

PART ONE

Restaurants, Owners, Locations, and Concepts

The Concept of B. Café

B. Café is a Belgian-themed bistro offering a wide variety of beer and a cuisine that is a Belgian and American fusion. B. Café has three owners, Skel Islamaj, John P. Rees, and Omer Ipek. Islamaj and Ipek are from Belgium, and Rees is American. The owners felt that there was a niche in New York for a restaurant with a Belgian theme. Out of all the restaurants in New York, only one or two offered this type of concept, and they were doing well. Since two of the owners grew up in Belgium, they were familiar and comfortable with both Belgian food and beer. Today B. Café offers over 25 Belgian brand beers, and the list is growing.



Courtesy of B. Café

LOCATION

B. Café is located on 75th Street in New York City. The owners looked for a location for two years before

finding the right place. They came across the location after checking the area and finding a brand-new

restaurant whose owner offered to sell. According to owner Islamaj, going with a building that held

occupancy as a restaurant was “a good way to control cost.” They did some renovations and adapted what already existed.

MENU

B. Café’s third partner, John P. Rees (who is also the culinary director and executive chef) created the menu. The men wanted a menu that was a fusion of Belgian and American, but did not want to compromise their ethnic backgrounds. They created a menu with many options that was not too ethnic as to alienate people. By doing this they hoped to target the mainstream.

PERMITS AND LICENSES

The building where B. Café is located today was previously a restaurant. This made the obtaining of permits and licenses a bit easier than it would have been had the building not been a restaurant before. Some of the licenses were transferred over. The owners hired lawyers to obtain other permits and licenses needed to gain occupancy. B. Café is a limited liability corporation (LLC) with three owners. The owners of B. Café strongly recommend going with a preestablished site when opening a new restaurant.

MARKETING

The owners of B. Café were lucky to be well known in the food critic

and journalism community. Their preopening marketing consisted of contacting old connections, which landed them an article in a newspaper. They recommend that anyone who is considering opening a restaurant should send out a one-time press release.

CHALLENGES

The first main challenge for the owners of B. Café was finding the right staff. They also found organizing vendors and purchasing products (such as their beer) in quantity to be challenging because when you first open, “you have to buy, buy, and buy” to be sure that you have enough, but you don’t know what quantities you will need. You should also expect to go over budget. At minimum, you should take what your expected budget is and then add on 20 percent.

FINANCIAL INFORMATION

Annual sales at B. Café are expected to reach \$1 million in the first year. They have about 540 guest covers a week. Guest checks average \$38 per person. A breakdown of sales percentages follows.

- Percentage of sales that goes to rent: approximately 9 percent
- Percentage of food sales: 85 percent
- Percentage of beverage sales: 15 percent

- They cannot estimate their percentage of profit (it is 0 percent so far), as the café opened three weeks prior to this interview.

WHAT TURNED OUT DIFFERENT FROM EXPECTED?

The sales the first week were as expected. Sales in the second week went down due to the holidays. This was not anticipated. Other than this, all went as planned.

MOST EMBARRASSING MOMENT

When I asked Skel Islamaj what his most embarrassing moment during opening was, he responded that on the day of opening, a customer ordered coffee. That is when “we realized that we forgot to order coffee!” There was none! All was okay though; a server went to a coffeehouse and purchased some to get them through.

ADVICE TO PROSPECTIVE ENTREPRENEURS FROM THE OWNERS OF B. CAFÉ

1. Understand the business before you get into it.
2. Location, location, location!
3. Believe in your business, never give up, and be persistent.

CHAPTER 1

Introduction

LEARNING OBJECTIVES

After reading and studying this chapter, you should be able to:

- Discuss reasons why some people open restaurants.
- List some challenges of restaurant operation.
- Outline the history of restaurants.
- Compare the advantages and disadvantages of buying, building, and franchising restaurants.



Courtesy of Sysco

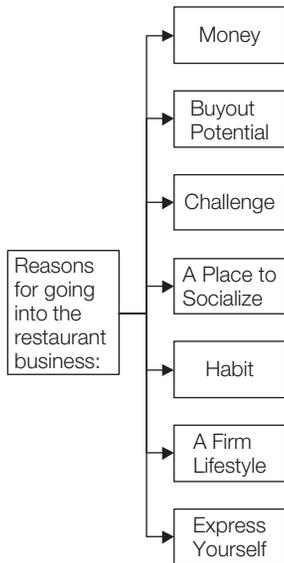


FIGURE 1.1: Reasons for going into the restaurant business

Restaurants play a significant role in our lifestyles, and dining out is a favorite social activity. Everyone needs to eat—so, to enjoy good food and perhaps wine in the company of friends and in pleasant surroundings is one of life’s pleasures. Eating out has become a way of life for families. Today, more meals than ever are being eaten away from home.

The successful restaurant offers a reasonable return on investment. One restaurant, then two, then perhaps a small chain. Retire wealthy. To be a winner in today’s economy requires considerable experience, planning, financial support, and energy. Luck also plays a part. This book takes you from day one—that time when you dream of a restaurant—through the opening and into operation. What kind of restaurant do you want to run? Would you prefer quick service, cafeteria, coffee shop, family, ethnic, casual, or luxury? Most restaurant dreamers—perhaps too many—think of being in the middle of a restaurant with lots of guests; skilled, motivated employees; and great social interaction, food, service, and profits. The kind of *restaurant concept* you select determines, to a large extent, the kind of talents required. Talent and temperament correlate with restaurant style. Managing a quick-service restaurant is quite different from being the proprietor of a luxury restaurant. The person who may do well with a Taco Bell franchise could be a failure in a personality-style restaurant. The range of restaurant styles is broad. Each choice makes its own demands and offers its own rewards to the operator.

This book shows the logical progression from dream to reality, from concept to finding a market gap to operating a restaurant. Along the way, it gives a comprehensive picture of the restaurant business.

Going into the restaurant business is not for the faint of heart. People contemplating opening a restaurant come from diverse backgrounds and bring with them a wealth of experience. However, there is no substitute for experience in the restaurant business—especially in the segment in which you are planning to operate.

So why go into the restaurant business? Here are some reasons others have done so, along with some of the liabilities involved. Figure 1.1 shows reasons for going into the restaurant business.



Chef-owner Bob Kinkead, of Kinkead’s Restaurant, Washington, D.C.

Courtesy of Bob Kinkead

- **Money:** The restaurant is a potential money factory. According to the *National Restaurant Association (NRA)* the restaurant industry totals \$580 billion in sales.¹ Successful restaurants can be highly profitable. Even in a failing economy the NRA is predicting restaurant-industry sales to advance 2.5 percent in 2010 and equal 4 percent of the U.S. gross domestic product.² Few businesses can generate as much profit for a given investment. A restaurant with a million-dollar sales volume per year can generate \$150,000 to \$200,000 per year in profit before taxes. But a failing restaurant, one with a large investment and a large payroll, can lose thousands of dollars a month. Most restaurants are neither big winners nor big losers.
- **The potential for a buyout:** The successful restaurant owner is likely to be courted by a buyer. A number of large corporations have bought restaurants, especially small restaurant chains. The operator is often bought out

for several million dollars, sometimes with the option of staying on as president of his or her own chain. The older independent owner can choose to sell out and retire.

- *A place to socialize:* The restaurant is a social exchange, satisfying the needs of people with a high need for socialization. Interaction is constant and varied. Personal relationships are a perpetual challenge. For many people there is too much social interplay, which can prove exhausting. On a typical day in America in 2009, more than 130 million individuals will be food service patrons.³
- *Love of a changing work environment:* A number of people go into the restaurant business simply because the work environment is always upbeat and constantly changing. A workday or shift is never the same as the last. One day you're a manager and the next day you could be bartending, hosting, or serving. Are you bored of sitting behind a desk day after day? Then come and join us in the constantly evolving restaurant world!
- *Challenge:* Few businesses offer more challenge to the competitive person. There is always a new way to serve, new decor, a new dish, someone new to train, and new ways of marketing, promoting, and merchandising.
- *Habit:* Once someone has learned a particular skill or way of life, habit takes over. Habit, the great conditioner of life, tends to lock the person into a lifestyle. The young person learns to cook, feels comfortable doing so, enjoys the restaurant experience, and remains in the restaurant business without seriously considering other options.
- *A fun lifestyle:* People who are especially fond of food and drink may feel that the restaurant is “where it is,” free for the taking, or at least available at reduced cost. Some are thrilled with food, its preparation, and its service, and it can also be fun to be a continuous part of it.
- *Too much time on your hands:* A lot of people retire and decide to go into the business because they have too much time on their hands. Why a restaurant? Restaurants provide them with flexibility, social interaction, and fun!
- *Opportunity to express yourself:* Restaurant owners can be likened to theatrical producers. They write the script, cast the characters, devise the settings, and star in their own show. The show is acclaimed or fails according to the owner's talents and knowledge of the audience, the market at which the performance is aimed.

When restaurant owners were asked by the author and others what helped most “in getting where you are today,” the emphasis on steady, hard work came out far ahead of any other factor. Next in line was “getting along with people.” Then came the possession of a college degree. Close also was “being at the right place at the right time.” Major concerns were low salaries, excessive stress, lack of room for advancement, and lack of long-term job security.

Opening and operating a restaurant takes dedication, high energy, ambition, persistence, and a few other ingredients discussed throughout this text. As Carl

Karcher, founder of Carl's Jr., said, in America you can easily begin a restaurant as he did, on a cart outside Dodger Stadium selling hot dogs.

Early History of Eating Out⁴

Eating out has a long history. Taverns existed as early as 1700 B.C.E. The record of a public dining place in Ancient Egypt in 512 B.C.E. shows a limited menu—only one dish was served, consisting of cereal, wild fowl, and onion. Be that as it may, the ancient Egyptians had a fair selection of foods to choose from: peas, lentils, watermelons, artichokes, lettuce, endive, radishes, onions, garlic, leeks, fats (both vegetable and animal), beef, honey, dates, and dairy products, including milk, cheese, and butter.

The ancient Romans were great eaters out. Evidence can be seen even today in Herculaneum, a Roman town near Naples that in A.D. 70 was buried under some 65 feet of mud and lava by the eruption of Mt. Vesuvius.⁵ Along its streets were a number of snack bars vending bread, cheese, wine, nuts, dates, figs, and hot foods. The counters were faced with marble fragments. Wine jugs were imbedded in them, kept fresh by the cold stone. Mulled and spiced wines were served, often sweetened with honey. A number of the snack bars were identical or nearly so giving the impression that they were part of a group under single ownership.

Bakeries were nearby, where grain was milled in the courtyard, the mill turned by blindfolded asses. Some bakeries specialized in cakes. One of them had 25 bronze baking pans of various sizes, from about 4 inches to about 1.5 feet in diameter.

After the fall of Rome, eating out usually took place in an inn or tavern, but by 1200 there were cooking houses in London, Paris, and elsewhere in Europe, where cooked food could be purchased but with no seating. Medieval travelers dined at inns, taverns, hostelries, and monasteries.

The first café was established in then Constantinople in 1550. It was a coffeehouse, hence the word *café*.⁶ The coffeehouse, which appeared in Oxford in 1650 and seven years later in London, was a forerunner of the restaurant today. Coffee at the time was considered a cure-all. As one advertisement in 1657 had it: “. . . Coffee closes the orifices of the stomach, fortifies the heat within, and helpeth digesting . . . is good against eyesores, coughs, or colds . . .” Lloyd's of London, the international insurance company, was founded in Lloyd's Coffee House. By the eighteenth century, there were about 3,000 coffeehouses in London.

Coffeehouses were also popular in Colonial America. Boston had many of them, as did Virginia and New York. Both the words *café*, meaning a small restaurant and bar, and *cafeteria* come from the single word *café*, French for coffee.

In the eighteenth century, with the exception of inns which were primarily for travelers, food away from home could be purchased in places where alcoholic beverages were sold. Such places were equipped to serve simple, inexpensive dishes either cooked on the premises or ordered from a nearby inn or food shop. Tavern-restaurants existed in much of Europe including France and Germany with

its winestuben that served delicatessen, sauerkraut, and cheese. In Spain bodegas served tapas. Greek taverns served various foods with olive oil.

French Culinary History

The first restaurant ever was called a “public dining room” and originated in France. Throughout history France has played a key role in the development of restaurants. The first restaurant ever that actually consisted of patrons sitting at a table and being served individual portions, which they selected from menus, was founded in 1782 by a man named Beauvilliers. It was called the Grand Taverne de Londres. However, this was not the beginning of the *restaurant concept*.

The first restaurant proprietor is believed to have been one A. Boulanger, a soup vendor, who opened his business in Paris in 1765.⁷ He sold soups at his all-night tavern on the Rue Bailleul. He called these soups *restorantes* (restoratives), which is the origin of the word *restaurant*. Boulanger believed that soup was the cure to all sorts of illnesses. However, he was not content to let his culinary repertoire rest with only a soup kitchen. By law at the time, only hotels could serve “food” (soup did not fit into this category). In 1767, he challenged the *traiteurs*’ monopoly and created a soup that consisted of sheep’s feet in a white sauce. The *traiteurs* guild filed a lawsuit against Boulanger, and the case went before the French Parliament. Boulanger won the suit and soon opened his restaurant, Le Champ d’Oiseau.

In 1782, the Grand Tavern de Londres, a true restaurant, opened on the Rue de Richelieu; three years later, Aux Trois Frères Provençaux opened near the Palais-Royal. The French Revolution in 1794 literally caused heads to roll—so much so that the chefs to the former nobility suddenly had no work. Some stayed in France to open restaurants and some went to other parts of Europe; many crossed the Atlantic to America, especially to New Orleans.

Birth of Restaurants in America

The beginning of the American restaurant industry is usually said to be in 1634, when Samuel Coles opened an establishment in Boston that was named Coles Ordinary. It was a tavern—the first tavern of record in the American colonies. It was quite successful, lasting well over 125 years.⁸

Prior to the American Revolution, places selling food, beverages, and a place to sleep were called ordinaries, taverns, or inns. Rum and beer flowed freely. A favorite drink, called flip, was made from rum, beer, beaten eggs, and spices. The bartender plunged a hot iron with a ball on the end into the drink. Flips were considered both food and a drink. If customers had one too many flips, the ordinaries provided a place to sleep.

In America the innkeeper, unlike in Europe, was often the most respected member of the community and was certainly one of its substantial citizens. The innkeeper usually held some local elected office and sometimes rose much higher

than that. John Adams, the second president of the United States, owned and managed his own tavern between 1783 and 1789.⁹

The oldest continually operating tavern in America is the Fraunces Tavern in New York City, dating from about 1762. It served as the Revolutionary headquarters of General George Washington, and was the place where he made his farewell address. It is still operating today.

The restaurant, as we know it today, is said to have been a byproduct of the French Revolution. The term *restaurant* came to the United States in 1794 via a French refugee from the guillotine, Jean-Baptiste Gilbert Paypalt. Paypalt set up what must have been the first French restaurant in this country, Julien's Restaurator, in Boston. There he served truffles, cheese fondues, and soups. The French influence on American cooking began early; both Washington and Jefferson were fond of French cuisine, and several French eating establishments were opened in Boston by Huguenots who fled France in the eighteenth century to escape religious persecution.

Delmonico's, located in New York City, is thought to be the first restaurant in America. Delmonico's opened its doors in 1827. This claim is disputed by others—in particular by the Union Oyster House in Cambridge, Massachusetts, opened in 1826 by Atwood and Bacon and still operating.¹⁰ The story of Delmonico's and its proprietors exemplifies much about family-operated restaurants in America. John Delmonico, the founder, was a Swiss sea captain who retired from ship life in 1825 and opened a tiny shop on the Battery in New York City. At first, he sold only French and Spanish wines, but in 1827 with his brother Peter, a confectioner, he opened an establishment that also served fancy cakes and ices that could be enjoyed on the spot. New Yorker's apparently bored with plain food, approved of the *petits gateaux* (little cakes), chocolate, and bonbons served by the brothers Delmonico. Success led in 1832 to the opening of a restaurant on the building's second story, and brother Lorenzo joined the enterprise. Lorenzo proved to be the restaurant genius. New Yorkers were ready to change from a roast-and-boiled bill of fare to *la grande cuisine*—and Lorenzo was ready for New Yorkers.

A hard worker, the basic qualification for restaurant success, Lorenzo was up at 4:00 A.M. and on his way to the public markets. By 8:00 A.M. he appeared at the restaurant, drank a small cup of black coffee, and smoked the third or fourth of his daily 30 cigars. Then home to bed until the dinner hour, when he reappeared to direct the restaurant show. Guests were encouraged to be as profligate with food as they could afford. In the 1870s a yachtsman gave a banquet at Delmonico's that cost \$400 a person, astronomical at the time.

Delmonico's pioneered the idea of printing a menu in both French and English. The menu was enormous—it offered 12 soups; 32 hors d'oeuvres; 28 different beef entrees, 46 of veal, 20 of mutton, 47 of poultry, 22 of game, 46 of fish, shellfish, turtle, and eels; 51 vegetable and egg dishes; 19 pastries and cakes; plus 28 additional desserts. Except for a few items temporarily unobtainable, any dish could be ordered at any time, and it would be served promptly, as a matter of routine. What restaurant today would or could offer 371 separate dishes to order?

Delmonico's expanded to four locations, each operated by one member of the family. Lorenzo did so well in handling large parties that he soon was called on to cater affairs all over town. Delmonico's was *the* restaurant. In 1881 Lorenzo died, leaving a \$2-million estate. Charles, a nephew, took over, but in three years he suffered a nervous breakdown, brought on, it was believed, by overindulgence in the stock market. Other members of the family stepped in and kept the good name of Delmonico's alive.

Delmonico's continued to prosper with new owners until the financial crash of 1987 forced it to close, and the magnificent old building sat boarded up for most of the 1990s. Delmonico's has since undergone renovations to restore the restaurant to its former brilliance. Restaurants bearing the Delmonico name once stood for what was best in the American French restaurant. Delmonico's served Swiss-French cuisine and was the focus of American gastronomy (the art of good eating). Delmonico's is also credited with the invention of the bilingual menu (until then French was the language of world-wide upscale restaurant menus, so diners could understand the menu in any part of the world and order their choice of dishes knowing what would be served), Baked Alaska, Chicken a la King, and Lobster Newberg. The Delmonico steak is named after the restaurant.

Few family restaurants last more than a generation. The Delmonico family was involved in nine restaurants from 1827 to 1923 (an early prohibition year), spanning four generations.¹¹ The family had gathered acclaim and fortune, but finally the drive for success and the talent for it were missing in the family line. As has happened with most family restaurants, the name and the restaurants faded into history.

Although Delmonico's restaurant is to be admired for its subtlety, grace, and service, it will probably remain more of a novelty on the American scene than the norm. While they won the kudos of the day and were the scene of high-style entertaining, there were hundreds of more typical eating establishments transacting business. It has been so ever since. It should be pointed out that there is also an American style in restaurants; in fact, several American styles. There are coffee shops, quick-service restaurants, delis, cafeterias, family-style restaurants, casual dining restaurants, and dinner house restaurants, all now being copied around the world. They meet the taste, timetable, and pocketbook of the average American and increasingly that of others elsewhere.

The Americans used their special brand of ingenuity to create something for everyone. By 1848, a hierarchy of eating places existed in New York City. At the bottom was Sweeney's "sixpenny eating house" on Ann Street, whose proprietor, Daniel Sweeney, achieved the questionable fame as the father of the greasy spoon. Sweeney's less-than-appealing fare ("small plate sixpence, large plate shilling") was literally thrown or slid down a well-greased path to his hungry customers, who cared little for the social amenities of dining.¹² The next step up was Brown's, an establishment of little more gentility than Sweeney's, but boasting a bill of fare, with all the extras honestly marked off and priced in the margin.

In 1888 Katz's deli (a fancy word for sandwich shop) was opened by immigrants in the Lower East Side of New York City. Long before refrigeration,

smoking, pickling, and other curing methods of prolonging the useful life of food had been perfected. The Lower East Side was teeming with millions of newly emigrated families and, given the lack of public and private transportation, a solid community of customers was readily available. Katz's reputation for serving the flavors of the Old World created a loyal following for many generations of residents and visitors to New York.¹³

More and more, eating places in the United States and abroad catered to the residents of a town or city and less to travelers. The custom of eating out for its own sake had arrived. Major cities all had hotels with fine restaurants that attracted the rich and famous.

The nineteenth century also saw the birth of the ice cream soda, and marbled-top soda fountains began to make their appearances in so-called ice cream parlors. This century brought about enormous changes in travel and eating habits. Tastes were refined and expanded in the twentieth century and it is interesting to note that there are thirty-five restaurants in New York City that have celebrated their one hundredth birthdays. One of them, P.J. Clark's, established in 1890, is a real restaurant-bar that has changed little in its hundred years of operation. On entering one sees a large mahogany bar, its mirror tarnished by time, the original tin ceiling, and a tile mosaic floor. Memorabilia ranges from celebrity pictures to Jessie, the house fox terrier that guests had stuffed when she died and who now stands guard over the ladies' room door. Guests still write their own guest checks at lunch time, on pads with their table number on them (this goes back to the days when some servers could not read or write and were struggling to memorize orders).¹⁴

The public restaurant business grew steadily, but even as late as 1919 there were still only 42,600 restaurants in this country. For the average family in small cities and towns, dining out was an occasion. The workman's restaurant was strictly meat and potatoes. In 1919 the Volstead Act prohibited the sale of alcoholic beverages and forced many restaurants that depended on their liquor sales for profit out of business. It also forced a new emphasis on food-cost control and accounting.

In 1921, Walter Anderson and Billy Ingram began the White Castle hamburger chain. The name White Castle was selected because white stood for purity and castle for strength. The eye-catching restaurants were nothing more than stucco building shells, a griddle, and a few chairs. People came in droves, and within 10 years White Castle had expanded to 115 units.¹⁵

Marriott's Hot Shoppe and root beer stand opened in 1927. About this time, the drive-in roadside and fast-food restaurants also began springing up across America. The expression *car hop* was coined because as an order-taker approached an automobile, he or she would hop onto the running board. The drive-in became an established part of Americana and a gathering place of the times. In 1925, another symbol of American eateries, Howard Johnson's original restaurant, opened in Wollaston, Massachusetts. Howard Johnson is credited with being the first restaurant to franchise. His first store was an ice cream parlor. In 1928 he had convinced a friend to build a restaurant and sell Howard Johnson's ice cream.

Johnson's profit came from selling Howard Johnson's ice cream to the restaurant. By 1939 there were 107 Howard Johnson's restaurants operating in six states.

After the stock market crash of 1929 and the Great Depression, America rebounded with the elegance and deluxe dining of the 1930s à la Fred Astaire. The Rainbow Room opened in 1934. This art deco restaurant championed the reemergence of New York as a center of power and glamour.

Trader Vic's opened in 1937. Although the idea was borrowed from another restaurant known as the Beachcomber, Trader Vic's became successful by drawing the social elite to the Polynesian-themed restaurant where Vic concocted exotic cocktails including the mai-tai, which he invented.¹⁶

At the World's Fair in 1939, a restaurant called Le Pavillon de France was so successful that it later opened a nightclub in New York. By the end of the 1930s, every city had a deluxe supper club or nightclub.

The Four Seasons opened in 1959. The Four Seasons was the first elegant American restaurant that was not French in style. It expressed the total experience of dining, and everything from the scale of the space to the tabletop accessories was in harmony.¹⁷ The Four Seasons was the first restaurant to offer seasonal menus—spring, summer, fall, and winter, with its modern architecture and art as a part of the theme. Joe Baum, the developer of this restaurant, understood why people go to restaurants—to be together and to connect with one another. It is very important that the restaurant reinforce why guests choose it in the first place. Restaurants exist to create pleasure, and how well a restaurant meets this expectation of pleasure is a measure of its success.¹⁸

The savvy restaurateur is adaptable. Being quick to respond to changing market conditions has always been the key to success in the restaurant business. An interesting example of this was demonstrated in the early 1900s by the operator of Delmonico's. As business declined during a recession in the 1930s, Delmonico's opened for breakfast, then began delivering breakfast, lunch, dinner, and other fare to Wall Street firms for late-evening meetings. Next he turned his attention to the weekends when Wall Street was quiet. He built up a weekend catering business and developed a specialty of weddings. Later he connected with tour groups going to Ellis Island and encouraged them to stop off for meals.¹⁹

World War II was the watershed period that made eating away from home a habit to be enjoyed by millions of people and thought of as a necessity by other millions. Since World War II, a number of social and economic trends have favored the restaurant business. The most important has been the rise in family income, the principal source of which has been the working woman. The more disposable income available, the greater the likelihood of eating out. Lifestyle changes have also been important for restaurant sales. Millions at work or traveling eat away from home at restaurants out of necessity, foregoing a "brown bag." Despite economic cycles, many people perceive restaurant eating to be something deserved or even a different kind of necessity. The tremendous increase in divorce and the number of singles living alone, coupled with smaller living quarters, favors dining out as an escape.²⁰

Following World War II, North America took to the road. There was a rapid development of hotels and coffee shops. They sprang up at almost every highway intersection. The 1950s saw the emergence of a new phenomenon—“fast food.”²¹ Perhaps one of the most colorful of the franchise stories involves the originator of Kentucky Fried Chicken, “Colonel” Harland Sanders. He had been a farmhand, carriage painter, soldier, railroad fireman, blacksmith, streetcar conductor, justice of the peace, salesman, and service station operator. At the age of 65, he found himself operating his own Kentucky restaurant/motel with little business because a new interstate highway bypassed it by 7 miles. His only income was a social security check of \$105 per month.²² He had previously experimented with frying chicken in his restaurant and found that preparing it in a home-sized pressure cooker produced an especially tender product in seven minutes. He set off on a trip around the country to sell restaurant operators a franchise to produce and sell what he now called Kentucky Fried Chicken (KFC). He often slept in the back of his old car wrapped up in a blanket because he could not afford a motel room. Since it was a promotion package and procedure only for cooking chicken, the franchise could be used in an existing restaurant. The initial investment was low, only enough to buy a few needed pieces of cooking equipment. The franchisee would pay the Colonel 5 cents for every order served.²³ The Colonel’s thoughts on marketing: “If you have something good, a certain number of people will beat a path to your doorstep; the rest you have to go and get.”²⁴ A \$5,000 investment in KFC in 1964 was worth \$3.5 million five years later.

Of all the hospitality entrepreneurs, none have been more financially successful than Ray Kroc. Among the remarkable things about him was that it was not until the age of 52 that he even embarked on the road to fame and fortune. The accomplishment is all the more astounding because Kroc invented nothing new. In fact, the concept was leased from two brothers who had set up an octagonal-shaped, fast-food “hamburgatorium” in San Bernadino, California. Kroc was impressed with the property’s golden arches, the McDonald’s sign lighting up the sky at night, and the cleanliness and simplicity of the operation. Even more fascinating was the long waiting line of customers.²⁵

Kroc’s genius came in the way of organizational ability, perseverance sparked with enthusiasm, and an incredible talent for marketing. His talents extended to selecting equally dedicated close associates who added financial, analytical, and managerial skills to the enterprise. The McDonald’s Corporation is the projected image of one man, entrepreneur par excellence, who believed with a passion that business means competition, dedication, and drive. The empire was built in good part as a result of his arch-competitiveness, best illustrated by his reply to this question: “Is the restaurant business a dog-eat-dog business?” His reply: “No, it’s a rat-eat-rat business.”

The 1960s and 1970s saw the introduction of new establishments like Taco Bell, Steak and Ale, T.G.I. Friday’s (now Friday’s) Houston’s, Red Lobster, and others. Several new chains have emerged and are discussed in the subsequent chapters from time to time and the “indy” (independent) restaurateur is also discussed throughout the text.

Challenges of Restaurant Operation

Long working hours are the norm in restaurants. Some people like this; others get burned out. Excessive fatigue can lead to general health problems and susceptibility to viral infections, such as colds and mononucleosis. Many restaurant operators have to work 70 hours or longer per week, too long for many people to operate effectively. Long hours mean a lack of quality time with family, particularly when children are young and of school age. Restaurant owners have little time for thinking—an activity required to make the enterprise grow.

In working for others, managers have little job security. A shift of owners, for example, can mean discharge. Although restaurant owners can work as long as the restaurant is successful, they often put in so many hours that they begin to feel incarcerated. Family life can suffer. The divorce rate is high among restaurant managers for several reasons. Stress comes from both the long hours of work and the many variables presented by the restaurant, some beyond a manager's control.

One big challenge for owners is the possibility of losing their investment and that of other investors, who may be friends or relatives. Too often, a restaurant failure endangers a family's financial security because collateral, such as a home, is also lost. Potential restaurateurs must consider whether their personality, temperament, and abilities fit the restaurant business. They must also factor the economy into the equation. New restaurants are always opening, even in a failing economy. New restaurant owners can count on the fact that, even in a bad economy, people still have to eat, even if they go out less often and spend less when they do.²⁶

Consumers are carefully watching how they spend their hard-earned money, and restaurant dining is a part of discretionary income, meaning people will spend first on essentials and then on niceties like dining out. They may trade down and dine at quick-service or casual restaurants instead of using fine-dining restaurants. Even grocery stores are going head to head with restaurants, trying to lure budget-conscious and time-starved consumers away from eateries toward a variety of prepared foods.²⁷

Christopher Muller, a restaurant professor at the Rosen College of Hospitality Management, says that it would not surprise him if around 10 percent of restaurants closed in this the most challenging times for restaurants in decades.²⁸

A few years ago, the well-known and highly successful football coach Vince Lombardi described the perfect football player as “agile, mobile, and hostile.” In the same vein, the perfect restaurant operator could be described as “affable, imperturbable, and indefatigable.” In other words, he or she is someone who enjoys serving people, can handle frustration easily, and is tireless.

Lacking one or more of these traits, the would-be restaurant operator can consider a restaurant that opens on a limited schedule, say for lunch only, or five nights a week. Alternatively, an operator can be an investor only and find someone else to operate the restaurant. However, most restaurants with limited hours or days of operation have problems with financial success. Fixed costs force operators to maximize facility use.

Operating a restaurant demands lots of energy and stamina. Successful restaurant operators almost always are energetic, persevering, and able to withstand pressure. Recruiters for chain restaurants look for the ambitious, outgoing person with a record of hard work. The trainee normally works no fewer than 10 hours a day, five days a week. Weekends, holidays, and evenings are usually the busiest periods, with weekends sometimes accounting for 40 percent or more of sales. The restaurant business is no place for those who want weekends off.

Knowledge of food is highly desirable—a must in a dinner house, of less importance in fast food. Business skills, especially cost controls and marketing, are also necessities in all foodservice businesses. Plenty of skilled chefs have gone broke without them. A personality restaurant needs a personality; if the personality leaves, then the restaurant changes character.

Whatever the true rate of business failure, it is clear that starting a restaurant involves high risk, but risks must be taken in order to achieve success. Restaurants may require a year or two, or longer, to become profitable and need capital or credit to survive. A landmark study by Dr. H. G. Parsa found the actual failure rate of restaurants in Columbus, Ohio, was 59 percent for a three-year period. The highest failure rate was during the first year, when 26 percent of the restaurants failed. In the second year, 19 percent failed, and in the third year, the failure rate dropped to only 14 percent.

Dr. Parsa's study is valid because it used data from the health department in determining when the restaurants opened; some studies obtain their data from other sources, including the Yellow Pages. Parsa adds that many restaurants close not because they did not succeed financially, but because of personal reasons involving the owner or owners.²⁹ If a restaurant survives for three years, its chances of continued operation are high. This suggests that in buying a restaurant, you should choose one that is more than three years old.

One reason family-owned restaurants survive the start-up period is that children and members of the extended family can pitch in when needed and work at low cost. Presumably, also, there is less danger of theft by family members than from employees who are not well known. Chain restaurant owners reduce the risk of start-up by calling on experienced and trusted personnel from existing units in the chain. Even restaurants started by families or chains, however, cannot be certain of a sufficient and sustainable market for success. When a new restaurant opens in a given area, it must share the market with existing restaurants unless the population or the per-capita income of the area is increasing fast enough to support it.

Many restaurants fail because of family problems. Too many hours are spent in the restaurant, and so much energy is exerted that there is none left for a balanced family life. These factors often cause dissatisfaction for the spouse and, eventually, divorce. In states such as California, where being married means having communal property, the divorce settlement can divide the couple's assets. If a divorcing spouse has no interest in the restaurant but demands half of the assets, a judgment of the cost can force a sale of the operation.

When a husband and wife operate a restaurant as a team, both must enjoy the business and be highly motivated to make it successful. These traits should be determined before the final decision is made to finance and enter the business.

Buy, Build, Franchise, or Manage?

A person considering the restaurant business has several career and investment options:

- To buy an existing restaurant, operate it as is, or change its concept
- To build a new restaurant and operate it
- To purchase a *franchise* and operate the franchise restaurant
- To manage a restaurant for someone else, either an individual or a chain

In comparing the advantages and disadvantages of buying, building, franchising, and working as a professional manager, individuals should assess their own temperament, ambitions, and ability to cope with frustrations as well as the different risks and potential rewards. On one hand, buying a restaurant may satisfy an aesthetic personal desire. If the restaurant is a success, the rewards can be high. If it fails, the financial loss is also high, but usually not as high as it would have been if the investment were made in a new building. When buying an existing restaurant that has failed or is for sale for some other reason, the purchaser has information that a builder lacks. The buyer may know that the previous style of restaurant was not successful in that location or that a certain menu or style of management was unsuccessful. Such information cuts risks somewhat. On the other hand, the buyer may find it difficult to overcome a poor reputation acquired by the previous operator over a period of time. There are no quick fixes in overcoming a poor reputation or a poor location, but clearly, knowledge of these circumstances decreases risk. Figure 1.2 illustrates the restaurant career and investment options.

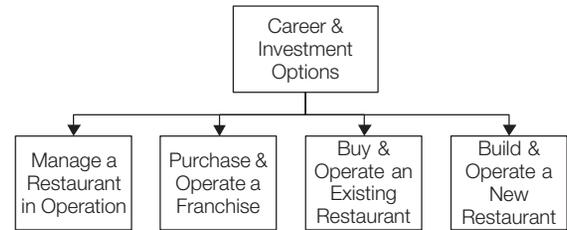


FIGURE 1.2: Restaurant career and investment options

Without experience, the would-be restaurateur who builds from scratch is taking a great risk. Million-dollar investments in restaurants are fairly common. Finding investors who are ready to join in does not reduce that risk.

A 100-seat restaurant, fully equipped, costs anywhere from \$6,000 to \$10,000 or more per seat, or \$600,000 to \$1 million. In addition, a site must be bought or leased. Examples can be given of inexperienced people who have gone into the business, built a restaurant, and been successful from day one. Unfortunately, more examples can be given of those who have failed.

By contrast, a sandwich shop can usually be opened for less than \$30,000. As one entrepreneur put it, “All you really need is a refrigerator, a microwave oven, and a sharp knife.”

Franchising involves the least financial risk in that the restaurant format, including building design, menu, and marketing plans, already has been tested in the marketplace. Some franchises require less than \$10,000 to start, including the franchise fee and other operational expenses.³⁰ Even so, franchises can and have failed.

The last option—being a professional manager working for an owner—involves the least financial risk. The psychological cost of failure, however, can be high.

Luckily, no one has to make all of the decisions in the abstract. Successful existing restaurants can be analyzed. Be a discriminating copycat.

Borrow the good points and practices; modify and improve them if possible. It is doubtful that any restaurant cannot be improved. Some of the most successful restaurants are surprisingly weak in certain areas. One of the best-known fast-food chains has mediocre coffee; another offers pie with a tough crust; yet another typically overcooks the vegetables. Still another highly successful chain could improve a number of its items by preparing them on the premises.

The restaurant business is a mixed bag of variables. The successful mix is the one that is better than the competition's. Few restaurants handle all variables well. Michelin has been in the business of evaluating and recommending restaurants and hotels for over a century.³¹ For restaurants, Michelin stars are based on five criteria: quality of the products, mastery of flavor and cooking, "personality" of the cuisine, value for the money, and consistency between visits.³² In all of France, only 18 to 20 restaurants are granted the Michelin three-star rating. In the United States, hundreds of restaurants do what they were conceived to do and do it well—serve a particular market, meeting that market's needs at a price acceptable to that market. The advantages and disadvantages of the buy, build, franchise, or manage decision are shown in Figure 1.3.

The person planning a new dinner house should know that even huge companies like General Mills can make big mistakes. Once owner of two profitable dinner house chains, Olive Garden and Red Lobster, General Mills bombed with Chinese, steak, and health-food restaurants.

The small operator lacks the purchasing power of the chain, which can save as much as 10 percent on food costs through mass purchasing. The new operator

	Original Investment Needed	Experience Needed	Potential Personal Stress	Psychological Cost of Failure	Financial Risk	Potential Reward
Buy	medium	high	high	high	High	high
Build	highest	high	high	highest	Highest	high
Franchise (A) Ex. Subway	low to medium	low	medium	medium	Medium	medium to high
Franchise (B) Ex. Applebee's	high	high	high	high	High	High
Manage	none	medium to high	medium	medium	None	Medium

FIGURE 1.3: Buy, build, franchise, or manage—advantages and disadvantages



The Beach Bistro, Anna Maria Island, Sean Murphy's award-winning restaurant
Courtesy of Sean Murphy

is usually unsophisticated in forecasting. Compare this with Red Lobster's system, which provides the manager with the number of each menu item to be prepared the next day. Each night, the manager uses a computer file on sales records to forecast the next day's sales. Based on what was served on the same day in the previous week and on the same day in the previous year, sales dollars for each menu item are forecast for the next day. Frozen items can be defrosted and prepped items produced to meet the forecast. Wholesale purchasing and mass processing give the chain an additional advantage. The Red Lobster chain processes most of its shrimp in St. Petersburg, Florida. Their shrimp are peeled, deveined, cooked, quick-frozen, and packaged for shipping daily to Red Lobster restaurants. Swordfish and other fish are sent to several warehouses, where they are inspected and flown fresh to wherever they are needed.

Quality control is critical; all managers should carry thermometers in their shirt pockets so they can check at any time that food is served at exactly the correct temperature. For example, clam chowder must be at least 150°F when served; coffee must be at least 170°F and salads at 40°F or lower. Swordfish is grilled no more than four or five minutes on a side with the grill set at 450°F. A 1-pound lobster is steamed for 10 minutes. In chains, illustrated diagrams tell cooks where to place a set number of parsley sprigs on the plate.

Individual operators can institute similar serving-temperature and cooking controls. They may be able to do a better job of plate presentation than chain unit managers can. Independent operators can develop a personal following and appeal to a niche market among customers who are bored with chain operators



Dining at a popular La Jolla, California, restaurant
 Courtesy of the San Diego Convention & Visitors Bureau

and menus. This puts individual owners at an advantage over chain competitors. Being on the job and having a distinct personality can really make the difference.

The restaurant business has both the element of production (food preparation) and of delivery (takeout). Food is a unique product because in order to experience the exact taste again, the customer must return to the same restaurant. The atmosphere is important to the patrons. Some would argue that restaurants are in the business of providing memorable experiences. Successful restaurateurs are generally streetwise, savvy individuals, as evidenced in *The Life of the Restaurateur*, attributed to a former consummate restaurateur, Dominique Chapeau, of the Chauntaclair Restaurant, Victoria, British Columbia:

It's a wonderful life, if you can take it. A restaurateur must be a diplomat, a democrat, an autocrat, an acrobat, and a doormat. He must have the facility to entertain presidents, princes of industry, pickpockets, gamblers, bookmakers, pirates, philanthropists, popsies, and panderers. He must be on both sides of the "political fence" and be able to jump the fence . . . He should be or should have been a footballer, golfer, bowler, and a linguist as well as have a good knowledge of any other sport involving dice, cards, horse racing, and pool. This is also useful, as he has sometimes to settle arguments and squabbles. He must be a qualified boxer, wrestler, weight lifter, sprinter, and peacemaker.

He must always look immaculate—when drinking with ladies and gentlemen, as well as bankers, swank people, actors, commercial travelers, and company representatives, even though he has just made peace between any two, four, six, or more

of the aforementioned patrons. To be successful, he must keep the bar full, the house full, the stateroom full, the wine cellar full, the customers full, yet not get full himself. He must have staff who are clean, honest, quick workers, quick thinkers, nondrinkers, mathematicians, technicians, and who at all times must be on the boss's side, the customer's side, and must stay on the outside of the bar.

In summary, he must be outside, inside, offside, glorified, sanctified, crucified, stupidified, cross-eyed, and if he's not the strong, silent type, there's always suicide!¹

Starting from Scratch

Occasionally, a faculty colleague from another discipline (usually arts and sciences) says that he or she is thinking of opening up a restaurant and do I have any advice. My reply is: "Let me bring a few of my friends over to your house for dinner for the next month, and then after that we'll talk about it." So far, no takers. Joking apart, doing all it takes to prepare 100 meals or more night in and night out is very different from having a few friends over for dinner because, for one thing, there are multiple choices on the menu.

Would-be restaurant operators may have already worked in their family's restaurant, perhaps starting at an early age. Hundreds of thousands of aspiring restaurant operators have tasted the restaurant business as employees of quick-service restaurants. For others, their first food business experience was in one of the 740 cooking school programs offered in vocational school or community college programs or at cooking institutes. Yet the industry still does not have nearly enough employees, and the turnover rate is high. The tens of thousands of young people who work in restaurants know that, but also welcome the experience and enjoy working with other young people who never consider the job as a career. One message comes through loud and clear: The restaurant business is highly competitive and requires inordinate energy, the ability to work long hours, and the willingness to accept a low salary. According to the National Restaurant Association, the restaurant industry is expected to add 1.8 million jobs by 2019, for total employment of 14.4 million in 2019.³³

The cost of attending culinary training programs varies from none, at the many public high school programs offered around the country, to the \$29,950 charged by New York City's French Culinary Institute for a six-month course (this includes uniforms, tools, and books).³⁴ The Culinary Institute of America offers a two-year associate degree program at approximately \$14,700 for freshman/sophomore and \$13,800 for junior/senior years; uniforms, tools, and books are extra.³⁵ A number of strong apprenticeship programs are offered by the American Culinary Federation and local community colleges, as well as by area chefs in restaurants, hotels, and clubs.

Following the European tradition, students who wish to become known as master chefs often seek jobs at the name restaurants in big cities, such as New York, Atlanta, Baltimore, Chicago, Orlando, Las Vegas, Houston, New Orleans,

San Francisco, and Los Angeles. Many go abroad for the same reason, building their skills and rounding out personal resumes.

Restaurants as Roads to Riches

Probably the biggest reason thousands of people seek restaurant ownership is the possible financial rewards. With relatively few financial assets, it is possible to buy or lease a restaurant or to purchase a franchise. Names like Ray Kroc of McDonald's, Colonel Sanders of KFC chicken, and Dave Thomas of Wendy's exemplify the potential success one can experience in the restaurant business.

Dozens of McDonald's franchise holders are multimillionaires, yet some McDonald's restaurants fail. Some owners and franchisees of KFC stores are also wealthy. A surprise billionaire is Tom Monaghan, the Domino's Pizza entrepreneur. Hundreds of lesser-known people are also making it big, some by building or buying restaurants, others by becoming franchisees.

Declining consumer confidence took a bite out of restaurants' sales and profits in 2008, leading to bankruptcy filings at casual dining chains like Bennigan's and the closure of more than 600 Starbucks locations.³⁶ With the economy in trouble, all segments of the restaurant industry are feeling it. Consider all the effects of a failing economy. While prices of food and energy costs (heating, lighting, kitchen equipment, etc.) go up, sales slow down.

Here are some of the things this book will help you with:

- *Ownership*: Sole proprietorship, partnership, company, or franchise.
- *Development of a business plan*: A good business plan may take a while to develop, but you're not going to obtain financing without one.
- *Marketing/Sales*: You need to know who your guests will be and how many there are of them.
- *Location*: Will your location be freestanding, in a mall or a city center, suburban, or something else?
- *Who is on your team?*: Your chef and staff, lawyer, accountant, insurance, sales, marketing, and public relations.
- *Design/Ambience*: What design/ambience will you select?
- *Menu*: What will your menu feature? How many appetizers, entrées, and desserts will you offer?
- *Beverages*: Who will develop your beverage menu, and what will be on it?
- *Legal*: What permits do you need?
- *Budgets*: What will your budget look like?
- *Control*: What kind of control system will you have, and how will it work?
- *Service*: What style of service will you select and how will it operate?
- *Management*: How will your restaurant operate?
- *Operations*: An overview of restaurant operations.

Summary

Earlier we mentioned some of the things this book will help you with. The purpose of this book is to take the would-be restaurateur through the steps necessary to open a successful restaurant. Sitting in a busy restaurant can be a fascinating experience. Food servers move deftly up and down aisles and around booths, guests are greeted and seated, orders are placed and picked up, the cashier handles a steady stream of people paying their bills and leaving. The flow of customers, the warm colors, and the lighting create a feeling of comfort and style.

The fascinating history of eating out and the birth of restaurants in America is discussed with examples from leading restaurants and operators.

Food servers are usually young, enthusiastic, and happy; the broiler cooks tend to their grilling and sandwich making with a fierce concentration. Food orders are slipped onto a revolving spindle to be taken in succession or pop up on the electronic printer in the kitchen; the orders are prepared, plated, and placed on the pickup counter. A silent buzzer informs the food server that an order is ready. The entire operation could be likened to a basketball team in action, a ballet of movement.

Among the players, the restaurant personnel, the emotional level is high. This ensures that each player performs his or her assigned role, one player's actions meshing with those of the other players. The observer may perceive an elaborate choreography paced to the desires of the customer; the restaurant is orchestrated and led by a conductor, the floor manager. How intricate, how simple, how exciting, how pleasurable—perhaps.

When the characters are in their places, know their assigned roles, and perform with enthusiasm, the restaurant operates smoothly and efficiently. To keep it that way means attention to detail and to the product, its preparation, its service; the personnel, their training and morale; cooking equipment, its maintenance and proper use; cleanliness of people, the place—and don't forget the toilets. A hundred things can go wrong, any one of which can break the spell of a satisfying restaurant experience for the guest. Most responsible positions require that the jobholder control a number of variables. Many jobs require precise timing and deadlines, but few are conducted in settings that, as in a restaurant operation, feature one deadline followed by another, on and on, around the clock, every day of the week. Few jobs have the degree of staff turnover found in a restaurant. Few jobs require the attention to detail, the constant training of staff, the action, the movement, the reaction to and the attempt to satisfy the multitude of personalities appearing as customers and staff, day after day, week after week, year after year. The variables that must be controlled to ensure a smoothly operating restaurant can be overwhelming; the restaurant can, indeed, become a multivariate nightmare. Good luck on your way to becoming a small-town or, perhaps, a large-town, dignitary!

Key Terms and Concepts

Franchise	Restaurant
National Restaurant Association	Restaurant concept
Quality control	

Review Questions

1. Give three reasons why someone would want to own and operate a restaurant.
2. Success in any business requires effort, perseverance, self-discipline, and ability. What other personality traits are especially important in the restaurant business?
3. In entering the restaurant business as an owner/operator, the individual has a choice of buying, building, or franchising. Which would you choose for minimizing risks? For expressing your own personality? For maximizing return on investment?
4. How important do you think it is to have restaurant experience before entering the business as an owner/operator?
5. Give three reasons people patronize restaurants.
6. What can we learn from the history and development of restaurants?
7. Which comparisons can be made between the past and present of restaurant operations?

Internet Exercises

1. Search for a popular franchised restaurant's home page. Find out how much it costs to obtain a franchise and how much you would need to pay in royalties and other costs to maintain the franchise.
2. Use a search engine (check with your library, if necessary) to find the article entitled "How to Start a Restaurant" by Entrepreneur.com. Be prepared to discuss this article in class.

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