conserving the environment whilst still running a successful business.



Arthur Potts Dawson
Co-Director Bliss Restaurant Consultancy
Executive Chef Acorn House Restaurant

Gaps in the market are always a good place to start when considering the concept you wish to develop in the area. If for example, your local area has a good number of Chinese restaurants, you might wish to consider an alternative location or change your theme completely. Restaurant owners tend to consider how formal or informal they want their establishment to be. Then decide on creating the right atmosphere by carefully considering not only the interior design of the restaurant but the menu items featured for the furniture and cutlery crockery used as well as lighting, the acoustics and type of music of the restaurant may feature. Another important consideration is that of selling alcoholic beverages. This decision not only affects the overall feel of the restaurant but also the kind of license the restaurateur will need to possess. The Menu is the next key decision and Chapter 6 covers the Menu in some detail. Pricing is of course of paramount importance as overpriced menu items or menu items that offer no profit may set the business in a difficult financial position. One final decision is whether the restaurant will offer takeaway or delivery service. For some restaurants food deliveries often match revenue generated by sit in customers.

Activity 1

Identify all major Ethnic restaurants in your local area.

Ask a minimum of five of your friends/colleagues about any Ethnic restaurants they have visited in the last year.

Is their answer what you expected given the number of Ethnic restaurants

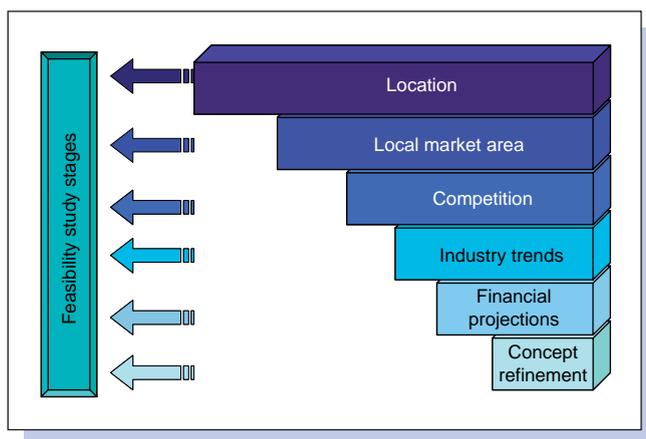


Figure 4.2
The feasibility study

FEASIBILITY STUDY

A key tool to help to reach the decision as to whether a concept is likely to be a success or not is the feasibility study. A feasibility study is a document that is developed after the restaurateur has studied the market and analysed the economy so that he/she has a good knowledge of the environment that the business is proposed to be developed in and the expected return on the investment.

Although there are many guides about conducting feasibility studies the key areas that need to be covered remain largely the same. Here we propose an approach to the feasibility study from the specific to the more generic. Since the most difficult and time consuming task can be the collection of data, starting with the location might save valuable time and resources (Figure 4.2.)

Location

There are two major questions that any future restaurateur wishes to address. What type of restaurant should I open? Where do I open it? The first question is often addressed and redefined by the completion of the feasibility study and the answer to the second question can be the difference between success and failure. Committing resources to a specific site simply because it has a surprisingly low lease without considering the market or the compatibility of the location to concept is a mistake made far too often.

No matter how great the concept of a restaurant is, if it is not accessible it can easily be an empty restaurant. For example, during peak summer times potential customers would prefer to walk in the side of the street that offers shadow if the restaurant is positioned at the wrong side of the road customers would not even consider stopping to look at the menu. A restaurant with limited or no parking that requires a long walk could deter potential customers. Disabled access must also be considered as well as how close the restaurant is to major streets.

A restaurant must also be visible, many restaurants rely on walk in business, if the restaurant cannot be seen or it is hard to find it

will be very hard to build a base market for it. Ensuring that signs can be put up to guide potential customers is important. External lighting that both attracts and guides the customer is essential. The building appearance can be a deterrent or an attraction.

How close is the restaurant to potential business sources such as offices, hospitals or hotels as well as how close to potential competitors. It is a good idea to project potential customers by market segment based on distance from the restaurant. The traffic volume can also be a key factor so looking out for traffic and pedestrian patterns as well as identifying peak and off-peak periods is useful.

There are other considerations such as future developments in the area, safety environmental issues and restrictions to name a few. It is important that a complete profile of the location and the immediate area is constructed to ensure that the site is a good match for the type of restaurant intended.

Local market area

Having the location in mind makes it easier to define the geographic size of the market. Overestimating the amount of miles potential customers are willing to travel to get to the business is a common mistake. It is often better to have a pessimistic approach rather than an over optimistic. The next step involves obtaining demographic data about the people that reside or work in the area specified. Demographics such as age, gender, education and income as well as business growth trends, tourist visits, etc. can be obtained through local chambers of commerce, business development centres, market reports and local economic development agencies. See Chapter 9 for more on this topic.

Consultancy firms often produce reports that illustrate dining out behaviour and preferences such as menu item preference, dining frequency, preferred restaurants, etc. Such reports can help to understand the economic characteristics of the population and further refine the concept.

Competition

Analysing the competition enables to analyse the demand and opportunities in the market. A common mistake is to only analyse restaurants that fit the particular concept. So a fast-food operator might be tempted to cut corners and only analyse similar operations in the market and avoid investigating other type of restaurants. It is important to remember that each restaurant is competing for customers disposable income and disposable time therefore all food and beverage operators no matter what their concept is will affect the business. By visiting existing restaurants one can gain access to valuable information such as the type of menu offered, quality of food and service, pricing policies and even estimate the turnover of the competitor. How many of your competitors are independently owned and how many are part of a chain that can affect your profitability. Chain restaurants, for example, will have an opportunity to lower prices as economies of scale enable them to buy goods at lower

rates. How well can one compete if the same product it offered by a competitor at a far lower price? It is important to also look out for restaurant reviews in the local press or travel guides the reputation the restaurant may have. Existing restaurants are not the only ones one must consider. Recent restaurant closures should be investigated and trying to find the reasons behind the closures will give an insight to the local market. Also any information about future competitors can be extremely important. If for example, you were expecting to be the only seafood restaurant in town but you find that such concepts have opened and closed before or that such a restaurant will be opening soon just a few streets away from your location, you may decide to either find a new location, or rethink the concept.

Industry trends

Industry trends can help realize early on potential threats or opportunities that might exist. For example, in times of high economic growth the industry might enjoy higher turnovers as people will tend to eat out more often. It is important to look at how the market demand has been developing over the past three to five years, what types of restaurants seem to be doing well. What trends are there in customer eating and drinking habits? We may see a move away from junk food to healthy eating or an increase in the market segment for vegetarians or vegans. There may be new developments in areas such as food production, customer service, pricing, government regulations to name a few. For example, if you wanted to open an Organic restaurant somewhere in

Jane Renton, General Manager of the Jumeirah Lowndes Hotel, comments on how the smoking ban in the UK influenced the design of their Mimosa Bar and Restaurant.

We recently (November 2006) launched Jumeirah Lowndes Hotel after an £8.5 million renovations project. As the smoking ban of all pubs and private members' clubs in England will affect many hospitality business, it was important for us to retain an al fresco theme for our Mimosa Bar and Restaurant. Our focus is on fresh, seasonal ingredients with vibrant colours and clean flavours. The theme works as Mimosa's most coveted tables are our outdoors tables, where guests can relax and soak up the cosmopolitan atmosphere on Lowndes Square.



Europe you would have to abide with the EU regulations that enable you to use the label 'Organic'.

Financial projections

Once all the data is collected and location, market, competition and industry has been analysed the restaurateur is ready to make some projections to estimate the business turnover and be more specific about expected numbers in areas such as customer average expenditure, number of covers and potential costs.

It is advisable to look at financial projections using weekly, monthly and annual projections as seasonality will affect the business and splitting the year to a number of seasons will make it easier to forecast more accurately. Restaurants are easily affected also by the day of the week, often a restaurant will find that a particular day is the busiest whilst another might be the quiet day. For a new restaurant this might be hard to predict although competitor analysis should have helped. If the restaurant is an existing one historical data makes it easier to do forecasts.

Existing restaurants may wish to do a feasibility study if they consider expanding the business or wish to open a second or third operation.

Refining the concept

The information gained so far will enable the restaurateur to evaluate the business idea and come to conclusions as to whether it is a feasible operation or not. The concept can then be rejected or refined in order to achieve better returns on the investment.

Jones and Merricks (1994) categorize concept development in food service as new concepts, concepts that although not new are entering a market for the first time, modified concepts to provide greater consumer satisfaction, repositioned concepts that target new market segments and extended concepts that aim to appeal to a wider market segment. The key to the concept is customer preference and for most type of concepts this can be relatively easy to predict, however for brand new concepts that have never been tested before it may not be as easy. Often with a new concept the consumer may not know that it would prefer such a product so although asking the consumer may yield negative results, when the product is actually offered it can be found that the consumer actually likes the product.

THE BUSINESS PLAN

The business plan is a document that spells out a company's expected course of action for a specified period, usually including a detailed listing and analysis of risks and uncertainties. For the small business, it examines the proposed products, the market, the industry, the management policies, the marketing policies, production needs and financial needs. It is worth noting that often there is confusion between a restaurant feasibility

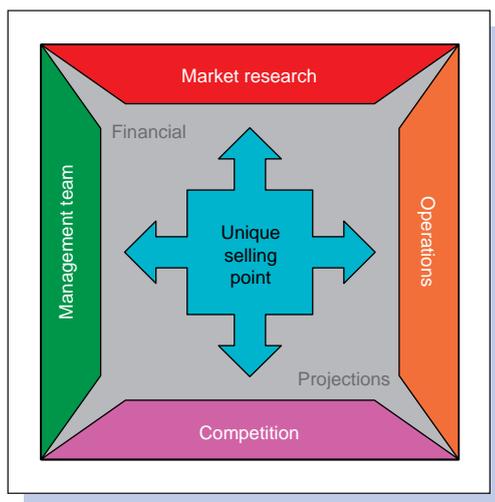


Figure 4.3
Elements of a restaurant
business plan

study and the business plan, this may be so because a number of information that become apparent in the feasibility study will then be used in the development of the business plan. In the business plan the manager addresses significant issues that have been identified in the feasibility study and states how he/she is going to address them.

Who will be reading the business plan can have an effect on how it is written, although the key information remains the same, there is emphasis in different sections of the plan if the operator goes for bank financing (debt finance) as opposed to investors (equity finance). A bank may be looking for a solid plan and assets that will ensure repayments of the loan whilst potential investors may be looking for high returns on investment.

A well-developed business plan makes all the difference when approaching potential investors (Figure 4.3). Investors and lenders will request a copy of the business plan and it is often one of the key tools that helps them make a decision as to whether they will invest or not. The heart of a good business plan is the unique differentiation point. The key innovation that makes the business stand out and ensures potential investors will consider financing the business. The following sections illustrate the main parts of a business plan.

Executive summary

Although this section is the very first of a business plan, it is always a good idea for this to be written last so that it includes all the key points that the operator wishes to put across to potential investors. Most investors will spend no more than five minutes considering a proposal and if the executive summary fails to capture their imagination then it is certain that they will not attempt to read further into the document. The key areas that a good executive summary explores are the company name, the type of restaurant, its unique selling point, the growth of the market and recent trends, the management team and its strengths, financing

requirements and projections, how the funds will be used and an outline of the operations and projected return on investment.

Restaurant concept description

The second part of the business plan provides a more detailed overview of the company and the nature of the product/service offering. Typically a sample menu is included. It often includes the history of the concept development the restaurants proposed legal form, for example will it be a limited company, a partnership or single ownership and a mission statement. A time line of key events, for example, how long it will take to have the operation up and running. The description of the concept, and any advantages the concept may have over the competition.

Market analysis

In this section, the information that was gathered in the feasibility study can be utilized. The location can be described, the local market can be defined and analysed, as well as industry trends and actual and potential competition. Any market threats that have been identified should be included here. Potential investors or lenders expect to see an analysis of the weaknesses as well as the strengths, and no weaknesses could mean that the plan is overoptimistic and the researchers may have missed critical information.

PESTLE analysis

Another tool that is often used is the analysis of the external environment to the organization is the PESTLE. The acronym stands for Political, Economic, Social, Technological, Legal and Environmental issues and factors that must be taken into consideration when developing the business plan. This particular tool enables the user to see the bigger picture when deciding how to proceed with their restaurant. Here is a list of some issues under each heading that readers may wish to consider, these are just examples and the lists are far from conclusive but will help the reader further understand the use of the PESTLE tool.

- Political issues (Government policies, Local council and trading policies, Terrorism, War, Political trends).
- Economic (Oversees economy strength, Home economy strength, Local economy strength, Inflation, Distribution trends, Taxation, Unemployment rates).
- Social (Lifestyle changes, Consumer behaviour changes, Population changes, Demographics).
- Technological (New and emerging technologies, Innovative technologies, Communication technologies, Production technologies, Service technologies).
- Legal (Local and country legislation, International or EU legislation, Licensing legislation, Employment law, Environmental legislation).
- Environmental (Sustainability issues, International and local regulations, Consumer attitudes).

	Positive	Negative
Internal	<i>Strengths</i> Reputation Strong customer base Unique menu	<i>Weaknesses</i> Low profit margins High employee turnover
External	<i>Opportunities</i> Open another outlet Future major conference	<i>Threats</i> New competitor Change in legislation

Table 4.2
 Example of a Restaurant
 SWOT analysis

SWOT analysis

Often the strengths, weaknesses, opportunities and threats (SWOT) of the proposed operation will be analysed as part of the market planning process. SWOT involves a systematic analysis of all aspects of the operation, both internally and externally. Strengths and weaknesses are often referred to as internal, opportunities and threats as external.

Taking a fast-food operation as an example, one of its inherent strengths may be a product's quality: customers know that from one purchase to another, they will always receive the same standard quality product. A weakness, however, may be in the limited menu choice available, or the design of the take-away packaging which does not keep the food at the correct temperature for a long enough time. Opportunities may exist for the extension of the menu range by offering additional products, sauces and accompaniments without having the need to purchase additional capital intensive production equipment, or to seek new and more efficient packaging within specific cost standards. Threats may be in the form of competition from other fast-food operators, or from a dramatic increase in the cost of a major raw material item to the operation, which would affect the cost of the product to the customer and the sales mix to the operation.

SWOT's use as a management tool is in its comprehensive analysis of all aspects of an organization. It would, therefore, include a detailed review of all the marketing functions discussed in Chapter 9, and in particular in the formulation of the marketing mix (Table 4.2).

The management team

This is an important section to investors and lenders. How strong the management team is will greatly affect their decision. If for example, Gordon Ramsey would approach a bank for funding of a new venture his profile alone may be an asset strong enough for the bank to finance the operation. It is important that this section illustrates that the management team can effectively run the business and that their collective experience can guarantee a successful project. This is the section where the

background of the management team members is illustrated, the experience they have in the field of food and beverage management and what their responsibilities are in this particular project. The organizational structure is illustrated, the type of ownership of the business and who will be in the board of directors, and their experience.

Operations

This part of the plan establishes how the operation will be run and will illustrate the strategies required to implement the business plan. Associated costs will become apparent here as well as service style and standards, production standards and quality control. More specifically the operations plan includes a marketing strategy, a production plan, a service plan, personnel description and customer support.

Business threats

Potential threats that may affect the company are disclosed. By disclosing such possibilities, the restaurateur is letting the reader know up-front that there are risks associated with the business. Potential investors appreciate such honesty and expert businessmen will expect business risks been included in the business plan as a norm. Some of the areas that should be covered are external and internal threats, insurance provisions and contingency plans.

Financial projections

If the business does not make sense financially then there would be no reason as to why one should invest. The financial reports should show a good understanding of the business and its viability. New businesses can also show forecasts but existing companies should also show three to five years of previous actual data. The expected financial statements are normally a profit and loss statement, statement of cash flow and a balance sheet (Figures 4.4 and 4.5). Forecasts are shown in no less than five years. Financial projections are available by month, quarter and annual reports. A break-even analysis is also normally included.

Appendix

In this section, the restaurateur normally includes any supporting information that should be made available to the reader. Examples of such information can be competitor menus, primary data collected such as customer completed questionnaires, examples of menu, promotional materials and advertisements.

FINANCING THE OPERATION

Depending on the size of the business and the experience of the management team there can be a number of avenues available to

	2007	2006	2005
<i>(Sterling in millions)</i>			
OPERATING ACTIVITIES			
Net Income.....	£479	£400	£390
Adjustments to reconcile to cash provided by operations:			
Depreciation and amortization.....	195	162	140
Income taxes.....	133	87	76
Timeshare activity, net.....	-195	-102	28
Other.....	48	19	-22
Working capital changes:			
Accounts receivable.....	-53	-126	-104
Inventories.....	-4	-17	15
Other current assets.....	28	-38	-16
Accounts payable and accruals.....	219	326	98
Cash provided by operations.....	850	711	605
INVESTING ACTIVITIES			
Capital expenditures.....	-1,095	-929	-937
Acquisitions.....	-	-61	-48
Dispositions.....	742	436	332
Loan advances.....	-389	-144	-48
Loan collections and sales.....	93	54	169
Other.....	-377	-143	-192
Cash used in investing activities.....	-1,026	-787	-724
FINANCING ACTIVITIES			
Commercial paper, net.....	46	355	426
Issuance of long-term debt.....	338	366	868
Repayment of long-term debt.....	-26	-63	-473
Redemption of convertible subordinated debt.....	-	-120	-
Issuance of Class A common stock.....	58	43	15
Dividends paid.....	-55	-52	-37
Purchase of treasury stock.....	-340	-354	-398
Advances (to) from Old Marriott.....	-	-	-100
Cash provided by financing activities.....	21	175	301
(DECREASE) INCREASE IN CASH AND EQUIVALENTS.....	-155	99	182
CASH AND EQUIVALENTS, beginning of year.....	489	390	208
CASH AND EQUIVALENTS, end of year.....	£ 334	£ 489	£ 390

USAR		
Summary Statement of Income		
The Tsolias Taverna		
For the year ended December 31, 2007		
Sales:		
Food	1,045,800	75.85%
Beverage	333,000	24.15%
Total Sales	1,378,800	100.00%
Cost of Sales:		
Food	448,000	32.49%
Beverage	85,200	6.18%
Total Cost of Sales	533,200	38.67%
Other Income	5,100	0.37%
Gross Profit	850,700	61.70%
Operating Expenses:		
Salaries and Wages	332,200	24.09%
Employee Benefits	57,440	4.17%
Direct Operating Expenses	88,440	6.41%
Music and Entertainment	14,200	1.03%
Marketing	30,000	2.18%
Utility Services	37,560	2.72%
General and Administrative Expenses	56,400	4.09%
Repairs and Maintenance	28,600	2.07%
Occupancy Costs	82,200	5.96%
Depreciation	31,200	2.26%
Total Operating Expenses	758,240	54.99%
Operating Income	92,460	6.71%
Interest	21,600	1.57%
Income Before Income Taxes	70,860	5.14%
Income Taxes	24,801	1.80%
Net Income	46,059	3.34%

Figure 4.4 Example of an income statement and a cash flow statement

	2007	2006
<i>(Sterling in millions)</i>		
Assets		
Current assets		
Cash and equivalents.....	£ 334	£ 489
Accounts and notes receivable.....	728	740
Inventories, at lower of average cost or market.....	97	93
Prepaid taxes.....	197	220
Other.....	59	58
	1,415	1,600
Property and equipment.....	3,241	2,845
Intangible assets.....	1,833	1,820
Investments in affiliates.....	747	294
Notes and other receivables.....	661	473
Other.....	340	292
	£ 8,237	£ 7,324
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable.....	£ 660	£ 628
Accrued payroll and benefits.....	440	399
Self-insurance.....	27	36
Other payables and accruals.....	790	680
	1,917	1,743
Long-term debt.....	2,016	1,676
Self-insurance.....	122	142
Other long-term liabilities.....	915	855
Shareholders' equity		
ESOP preferred stock.....	-	-
Class A common stock, 255.6 million shares issued.....	3	3
Additional paid-in capital.....	3,590	2,738
Retained earnings.....	851	508
Unearned ESOP shares.....	-679	-
Treasury stock, at cost.....	-454	-305
Accumulated other comprehensive income.....	-44	-36
	3,267	2,908
	£ 8,237	£ 7,324

Figure 4.5 Example of a balance sheet

finance a restaurant. Here we briefly explore some possibilities, although this is not an exhaustive list it aims to give an idea to the reader as to the potential possibilities for financing a restaurant operation.

Commercial bank loans

Getting a bank loan especially if the restaurateur does not have a proven track record can be very difficult. Nevertheless a good business plan most certainly helps. It is may often be the case of managers visiting a number of bank managers before getting a positive response. In cases where this is a loan to fund a second property, having a track record makes things easier. If the operator already runs one or two successful restaurants, chances of receiving a bank loan increase. The problem with commercial bank loans is that if the business does not do well you will still have to pay back the loan whilst with investors who purchase equity on the business they share the risk. The advantage of the commercial bank loan is that if the business is a success the restaurateur can still have full control of the business.

Small business grants and loans

There are various opportunities for alternative sources of funding for small businesses for example, the 'Early Growth Fund' a programme that was developed to encourage risk funding for startups and growth firms. It makes available to successful applicants an average of £50,000 another interesting source of funding is the Small Firms Loan Guarantee which considers businesses with viable business plans but was unsuccessful in securing a conventional loan due to lack of assets (Department of Trade and Industry: dti.gov.uk).

As another example, in the US a small business restaurateur has the opportunity to get an Small Business Administration (SBA) loan. To qualify for a such a loan, the restaurateur must first be rejected for a traditional loan. Individual franchisees of large corporations also can be considered as small businesses. The SBA would look for detailed evidence that the operator is able to repay the loan.

Activity 2

Identify at least two potential sources of funding for a 50 cover restaurant in your local area.

What would you need to do to ensure that you stand the best chance of getting funding from your identified sources?

Investors

Attracting investors can be hard but it can be a good way of financing the first operation. Good networking is crucial and often the new restaurateur would seek small investments from

a larger number of investors. Investors can offer a loan but more often they will buy equity in the business and a good business structure would ensure that the restaurateur still has control of the business. Investment banks can also be a source of funding but often they will only consider established restaurateurs.

Partnerships

A partnership may be a good way of raising capital but the potential partner should be aware of all the risks involved. There is a number of positive outcomes from having a business partner. For example, the risks and responsibility is shared, other strengths are brought in to the company, often partners will feed of each other in terms of ideas and develop solutions that would otherwise go unnoticed. It is imperative that the terms of the partnership are laid out well in advance because if a partnership turns sour the litigation costs to break up the partnership can be very high. Often friendships may end due to the strain the business may put on them, either because of conflict of interest or because of one partner underperforming.

Personal finances

A personal loan, such as a home-equity loan can provide supplemental funding. Personal savings, Individual retirement (Ira) accounts, Credit cards could be sources of part financing a project. Personal loans may often carry a high interest rate and the added risk of losing, personal assets.

Venture capital

Well-established restaurateurs may consider the possibility of a venture-capital firm willing to invest. Such firms invest significant funds in companies in which they foresee major expansion. Compared with other investors, venture-capital firms usually require a much greater partnership and will help determine the company's direction. They expect to see a large return of their investment within about five years.

Franchise

A franchise can be a good business set up in ensuring funding. A good franchisor will have a positive impact in the decision-making of banks and investors in lending money to the operation. Companies with successful restaurant concepts (franchisor) may be willing to franchise their concept to the restaurateur (the franchisee). Franchising is an arrangement in which the franchisor (main company) grants to the franchisee (new restaurateur) a license to use particular commercial methods of operation which he has developed. The franchisee contributes the necessary capital to start up an operation, effort and motivation to run the establishment, and agrees to be controlled by the franchisor; the franchisor in return contributes to the training of the franchisee, the procedures of operation and other managerial expertise.

Franchising arrangements are particularly applicable to fast-food outlets because of the way in which these operations lend themselves to standardization and duplication and in this way encourage the development of franchising within the large chain operations.

The advantages to the franchisee are:

1. It offers the opportunity for immediate entry into business.
2. It offers immediate entry into a particular market with a proven successful 'package', that is, a brand product.
3. Assistance is offered in finding and evaluating sites.
4. Assistance is given with initial layouts, shop fitting specifications, and advice with planning applications.
5. Assistance is given with initial training of management and staff.
6. The franchisor provides menus, and sells (or nominates suppliers) all food, beverage, small equipment, etc. to the franchisee.
7. The franchisor provides all operational documents.
8. The franchisor provides regional and national promotional support.
9. The franchisor provides regular advice and assessment.

The advantages to the franchisor are:

1. It enables the franchisor to expand the business with speed using the franchisee's investment capital.
2. It enables the franchisor to achieve market penetration with relative ease and speed using the franchisee's capital, time and energy.
3. It reduces the number (if any) of development staff to find sites and to be involved in lengthy openings of new units.
4. It increases the benefits to the franchisor by providing significantly greater market exposure of the product.
5. It enables the franchisor to be the required supplier of the food, beverages, disposable commodities, equipment and at times fixtures and fittings, to the exclusion of competitors' products in all forms.
6. It enables the franchisor to have the franchisee under a period contract, to pay for entry into the franchise, to pay a commission fee based on turnover, and often to pay a specific percentage of turnover towards regional and national advertising and promotions.

An example of a franchisor would be McDonalds restaurants. The franchisor in this case is McDonalds and the franchisee is any operator that wishes to buy a franchise from Mc Donalds. Often there might be confusion between a franchise and a chain. In a chain all outlets are owned by the main company. In a franchise some outlets are owned by individual operators who then pay fees to the main company. The confusion often happens because companies like McDonalds operate both as a chain and

as a franchise, meaning they own a number of their restaurants but they will also sell franchise to potential investors.

Combination of the above

Any combination of two of the above mentioned methods can be used to finance a project. Realistically a new restaurateur might get a loan as well as re-mortgage a house or get part funding from investors.

FACILITY DESIGN AND LAYOUT

The restaurant design and layout of a restaurant will have a big effect on the meal experience as well as the employees of the restaurant. Depending on the concept and the size of the business there will be different requirements and priorities when designing the restaurant. Here we briefly explore the basic components of a restaurant design and layout.

Activity 3

Figure 4.6 is the layout of the Lakeside Restaurant an 80 cover restaurant in Guildford Surrey, UK.

Considering that this is a training restaurant, can you identify the main differences in terms of layout compared to high-street restaurants?

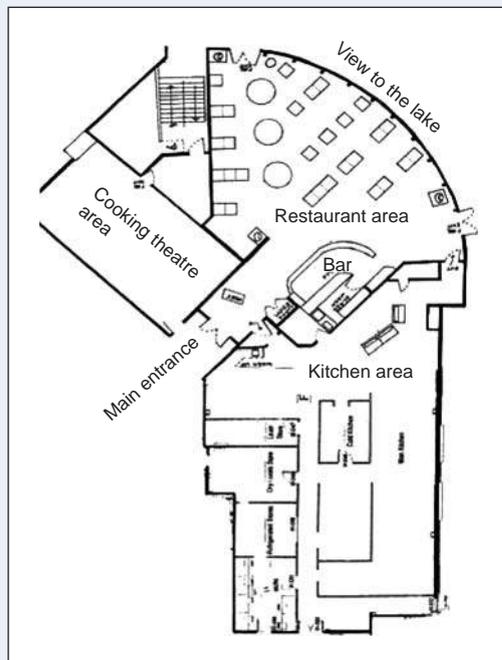


Figure 4.6 The Lakeside Restaurant layout (Source: Courtesy of The Lakeside Restaurant)

Customer service area

This area may often be referred to as the 'front of house' by the employees of the business. It is normally what the customer first sees and this area will affect the customer perceptions over the type of operation and the quality of service and even food and beverage the customer might expect. The service area must combine aesthetics as well as practicality so that the meal experience is enhanced by the surroundings and the design of the restaurant. An ethnic restaurant might have a specific theme related to the country of origin of the restaurateur whilst a fast-food type of operation may put more emphasis on functionality rather than comfort. Restaurant space is designated depending on the level of service and generally speaking a fine dining restaurant would be expected to allow far more space per seat than a fast-food operation. Table arrangement will be done so that it allows for maximal use of the space to ensure higher capacity whilst moveable furniture's will enable functions and bigger parties to take place in the restaurant. Other areas may include a hostess station usually found at the entrance of a full service restaurant, a cashier station and in some cases a bar with waiting area for customers that wait for a table to be readied. Public restrooms are also a key area for the restaurant often customers use the level of cleanliness of a toilet as a reflection on the cleanliness of the restaurants kitchen. The layout of the restrooms will require disable cubicles and may require nappy changing facilities and baby feeding area especially if the restaurant is targeting families.

Kitchen area

The kitchen area can be referred to as the 'back of House' or the production area, because this is where the food is produced. Open plan kitchens have been a trend where the process of production becomes part of the meal experience. From a design point-of-view such kitchens can be an added value and can help establish the theme in the restaurant.

Traditionally, the main areas of a kitchen include; the cold preparation section for the assembling of appetizers and salads, and deserts. The cooking station is where main courses are cooked. The hotplate area, where dishes are plated and wait for servers to take to the customers. A dishwashing area is close to the cooking area so that the pots and pans can be easily reached. It is worth noting that most health departments require separate sinks for washing and sanitizing pots, pans and dishes that need to be washed by hand.

A suppliers area or decanting area where goods are received and a food storage area with freezers and coolers, a scale, break-down table and shelving for your freezer, cooler and dry goods. Linen may also be stored in this area.

Other restaurant areas

Other areas may include an office, employee room and restroom. Often not much thought is given in the design of employee areas but considering that guest satisfaction is often affected

by employee satisfaction restaurant operators must consider designing employee areas that are of as good standard as the restaurant they wish to manage.

Other design issues

The number of people in the UK aged 75 and over is forecast to double over the next 50 years. Elderly and disabled people are significant segments of the market. It is important for managers to take that in consideration when designing not only restaurant interiors but menus and restaurant signage as well. At the best, restaurateurs may design a few of their menu items and restaurant areas to suit the needs of elderly and disabled consumers. However in order to be competitive, managers must consider using an 'Inclusive design' strategy. That is, that every product should be designed with the elderly and disabled in mind.

Summary

In this chapter we explored:

- How restaurant concepts can be developed?
- Feasibility study
- Business plan
- Potential sources of financing a restaurant
- Key issues when considering the design and layout of a restaurant.

Review questions

1. What is a feasibility study and what are its main components?
2. Why is a feasibility study important for a new operation?
3. What is a SWOT analysis?
4. What is a PESTLE?
5. What is the difference between a business plan and a feasibility study?
6. Briefly explain at least five ways of financing a restaurant operation?
7. Why is facility design important to a restaurant operation?

Further study options

Case study: Little Paradise

Mary Smith fell in love with the little bistro in the corner of Worple Avenue and Stiple Street, the first time she laid eyes on the place. It was a small operation no more than 40 covers

at any one time but it had something special about it. Its owner Mr Franco was almost 65 and he would soon retire, so when he put up an advertisement to sell the business Mary was the first to show interest. She was determined to buy that place no matter what, and although she did not have much experience in running a restaurant business, she had years of experience in investment banks as an accountant so she had a good network of friends and she was a quick learner.

The business seemed to just about break even and Mr Franco never lied about the fact that business has been steadily declining over the years. Mary did not think about conducting a feasibility study or checking any historical data of the business. She simply launched in with the enthusiasm of a five-year old seeing her first bicycle.

Within the first months Mary realized that Mr Franco was hiring far too many employees but she was reluctant to let go any of the people as they all seemed to work for years for Mr Franco. Mary's initial funds were running low and the restaurant head chef did not seem to wish to steer away from traditional French Cuisine or try any alternative recipes.

Within the first year Mary's Little Paradise was turning to 'Little Hell', the restaurant did not seem to have a positive cash flow and customer numbers deteriorated whilst a number of equipment needed replacing. In the first year of operations the restaurant made a loss of £35,000. If Mary didn't act soon she would lose both the restaurant and her self-esteem. She needed to turn the restaurant into a success but she had no idea what to do next.

Q1: What were the major mistakes Mary did when deciding to go into the restaurants business?

Q2: What would you advise Mary to do next to help make the business a profitable one?

Case study: Acorn House Restaurant

Developing a unique and innovative restaurant concept such as the Acorn House Restaurant (AHR) may be considered an excellent case study for future hospitality managers. With a philosophy and determination to spread a truly eco friendly message to the restaurant industry, it is an original concept that delivers on its promises.



In November 2006 AHR, opened its doors to the public. The first eco friendly training restaurant in London with a mission statement of not only transforming the way people eat out but also aiming to become an example for the rest of the restaurant industry. The originality of the restaurant does not

lay only in the fact that it is an eco friendly concept but the degree to which it delivers an eco friendly message in every aspect of restaurant design, management and development of its employees, and future hospitality professionals.

History of the idea

In the summer of 2005, restaurant manager Jamie Grainger-Smith and head chef Arthur Potts bumped into one another in a Muswell Hill café. Over coffee and a conversation on the future of the restaurant industry, they began to develop a new concept set to transform the existing restaurant culture (Figure 4.7).

Both Jamie and Arthur, had always recycled, tried to conserve energy in their own homes and use ethical products. The decision to reflect this at their place of work seemed to be a natural one. Together they formed *Bliss Restaurant Consultancy* and in association with *Shoreditch* and *Terence Higgins* Trusts, the AHR idea was born.

The restaurant

AHR is situated on the ground floor of the *Terence Higgins Trust* headquarters at 69 Swinton Street, London, UK. The restaurant is only a five-minute walk from the Kings Cross and St Pancras railway station. The restaurant itself is built from recycled and organic materials. A long modern room can hold 62 covers and the shelves are stocked with fresh produce and various condiments and utensils. The bar next to the main

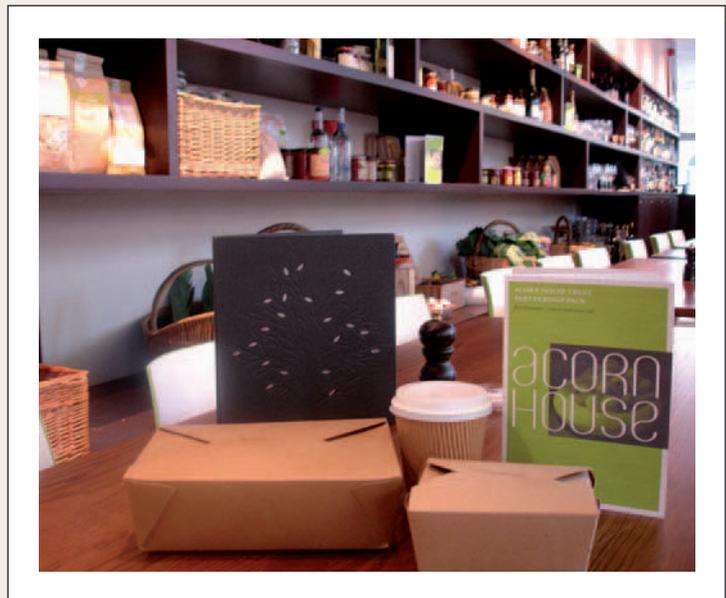


Figure 4.7
AHR menus and packaging

entrance serves as a station for the take-away menu, the restaurant features and at the other end the kitchen is visible by the customers. The kitchen size was minimized to ensure maximum energy efficiency. The restaurant also features a training room that is utilized to train its staff (see Figure 4.8).

Equipment, furniture and fixtures

The AHR team has gone to great lengths to ensure each decision has a minimum impact on the environment. Organic and recycled materials are used where possible. A great example of the AHR philosophy in practice, is the restaurant's Brazilian cutlery. Since coffee beans have to be imported their research in good coffee directed them towards the procurement of Brazilian fair trade coffee. They import their coffee by boat rather than plane as they have pledged never to use air freight for any of AHR products. To save on excess of transportation they used the same boats that transport their coffee to import their cutlery. The restaurant tables are made from sustainable Norwegian wood and the chair tops are recycled plastic whilst the chair legs are 80% recycled stainless steel. The take-away packaging is from recycled materials and fully biodegradable. The kitchen pass is made from recycled resin plastic, glasses are from recycled glass and even the wall paint is organic to ensure minimum impact on the environment. The menus are printed on re-cycled paper using vegetable ink.

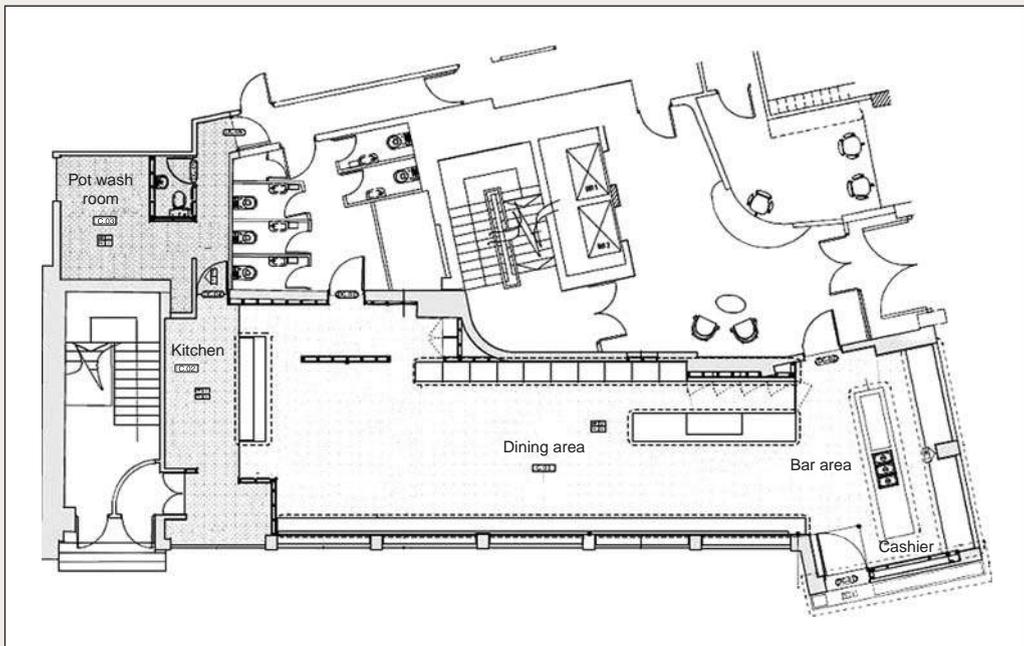


Figure 4.8 AHR Restaurant floor plan

A MENU FOR April

Green & black olives – £3.00
 Wilkins Farmhouse cider – £3.60
 Rhubarb Bellini – £7.00
 Acorn House T-shirts – 10.00

Soups
 £6.50 Field mushroom & potato
 Beetroot, cardamom & sour cream

Starters
 £10.50 Prosciutto di san Danielle, roast aubergine, seeds & sprouts
 £9.50 Smoked mackerel with grilled celeriac, salsify & chives
 £8.00 Spring beetroot, Jersey Royals, Amalfi olives & chilli
 £9.50 Mozzarella di bufala, artichokes & aged balsamic vinegar
 £11.50 English asparagus, fresh crab & dandelion

Pastas
 £14.00 Tagliatelle, rag of spring lamb, mint & peas
 £13.00 Spring herb ravioli & fresh ricotta
 £12.50 Artichoke & broad bean risotto

Main courses
 £17.00 Duck confit & braised Savoy cabbage
 £15.50 Char grilled fish of the day, cardamom & horseradish
 £13.50 Aubergine, spinach, goats cheese grilled red chilli sauce
 £17.00 Roast pork chop, soy, honey & thyme
 £17.00 Pan fried organic salmon fillet & borlotti beans
 £18.50 Char grilled leg of lamb, anchovy & rosemary sauce

There will be a discretionary 12.5% service related charge added to your bill!
 Acorn House asks you politely to refrain from smoking, for every ones sake!

Figure 4.9
 AHR dinner menu

Food

Local produce is in the heart of the menu development at AHR. Items that can not be purchased locally such as peppercorns are imported by boat rather than plane. Seasonality in another characteristic of their menu and although the menu appears fixed for a period of a month the interpretation of each dish is depended on fresh produce available. By supporting the local suppliers AHR is also supporting the Mayor's Food Strategy for London, which aims to create a sustainable food system. A good example of how availability of food might affect menu items is the procurement of fish. Most restaurateurs will go to great lengths of time and money to ensure that particular species of fish is kept in their menu day in and day out. At AHR however the Executive Chef relies on the suppliers to get them the freshest fish available, in their April 2007 dinner menu, for example, char grilled fish of *the day* is featured rather than a particular fish species (Figure 4.9).

The AHR team also wants to put the choice back to the consumer by allowing them certain control on portion quantity and thus reducing wastage as much as possible (Figure 4.10).

Soups	
Small – £5.50	Sorrel & pancetta
Large – £6.50	Beetroot, cardamom & sour cream
	Field mushroom & potato
Cured meats	
Selection of three – £8.00	Prosciutto di san Danielle, speck d' aosta, Bresaola,
Selection of five – £10.00	salami Milano, salami Felino, chorizo, Mortadella
Salads	
Three salads – £8.00	Purple sprouting broccoli, ginger & vinegar
Four salads – £10.00	Spring greens, juniper & pancetta
	Borlotti beans, sun dried tomatoes & herb sprouts
	Grilled salsify, jersey royals & chives

Figure 4.10

Extract from the lunch menu

FIZZ	
£25.00	Chapel Down Brut Kent, England NV
£40.00	Nyetimber Classic Cuvee Sussex 1999

Figure 4.11

Extract from the wine list

Beverages

Bottled water at AHR is supplied by *Belu*, a company that makes bottles from biodegradable corn and gives all of its profits to clean-water projects. The take-away menu features juices from England and even the wine list features wines from the UK (Figure 4.11).

Use of suppliers

AHR buys from local small independent suppliers. They focus on seasonal produce and buy fair trade where possible. They have a strict fish purchasing in accordance with the Marine Conservation Society Guidelines which is a UK charity dedicated to the protection of the marine environment and its wildlife. AHR food is organic and all vegetables are purchased from sustainable farmers. The AHR team avoids buying produce associated with industrial farming, as it is causing serious damage to the environment. They pledge never to use air freight and they identify meat suppliers that use positive animal husbandry.

Recycling and composting

The AHR team identifies packaging that can be delivered and sent back to the supplier. Their raw waste is mulched, then processed through an on-site wormery (Figure 4.12) and used to create soil for a vegetable and herb garden on the roof of the restaurants refuge area.

Urban gardening

A great example of the complete circle of the AHR recycling is the vegetable and herb garden at the top of the restaurant's refuge area (Figure 4.13). The garden containers have been built by volunteers from the community and staff of AHR using recycled wood and materials. Lettuce, leeks, onions, zucchini,



Figure 4.12
AHR wormery at work



Figure 4.13
Part of the AHR vegetable and herb garden

basil, coriander and parsley are some of the produce grown in the Kings Cross Urban setting. Grey and rain water is utilized for the needs of the garden. The simple act of planting seeds and witness them grow and later used in the AHR menu instills pride and boosts the morale of the AHR team. The fact that the whole garden is built by recycled materials makes the project even more rewarding.

Energy and water

AHR utilize natural lighting and use renewable green energy. They monitor their energy use in order to curtail usage. Water usage is also minimized and water is purified and bottled on site to decrease transport miles, and usage of plastic and glass. All the cleaning products used at AHR are environmentally friendly. A loop system is in operation for supply and removal of produce to minimize journeys and when transporting in London the AHR van uses bio-diesel.

Educating external and internal customers

Apart from the fact that customers may choose their portion size in order to minimize wastage, they are invited to donate 50p which is used to plant a tree and offset their carbon emissions travelling to AHR. The employees of AHR are trained in the ethical matters related to the protection of the environment, and are encouraged to cycle to work. The philosophy of AHR is clear even in the smallest details, the paintings on the walls depict images that remind the viewer the impacts of deforestation and the destruction of wildlife due to ice melting, but perhaps the strongest message comes from the promotional 'matches' given to every customer at the end of their meal. When other restaurants offer actual matches and unknowingly present a metaphor of destruction AHR 'matches' are herb seed sticks that can be used by customers to grow their own herbs and thus sending them off with a message of regeneration (Figure 4.14).

The people

Arthur Potts Dawson is the co-founder of *Bliss Restaurant Consultancy* and Executive Chef at *Acorn House Restaurant*. He started his career with a three-year apprenticeship with the Roux Brothers, before moving on to *Kensington Place* and *La Tante Claire*. He also worked alongside Rose Gray and Ruth Rogers as Head Chef at the *River Café* where he first began what was to become a lifelong commitment to using organic products and local suppliers. He has been a management consultant at the *Petesham Nurseries Café*, and has also held Executive Chef positions for *Cessonis Restaurant* of the *Soho House Group*, and Executive Chef of another innovative restaurant concept, *Fifteen Restaurant*.



Figure 4.14

AHR mixed herb sticks

Jamie Grainger-Smith is co-founder of *Bliss Restaurant Consultancy* and Restaurant Director at *Acorn House Restaurant*. Amongst his many restaurant projects he re-launched *Monte's* on Sloane Street, with Ben O'Donghue and Jamie Oliver, whom he met at his time working at the world-famous *River Café* in Hammersmith. Jamie has also worked with Alastair Little on Lancaster Road, *Morton's* on Berkeley Square and many others. Jamie was a key player in the development of the *Fifteen Restaurant* project. Working alongside Jamie Oliver he was responsible for the strategic direction and implementation of the restaurant, from finding the location, through interior, ergonomic design, staff recruitment and training. After the *Fifteen Restaurant* project, he was involved in several different projects, one of which being *Graze* in Maida Vale, another *The Hill Restaurant and Bar* in Muswell Hill – the latter being a 120 cover restaurant and a 280-capacity nightclub, where his role was to stabilize the business, implement strategies, procedures and gain control of the business.

The Acorn House Trust

Jamie and Arthur launched the Acorn House Trust (AHT) in the spring of 2007. The trust pledges to train 10 new restaurateurs per year that focus in sustainable, environmental friendly restaurant management ethos in Jamie's own words '*respect for all elements involved and awareness of the resources used in the provision of food is central to the AHR training ethos*'. The training programme was created in association with Westminster Kingsway College and the trainees work alongside the AHR full time team for a maximum of thirty-six hours

per week. They also spend classroom time in the training room to cover the curriculum which covers sessions in food hygiene and safety, waste reduction, recycling and composting, sustainable farming and socially just and environmentally efficient food distribution, back and front of house, house-keeping, customer relations and developing a business plan.

The partners

The Shoreditch Trust (shoreditchtrust.org.uk), *Terrence Higgins Trust* (tht.org.uk) and *Bliss Restaurant Consultancy* (blissrc.co.uk) are the three organizations responsible for *Acorn House Restaurant*. The *Shoreditch Trust* and *Terrence Higgins Trust* wished to set up a training restaurant for the local community. With the expertise of *Bliss Restaurant Consultancy* this became a reality. Together, the partnership brings together shared values and significant experience in social enterprise and charity projects.

Shoreditch Trust



An award-winning charitable regeneration agency committed to developing new models of engagement and change for communities. The Trust has enjoyed significant success in acquiring and developing 16 Hoxton Square, home of the Hoxton apprentice which offers training places to the long-term unemployed in Hackney. The Trust has a social enterprise arm and its stake in *Acorn House Restaurant* forms part of that activity.

Terrence Higgins Trust

Established in 1982, *Terrence Higgins Trust* is the leading HIV and AIDS charity in the UK and the largest in Europe. It was one of the first charities to be set up in response to the HIV epidemic and has been at the forefront of the fight against HIV and AIDS since. *Acorn House Restaurant* is situated on the ground floor of the Trust's head office.



Bliss Restaurant Consultancy

Formed in 2005, the consultancy's projects include *The Dirt Café* concept the re-development of the menu and kitchen at *The Frontline Restaurant* and *Private Members Club* in Paddington as well as tutoring at the *River Cottage Farm* and consultancy for *Room 68* at Hampstead London.



Acknowledgements

The authors would like to thank the Directors of Bliss Restaurant Consultancy for their time and the information they provided for the benefit of this case study. Special thanks must also go to *Shoreditch Trust* and *Terrence Higgins Trust* for their involvement in this project.

Case study questions

1. Discuss the unique selling point of the Acorn House Restaurant.
2. Perform a cost–benefit analysis for each of the key areas of the AHR.
3. Discuss the implications of portion control management.
4. Conduct a SWOT analysis for AHR.
5. Would the concept work for a large chain of restaurants? What are the arguments for and against?
6. In the case study we see a number of innovative ideas that could be applied to any restaurant, which one you find the most intriguing, why?

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