

# PART FIVE

## Business Plans, Financing, and Legal and Tax Matters

### Concept of Panificio Café and Restaurant

Panificio Café and Restaurant is a European bistro. Its owner, Chris Spagnuolo, developed the concept when he was young, based on his grandfather's bakery. Chris attended Syracuse University and traveled to Paris and Rome often. He grew to love the bakeries he visited in Europe.

#### LOCATION

Panificio Café and Restaurant is located on Charles Street on Beacon Hill, in Boston, Massachusetts. Chris saw a vacancy sign in the window; he decided that the location would be great since it was an underdeveloped area of Charles Street yet it had heavy foot traffic. It was also a commercial and residential area located next to the Charles Street T stop (subway).

#### MENU

Panificio's menu was developed in a number of ways. Some of the items were adapted through the owners (at the time Chris, his brother, and



*Courtesy of Panificio*

two friends) visiting other restaurants and noting dishes they thought would suit their concept. Some dishes were recipes passed down, like Chris's mother's soups and salads. The menu also adapts to

seasonal changes. Chris, who today operates the restaurant on his own, likes to keep the menu fresh with a little French and a little Italian.

## PERMITS AND LICENSES

Chris Spagnuolo and his partners obtained their licenses with the help of a lawyer friend of Chris's father. They had to visit the Inspection Service Department in Boston, which comprises five regulatory divisions that administer and enforce building, housing, health, sanitation, and safety regulations mandated by city and state governments. They also obtained licenses at other governmental agencies, including the licensing board and city hall.

## MARKETING

Most of the marketing was conducted through word of mouth. When Panificio first opened, the owners handed out business cards, had write-ups in local newspapers, and held various events (parties, catering, etc.).

## CHALLENGES

Due to Panificio's location, the major challenge was getting the licenses and permits. In order to operate in this historical district, you have

to go through a civic association. The association makes sure that the historical district is preserved, by ensuring that businesses will appeal to the locals and will abide by certain restrictions (no neon signs, specific hours of operation, and so on).

## FINANCIAL INFORMATION

Panificio Café and Restaurant is an S-corporation. Annual sales are \$1 million. The number of guest covers a week varies due to the nature of the cafe. Some people come in for a muffin and coffee in the morning while others come in for a whole meal during dinner hours. Guest checks average range anywhere from \$3 to \$23 per person. A breakdown of sales percentages follows.

- Percentage of sales that goes to rent: no more than 7 percent
- Percentage of food sales: 75 percent
- Percentage of beverage sales: 25 percent
- Percentage of profit: 3 to 4 percent

## WHAT TURNED OUT DIFFERENT FROM EXPECTED?

It's not all fun and games like you would think. What turned out the most different from what the owner expected was the hours and amount of work he has put into his restaurant. Some weeks he works 60 to 80 hours!

## MOST EMBARRASSING MOMENT

Chris says that his most embarrassing moments are when something gets messed up.

## ADVICE TO PROSPECTIVE ENTREPRENEURS

The best thing you should do is get a good lawyer and accountant. The lawyer should know about corporations and licenses. You should also do your homework before getting into the business and double-check EVERYTHING!

Learn more about Panificio Café and Restaurant at [www.panificioboston.com](http://www.panificioboston.com).

# CHAPTER 15

## Restaurant Business and Marketing Plans

### LEARNING OBJECTIVES

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

- Identify the major elements of a business plan.
- Develop a restaurant business plan.
- Conduct a market assessment.
- Discuss the importance of the four *Ps* of the marketing mix.
- Describe some promotional ideas for a restaurant.



*Courtesy of Panificio*

Before embarking on the complex task of setting up any business, especially a restaurant, it is essential to do a *business plan*. This will help increase the probability of the restaurant's success. As with any plan, the more work that goes into it, the better informed the owner/operator and the financial backers are regarding the feasibility and viability of the proposed restaurant. Some operators find that after preparing a detailed business plan, the numbers do not add up—in other words, it is unlikely that the restaurant would be successful. That's okay! All they have lost is the time and effort put into the plan; they have not lost their shirt.

Restaurants, like many other businesses, are experiencing extreme challenges in these difficult times. Yet, for the fearless there are opportunities. It is possible to get into an existing restaurant location with very little money down by negotiating with the landlord and creditors/suppliers for more favorable terms.<sup>1</sup>

## Business Plan

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Gathering information and writing up a good business plan take time. However, as already stated, the more effort that goes into the business plan, the more likely you are to be successful. Following the headings as a guide, begin to fill in the information specific to your restaurant. As we progress through the book, you will learn more and should find it easier to complete your own plan. Remember, it's okay to ask for advice.

A good business plan will not only improve the chances of operational success, but also assist in obtaining financing, in communicating to potential investors, and in serving operational purposes.

Today, sustainability is a key ingredient in a restaurant's business plan. As more and more restaurant guests are not only interested in but expecting sustainable restaurants. Joining the National Restaurant Association's Conserve ([www.conserve.restaurant.org](http://www.conserve.restaurant.org)) program and the Green Restaurant Association's ([www.dinegreen.com](http://www.dinegreen.com)) certification programs shows a commitment to sustainable restaurant operations.

Business plans begin with an executive summary, which outlines the elements of the plan. A sample outline of headings for a business plan follows. The cover sheet also should have the name of the business, the logo or trademark (if any), the current or proposed address of the restaurant, the restaurant telephone number, the owner's name and associates' names, and their qualifications. In addition, it should list the name of the company, the addresses and telephone numbers of the executives, and an introductory statement. Each of the elements needs to be fully written up, and that takes research and critical thinking. Logically, the plan expects the operator to assess where the business is now and where it should be in 5 to 10 years—and of course, how it is going to get there. The headings for a business plan are:

### Cover Sheet:

- Executive summary
- Statement of purpose
- Table of contents

- Name and legal structure
- Description of the Business:
  - Management philosophy: vision mission, goals, strategies
  - Type of organization
  - Management qualifications, experience, and capabilities
  - Business insurance
- Description of the Concept, Licenses, and Lease:
  - Concept
  - Menu
  - Menu pricing
  - Liquor license, health and fire permits
  - Business license
  - Lease
- Market Analysis and Strategy:
  - Description of target market
  - Demographics, psychographics, lifestyles
  - Market potential (size, rate of growth)
- Competitive analysis
  - Number of competitors
  - Strengths, weaknesses, opportunities, and threats (SWOT) analysis
  - Location, ease of access and parking
  - Sales and market share
  - Nature of competition
  - Potential new restaurant competition
- Pricing strategy
  - Menu and beverage list pricing
  - Location analysis
  - Description of the area
  - Commercial/residential profile
  - Traffic flows
  - Accessibility
- Advertising and promotional campaign
  - Objectives
  - Techniques
  - Target audience, means of communication schedule
- Other information
  - Schedule for growth
  - Financing schedule
  - Schedule for return on investment
- Financial Data:
  - Sales figures
  - Sources of funding
  - Capital equipment
  - Proposed restaurant balance sheet
  - Projected income statements
  - First year—detail by month

Second year—detail by quarter  
 Third year—detail by quarter  
 Existing restaurant balance sheet  
 Previous three years' income statements  
 Previous three years' cash flow statements  
 Previous three years' tax returns  
 Breakeven analysis  
 Appendices:  
 Sales projections  
 Organization chart  
 Copies of resources, tax returns (last five years) and financial statements  
 of all principles  
 Job descriptions  
 Résumés of management team  
 Legal documents  
 Leases  
 Licenses  
 Firm price quotations  
 Insurance contracts  
 Sample menu  
 Furniture, fixtures, and equipment (FF&E)  
 Floor plan, letters of intent  
 Anything else that is relevant<sup>2</sup>

People do not purchase features, they purchase benefits, and each person purchases only those that specifically satisfy his or her personal or professional needs, wants, desires, hopes, aspirations, and dreams. We are really in the business of motivating people to purchase those benefits that satisfy their specific, and often changing, needs and wants.

Peter Drucker said we must frequently ask ourselves, “What business am I in?” Are we in the service business, the production business, or the entertainment business? For restaurants, the answer is yes to all of the above. The service aspect predominates, however, so we need to determine our guests' needs and wants.

A business plan will help to shed light on areas you will need to research further. Some questions you may want to ask yourself while developing a business plan include:

- What is the forecast outlook for the restaurant sector and market?
- Who will your guests be, and how many of them are there?
- What kind of people are they?
- Where do they live?
- Will you be offering what they want and when they want it?
- What type of insurance will you need?
- What is a ballpark figure of your overhead expenses?
- How will your restaurant compare with your competitors?
- What type of promotional tools will you use?

Answering these questions and more helps reduce business risks.



We know we're in the restaurant business, so the next step is to come up with a mission statement (discussed in Chapter 3). The mission generally does not change. The *goals*, however, are reviewed as often as necessary. Goals should be established for each key operational area (for example, sales, food, service, beverage, labor costs, and so on).

*Strategies or action plans* typically include deciding who is going to do what and by when and in what order for the organization to reach its strategic goals.<sup>3</sup> They are more specific than goals and are generally short term. Strategies are specific as to the date by which they are to be achieved and how much should be achieved. Based on strategies, a detailed action plan with individual responsibilities should be implemented.

A large factor in restaurant failure is the naive belief that if food, service, price, and atmosphere are good, guests are certain to appear and will return in the future. It is assumed that potential guests will want what is offered and are waiting. Marketing makes no such assumption.

This chapter explores the meaning and ramifications of the restaurant business and marketing plans. It also delineates marketing practices that, if followed, can help ensure success and avoid the financial costs and heartaches of failure.

Restaurant marketing is based on a *marketing philosophy* that patterns the way management and ownership have decided to relate to guests, employees, purveyors, and the general public in terms of fairness, honesty, and moral conduct, needed in part because of greater importance being placed on the ethical and moral conduct of business. Building on the marketing philosophy, the techniques and practices of marketing include the efforts by managements to match what a particular group of people (the target market) wants in terms of restaurant food, service, price, and atmosphere.



A marketing director preparing a section of the marketing plan

Courtesy of Childs Restaurant Group



Peter Drucker, the highly

regarded management scholar and author, stated, "The only valid definition of business purpose is to create a customer." In the restaurant business, we should add, "and to keep a customer returning."

It is important to remember that the guest pays the bills and determines the level of profit—not the owner, manager, accountant, banker, or controller.



The old joke sums it up well. "Do

you know how to make a small fortune in the restaurant business? Start with a large fortune!" To be successful, a restaurant needs great food, service, and atmosphere. Some restaurants get by with mediocre service and atmosphere. Few survive with inferior food.

Marketing is finding out what guests want and providing it at a fair price that leaves a reasonable profit. Marketing asks would-be operators to ask themselves, “Who will be my guests? Why will they choose my restaurant? Where will they come from and why will they come back?”

Marketing assumes that guests change, that they will want new menu items, new atmospheres, and, sometimes, new service. Just look at McDonald’s. Their new restaurant designs look almost like a Starbucks, and menu items like Asian salad and premium coffee are beating all sales expectations. Marketing asks operators to expect change in the marketplace and to position or reposition the restaurant to meet those changes.

Many of us have been tempted to open a restaurant at one time or another. Perhaps Grandma passed down some good recipes and a desire to cook. Whatever the reason, the restaurant business is easy to get in to because, apart from finances, there are no real barriers to entry.

Yet the restaurant business is complex. There are few businesses in which customers rely on all their senses to experience the product. In the restaurant business, our customers see, smell, touch, taste, and hear our offerings.

## **The Difference between Marketing and Sales**

It is important to distinguish among the terms *marketing*, *sales*, and *merchandising*. *Marketing* is the broad concept that includes the other two. Marketing implies determining who will patronize a restaurant (the market or markets) and what they want in it—its design, atmosphere, menu, and service. Marketing implies constant review of patrons and the identification of possible others. It is an ongoing effort that matches patron with restaurant, matches patrons’ desires with what the restaurant has to offer, and identifies people who would like the same thing. Marketing gets into the psyche of current and potential patrons. Once it is known what patrons want and what the restaurant has to offer, the two can be brought together.

Marketing is about solving guest problems. Identifying and solving problems is not easy. Changing lifestyles lead to different wants and needs of guests, which vary from location to location. Increasingly, people are looking for more casual and convenient eating options.

The ideal restaurant experience is different for everyone; some diners look for elegance, some for convenience, all for value. Despite these differing expectations, surveys indicate that the quality of food is of primary importance to customers when selecting a restaurant.

All restaurant guests, however, have one basic urge: hunger. In addition, they may also want entertainment, and they will seek a restaurant with a stimulating environment. Some may want recognition, so they will go to a restaurant that provides the feeling of importance that comes with recognition.

Happy guests result in free marketing known as word-of-mouth advertising, but you may have to ask them to spread the word. There is nothing wrong with



responding to praise with something like “I really appreciate hearing that and I hope you will tell others.” One way to kick-start word-of-mouth marketing is to become an active member in your community. Get out there and meet the people in your location. The more people that get to know you, the better.

Marketing focuses on the needs of the buyer; sales focuses on the needs of the seller. This distinction is important because restaurants often approach marketing with a sales mentality, which is a mistake.

Sales is part of marketing. Sales efforts are the activities that stimulate the patron to want what the restaurant offers. Selling is often thought of as the actions of restaurant employees that influence patrons after they have arrived at the restaurant.

The sales mentality exists when the seller thinks only of her or his needs—that is, pushing an item on the menu on the guest. With this mentality, few guests would return to the restaurant.

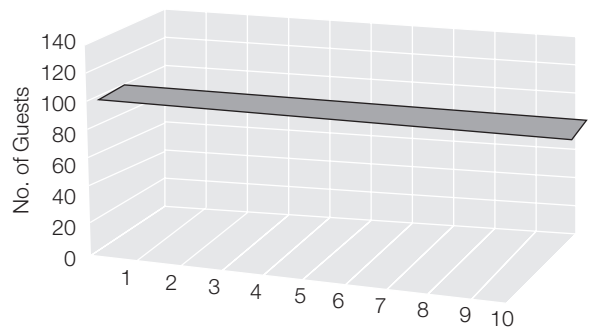
Closely related to sales are advertising, promotion, and public relations. The three have similar objectives. Advertising is purchased in newspapers, radio, TV, or similar businesses. Public relations is not. Public relations are efforts to make the public favor the restaurant without resorting to paid advertising. Promotion is further elaborated on later in this chapter.

## Marketing Planning and Strategy

Every *marketing plan* must have realistic *goals* for guest satisfaction, market share, sales, and costs while leaving a reasonable profit margin. A marketing plan is a written document that describes your advertising and marketing efforts for the coming year; it includes a statement of the marketing situation, a discussion of target markets and company positioning and a description of the marketing mix you intend to use to reach your marketing goals.<sup>4</sup>

Goals for *market share* and sales:

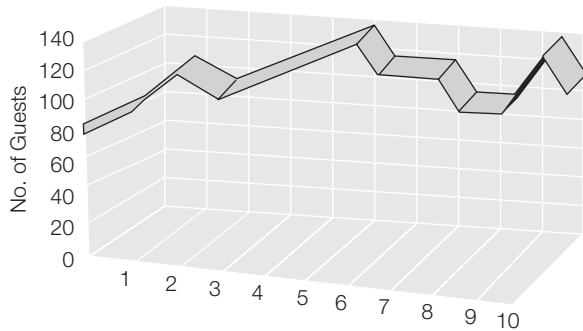
It’s hard to calculate a restaurant’s market share, yet we need to have a good idea of the market size and opportunities before investing our time and resources. It works like this: If you think that a market has room for your concept—let’s say, casual Italian—you must have checked that there are few, if any, restaurants of a similar type in your location, so logically you would get 100 percent (or close to that) of the market looking for that type of restaurant. However, we all know that there are few markets with no competition of one sort or another. To determine the fair market share (the average number of guests who would, if all other things were equal, eat at any of the competing restaurants), we must divide the number of potential guests in a catchment area by the number of competing restaurants. Figure 15.1 shows 5,000 potential guests. If they all decided to eat Italian, we’d all be in



**FIGURE 15.1:** A restaurant’s fair market share

trouble! But let's say that there were 10 Italian restaurants in the catchment area; we would expect a fair market share of 500 guests.

In reality, we know this does not happen. For various reasons, one restaurant becomes more popular. The number of guests at this and the other restaurants is called the actual market share. Figure 15.2 shows an example of the actual market share that competing restaurants receive.



**FIGURE 15.2:** A restaurant's actual market share

Restaurant sales goals are the most important thing. Everything depends on sales, as all the costs are deducted from the sales to leave a profit, one hopes.

For start-up restaurants, sales goals are set, as realistically as possible, based on anticipated guest counts and average guest checks; these are discussed and sample forms are available in Chapter 16. Please take a moment to look at the “Budgeting” section, which includes forecasting sales.

Back to goals for *market share* and sales. After careful consideration, we set a market share goal of being the leader in the market segment with an actual market share average of 540 guests, meaning that each of the other competitive restaurants will have fewer guests (an average of 460 guests). After all the weekly and monthly periods are added, a final total is arrived at, and sales goals are set at \$1 million. Other goals are set for each of the key operating areas: cleanliness, product quality, service, guest satisfaction, key ratios, and price.

We all realize that it is critical not only to set goals but also to develop strategies regarding how the goals will be met. For each goal there may be several strategies. For example:

**Goal:** To improve guest satisfaction score from 78 percent to 85 percent by December 1, 20XX.

Realistically, managers would examine the scores to determine the areas of weakness and develop a plan. If service scored lower than acceptable, for example, these strategies would be in order:

#### **Strategies:**

1. Managers to determine that all staff members know the service levels expected of them. If not, managers will inform staff, show them by example, and then have them do the task.
2. Training: Managers and supervisors to hold 5- to 10-minute training sessions prior to each shift.
3. Managers and supervisors observe the service levels given by serving staff and later bring to the attention of the staff member any examples of service improvements needed.

Another goal might be to increase the average check by \$2 at dinner. The strategy to reach this goal is to improve suggestive sales training.

Goals and strategies are set for all areas of the restaurant; the menu and the quality of each food item along with the service and ambience are all part of the marketing of a restaurant.

Another marketing technique is *SWOT analysis*, which stands for strengths, weaknesses, opportunities, and threats. A SWOT analysis is a simple framework for generating strategic alternatives from a situational analysis.<sup>5</sup> Strengths and weaknesses focus on internal factors and can, over time, be controlled by management. Opportunities and threats are external factors. Obviously, strengths and opportunities are issues that affect a company in a positive way, while weaknesses and threats have a negative impact. Remember the old song “Accentuate the positive and eliminate the negative”? Well, that’s exactly what marketing managers seek to do. Figure 15.3 illustrates SWOT analysis.

	<b>Internal</b>	<b>External</b>
<b>Positive</b>	Strengths	Opportunities
<b>Negative</b>	Weaknesses	Threats

**FIGURE 15.3:** SWOT analysis

Marketing strategy will also position the restaurant in relation to competition regarding price, the food and service offered, atmosphere, and convenience. The marketing strategy needs to conform to the circumstances of the restaurant. For example, a specific market entry strategy is appropriate for a new restaurant concept entering an existing market. We would need to find a competitive advantage based on the four Ps: price, product, place, and promotion.

In taking over an existing restaurant, the goal could be market share. Any one or a combination of tactics could do this. For example, price reduction and heavy local advertising might achieve the strategy’s goal.

Marketing strategy is the way the restaurateur accomplishes the goals set for the restaurant. One of the goals could be to increase the number of guests by 10 percent; this would be achieved by means of targeted flyers of the restaurant menu featuring certain dishes. The flyer could be distributed in selected postal ZIP codes.

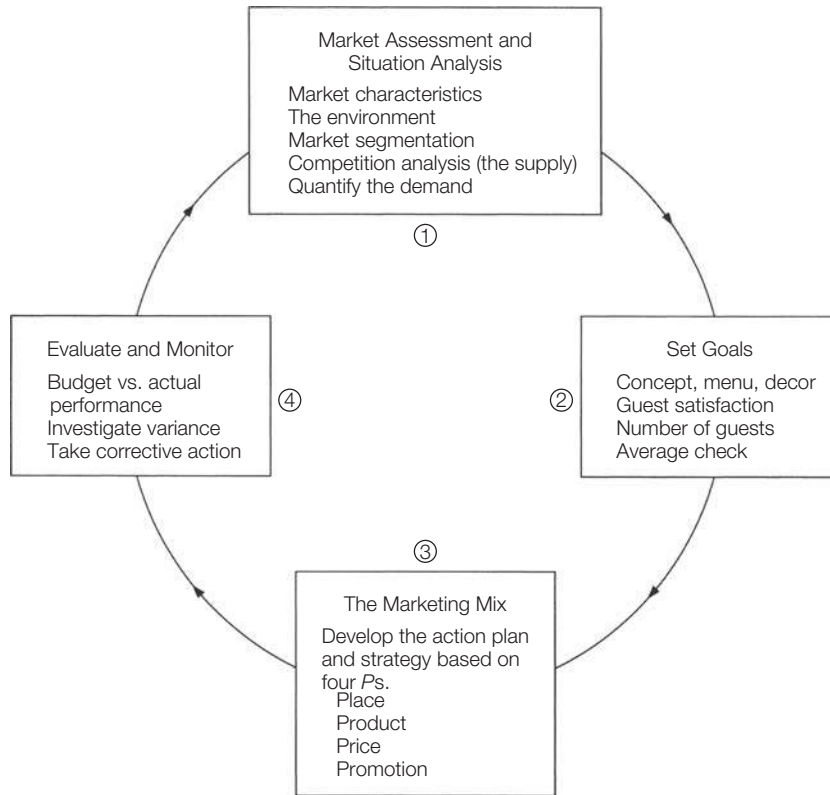
The strategy is the game plan for attaining determined goals. The key ingredient in any marketing initiative is the marketing plan, which helps focus the marketing and direct it toward the target market. The marketing plan analyzes the marketplace, the competition, and the strengths and weaknesses of the existing or proposed restaurant. See Figure 15.4 for an illustration of the planning process.

## Market Assessment, Demand, Potential, and Competition Analysis

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### MARKET ASSESSMENT AND MARKET DEMAND

By assessing the characteristics of the marketplace, we gain perspective on the operation being planned. The assessment provides initial information that is helpful in planning the success of the restaurant and hopefully avoids the loss of



**FIGURE 15.4:** Marketing planning sequence

one's shirt! By scanning the horizon and anticipating changes, the odds against failure are raised.

Most restaurateurs have the streetwise smarts to realize that if there are several restaurants of one type in a market, they must either look for another market or come up with a different concept.

A market assessment analyzes the community, the potential guests, and the competition and helps answer the all-important question: Is there a need for a restaurant?

- Potential guests:
  - How old are they?
    - What are their incomes?
    - What is their sex?
    - What is their ethnic origin or religion?
  - What are guests' wants and needs?
  - Why would people become guests?
  - What will they like or dislike about the proposed restaurant?
  - What do they like or dislike about existing restaurants?



Mr. and Mrs. Damien Few  
review their marketing  
assessment

*Courtesy of Damien Few*

The demand for a restaurant is not easy to quantify. At best, one arrives at a guesstimate—a calculated guess. The calculated part is derived from two factors:

1. The population in the catchment area (the area around the restaurant from which people would normally be drawn to the restaurant)
2. The demographic split of this population by nationality, race, age, sex, religion, employment, education, and income

These data indicate the total number of people who might be guests. In recent years, demographic information has lost some of its relevance. One reason is the increasingly multicultural nature of our society. Another is the changing characteristics of lifestyle. The blurring of demographic lines is evident when top executives eat at McDonald's. Using effective marketing techniques over the years, McDonald's has found the answer to that important question: "What do the people need and want, and what price are they willing to pay?" Following the formula of founder Ray Kroc—quality, service, cleanliness, and value—billions of hamburgers have been sold. McDonald's Corporation sales are greater than those of its three nearest competitors combined.

How does this relate to sound marketing prices? In the early 1960s, Ray Kroc realized that as families moved into the suburbs and adopted a more mobile lifestyle, they had less time in which to prepare meals. The fast-food hamburger was the answer, and it soon became an American favorite.

## **MARKET POTENTIAL**

How many people in the market area are potential customers? What is the potential for breakfast, for lunch, for dinner? Will your restaurant attract guests from

outside the immediate market area? Is your market the tourist, the businessperson, the highway traveler, the person in the neighborhood, or some combination of these? Ask these questions to figure out your market potential, which is defined as the estimated maximum total sales revenue of all suppliers of a product in a market during a certain period.<sup>6</sup> Breakfast and luncheon markets need convenient locations. Rapid service is prized, except in luxury restaurants. Dinner customers are something else. Customers will drive miles to a restaurant they like or one that has developed a reputation for food quality, atmosphere, service, or price.

### MARKET SEGMENTATION, TARGET MARKET, AND POSITIONING

The *market*—that is, the total of all actual and potential guests—is generally *segmented* into groups of buyers with similar characteristics. The purpose for segmenting a market is to allow your marketing/sales program to focus on the subset of prospects that are “most likely” to purchase your offering.<sup>7</sup> Within these groups are target markets, which are groups identified as the best ones for the restaurant to serve. The reason for segmenting the market and establishing target markets is to focus limited marketing resources for maximum effectiveness. Three of the typical segmentations include:

- *Geographic*: country, state/province, county, city, neighborhood
- *Demographic*: age, sex, family life cycle, income and occupation, education, religion, race
- *Behavior*: occasions, benefits sought, user status, usage rates, loyalty status, buyer readiness stage

Figure 15.5 shows a target market segmentation for a restaurant.



**FIGURE 15.5:** Target market segmentation

Once the target market is identified, it is important to *position* the restaurant to stand out from the competition and to focus on advertising and promotional messages to guests. The key to *positioning* is how guests perceive the restaurant. It involves tailoring an entire marketing program—including product attributes, image, and price, as well as packaging, distribution, and service—to best meet the needs of consumers within a particular market segment.<sup>8</sup>

Wendy’s advertises that their meat is never frozen and is hot off the grill. Burger King promotes and is well known for their flame-broiled food. Subway built a marketing campaign on the weight-loss success of one customer, Jared Fogle. In commercials, he is just Jared, the guy with the wisdom to eat healthy at Subway. Subway has since expanded Jared’s role to public relations and community outreach. He has launched the “Jared’s School Tour,” a program aimed at childhood obesity that stresses the importance of exercise and eating healthy.



## COMPETITION ANALYSIS

Analyzing the competition's strengths and weaknesses helps in formulating marketing goals and strategies to use in the *marketing action plan*. The action plan may include goals, strategies, tactics, who's responsible, measurable outcomes (metrics), and methods for tracking progress.<sup>9</sup> All restaurants have competitors; they may be across the street or across town.

When analyzing the competition, it makes sense to do a *comparison benefit matrix* showing how your restaurant compares to the competition. You compare name recognition, ease of access, parking, curbside appeal, greeting, holding area, seating, ambience, food, service, cleanliness, value, and similar characteristics. Figure 15.6 shows an example of a comparison benefit matrix.

Doing a competitive benefit analysis will help you to determine the strengths and weaknesses of your restaurant compared to the competition. The important thing is to put yourself in the mind of a guest and go through the thought process of why the guest should choose your restaurant. What does your restaurant offer, and how is that different and better than the competition?

## Marketing Mix—The Four Ps

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Every marketing plan must have realistic goals for sales and costs while leaving a reasonable profit margin. Marketing plans are based on the four *Ps*, known as the cornerstone of marketing: place (location), product, price, and promotion.

Potential Benefits	Own Restaurant	Competition A	Competition B	Competition C	Competition D
Location					
Convenience					
Parking					
Food Quality					
Food Service					
Price					
Beverage Quality					
Beverage Service					
Rest Rooms					
Decor/Ambience					
Curbside Appeal/Exterior					

**FIGURE 15.6:** Comparison benefit matrix



A word of warning! If a restaurateur opts for the higher-rent district and spends heavily on lavish decor, the food and service should be excellent because customer expectations will be high. Would-be restaurateurs who find themselves in hot water due to spending a lot of money on the lease and alterations may cut corners with the menu and service. This often leads to the restaurant's demise.

## PLACE/LOCATION

The place or location of a restaurant is one of the most crucial factors in a restaurant's success. Good visibility, easy access, convenience, curbside appeal, and parking are the ingredients of a location's success.

Visibility is necessary so that, as people approach the restaurant, they are able to easily identify it. Often a prominently placed sign catches potential customers' attention; directions, if necessary, can be featured on the sign.

Restaurants are found in freestanding buildings on a lot with parking spaces, in city blocks with no parking, in shopping malls, in office buildings, and in airports, train stations, and bus depots. The University of California at San Diego has a Wendy's in the University Center, and the Marine Corps Air Station at Miramar, California, has a McDonald's on the base. These restaurants are fortunate in that they have a built-in clientele.

A restaurant grouping, sometimes known as a restaurant row, is quite common. The approaches may attract people because of the wide choice of restaurants available. If two French restaurants are already on the block, it would be unwise to compete by opening another.

Most restaurants have little or no problem with Fridays, Saturdays, and Sundays. The big problem is how to fill up on Monday through Thursday and for both lunch and dinner. This feat requires a magician who provides good location, conjures up an exciting atmosphere, and serves great food well.



Maggiano's Little Italy, in Chicago. Celebrity visitors definitely boost marketing and promotional efforts

*Courtesy of Maggiano's Little Italy*

Several established restaurant chains attempt to cluster their restaurants. Some franchise by territory. Proponents of this idea argue that economies of scale occur in purchasing, preparation, advertising, and management. Opponents of this view suggest that new stores simply take away business from existing stores. Clustering is, however, a tremendous advantage when there is positive customer awareness in the market for a particular restaurant chain.

The concept of adjacent complementary restaurants is catching on. For example, one finds KFC or Pizza Hut next to Taco Bell (all are companies within Yum Brands Inc.). Other quick-service companies are experimenting with sharing sites with other retailers. For example, Wendy's, Hardee's, McDonald's, and Starbucks have leased space in department and convenience stores. Today there are also fast-food chains inside amusement parks.

Occasionally a restaurant is successful in an odd location, but the norm is to have high visibility, curbside appeal, easy access, and parking, all of which cost money. The better the location, the higher the rent, so there may have to be some compromise.

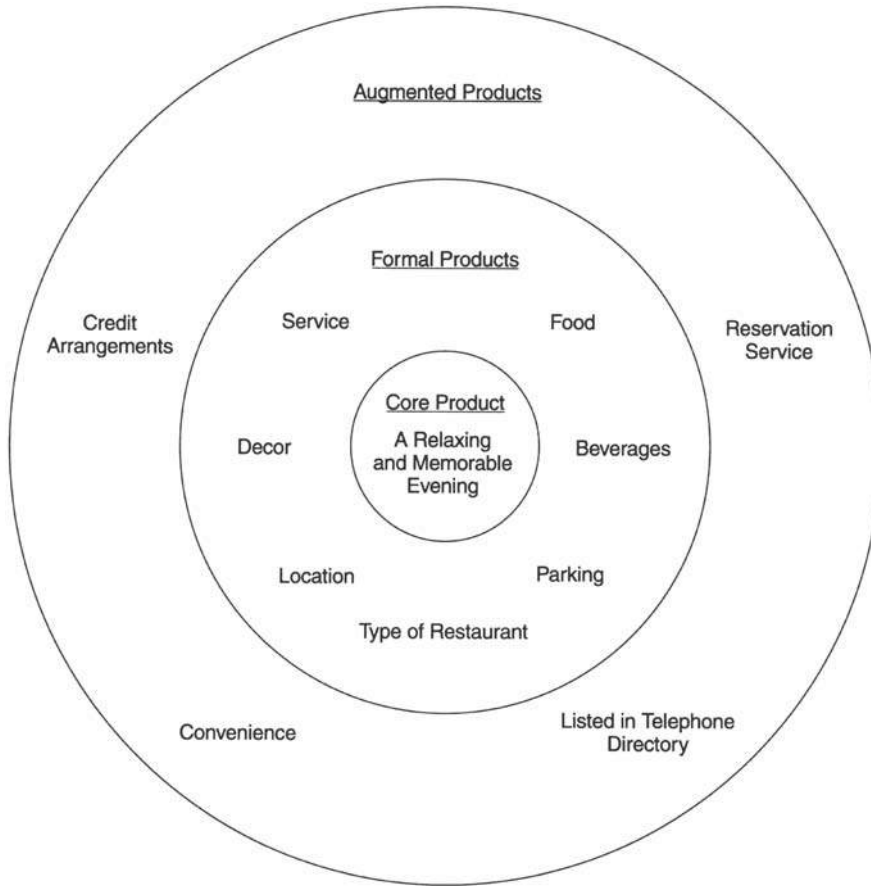
We have all seen restaurants whose prices are exorbitant. We may have gone there for dinner and cocktails once, but because our expectations were not met, we felt robbed and never returned. All too often, interior design consultants talk owners into spending lots of money on decor. Design is important, and many smart restaurateurs have created expensive Italian, movie-theme, or nostalgia-theme restaurants, such as the Hard Rock Cafe. It is unnecessary, however, to spend a lot of money on the decor of a Greek restaurant close to a university campus, because students—the target market—want a good price–value relationship. By contrast, patrons of an elegant New York restaurant—most of whom



Food presentation as part of the product: grilled filet mignon and vegetables

*Courtesy of PhotoDisc, Inc.*





**FIGURE 15.7:** Three levels of product concept for restaurants

- The formal product is the tangible part of the product. This includes the physical aspects of the restaurant and its decor. In addition, a certain level of service is also expected. When guests choose a family restaurant, they anticipate a level of service appropriate for the type of restaurant.
- The augmented product includes the other services, such as automatic acceptance of certain credit cards, valet parking, and table reservation service.

*Product analysis* covers the quality, pricing, and service of the product offered. How will the product—menu, atmosphere, location, convenience, price—differ from the competition? Will it include signature menu items—those that are unusual in some way or that convey the stamp of uniqueness that customers will remember and associate with the restaurant? Will the decor and atmosphere be discernibly different from the competition? Is the service superior in some way, faster or more concerned, more professional or more elaborate?

Is the value greater for the price than the competition's? Is the location more convenient, parking easier or more spacious?

**Atmospherics** Restaurateurs are placing greater emphasis on *atmospherics*, the design used to create a special atmosphere. Years ago, the majority of restaurants were quite plain. Today, they are built with the intent to have an atmospheric impact on guests.

The most noticeable atmospherics are found in theme restaurants. The theme employs color, sound, lighting, decor, texture, and visual preparation to create special effects for patrons. Sporting themes are definitely in with many people, as is the Hard Rock Cafe's rock-and-roll nostalgia. Some McDonald's restaurants rely on atmospherics. They have play areas for kids. The restaurants are decorated with bright colors, bright lights, and hard seats, all of which are designed to persuade patrons to vacate in less than 20 minutes. Care should be taken when creating theme restaurants, because the life of the theme may be only a few years. The atmosphere must be appropriate for the target market.

**Product Development** Innovative menu items are added to maintain or boost sales. By keeping consumer interest stimulated, restaurants may increase market share and profit. The new items replace those with which the public has become bored. Dining menus have come alive in recent years. Gone are the heavy meat items with their calorific sauces. In their place is fresh pasta, fish, chicken, or other lighter dishes with a more wholesome sauce.

Most of the large chain restaurants test their new product in selected markets. If the new product is accepted, it is launched system wide. This was the case with the 99-cent value menu that a number of restaurant chains introduced in recent years. It is interesting to note that as soon as one company rolled out a new value menu, the competition felt compelled to follow suit. In some cases, this was done with too much haste, leading to an inferior product and consequent guest dissatisfaction.

**Product Positioning** Restaurant guests generally have a perception or image of the restaurant, its food, service, atmosphere, convenience, prices, and how it differs from other restaurants in the area. Positioning conveys to the guest the best face or image of the restaurant, what people like most about it, or how it stands out from the competition. If value is the best feature of the restaurant, it should be emphasized in the positioning statement and reinforced in advertising. Wendy's approach in underscoring the freshness of its product is an excellent way of positioning it.

**Restaurant Differentiation** Restaurant owners usually want their restaurant to be different in one or more ways, to call attention to the food or ambience.

How does a burger restaurant differentiate itself from the competition? An early example happened by chance in 1937, before quick-service restaurants became widespread. In that year, Bob Wian, who four years earlier, as a high



school student, had been voted most unlikely to succeed, sold his old DeSoto car for \$350 and used the money as a down payment on a 10-stool lunch stand in Glendale, California.

One day, a Los Angeles musician asked Wian for something different from a regular hamburger. Wian thought for a moment, then took a standard hamburger bun and sliced it into three horizontal pieces instead of two. He then placed two cooked hamburger patties on the bun and wrapped the whole thing in paper to keep it warm.

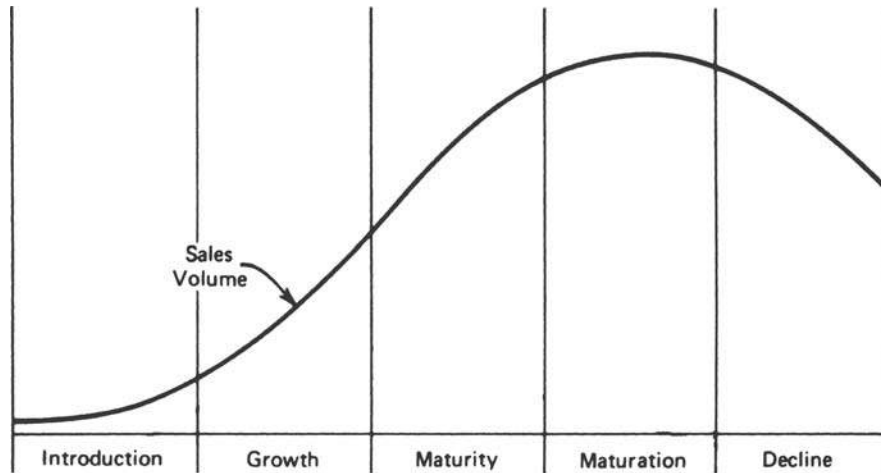
Later, the double-pattied hamburger acquired a name when Wian wanted to call a boy who did odd jobs around the restaurant. Not remembering the boy's name, he called out, "Hey, big boy." On reflection, Wian thought, "What a name for my two-patty hamburger!"

One day a regular customer, an animator, sketched the little boy on a napkin. It became the logo for the Big Boy chain, which grew to include hundreds of franchised restaurants. Wian, who had a knack for promotion, described his milkshake as "so thick you can eat it with a spoon." In the late 1960s, Wian sold the Big Boy chain to the Marriott Corporation.

**Product Life Cycle** Restaurants, like all businesses, go through a *product life cycle* from introduction to decline. The product life cycle is shown in Figure 15.8, illustrating that sales volume is highest during the maturity and saturation stages. The trick is to extend these stages.



Diners at Panificio Café  
Courtesy of Panificio



**FIGURE 15.8:** Product life cycle

## PRICE

Price is the only revenue-generating variable in the marketing mix. Price is affected by the other mix variables; for instance, if a restaurant has a costly location, then the prices charged are likely to be higher—unless the volume is very high. Price is also an important consideration in the selection of a restaurant. Today, restaurant guests want value and will patronize those restaurants that they perceive offer good value. One restaurant in Chicago is called Take Five; all entrées are, yes, \$5 each.

In restaurant marketing, several factors affect price:

- The relationship between demand and supply
- Shrinking guest loyalty
- Sales mix
- The competitors' prices
- Overhead costs
- The psychological aspects of price setting
- The need for profit

The objective of a pricing policy is to find a balance between guests' perceptions of value and a reasonable contribution to profit. Different strategies may be employed according to the objectives of the restaurant. For example, if an increase in market share is the objective, an extremely aggressive pricing policy would likely bring improved results, all other aspects being equal.

**Cost-based Pricing** Many industry practitioners advocate a cost-based pricing strategy. This conventional-wisdom method calculates the cost of the ingredients and multiplies by a factor of 3 to obtain a food cost percentage of 33. The price is rounded up or down a few cents, based on the operator's pricing strategy.

	Food Cost	Selling Price	Food-Cost Percentage	Contribution
Pasta (fettuccini)	\$2.15	\$ 6.25	32.80	\$4.20
Fresh fish	\$4.50	\$12.75	35.29	\$8.25

**FIGURE 15.9:** Contribution pricing

For example, if the cost of ingredients for a dish on the menu was \$3.24, then the selling price would be \$9.75 ( $\$3.24 \times 3 = \$9.72$ , rounded up to \$9.75). Figure 15.9 shows an example of contribution pricing.

**Competitive Pricing** A restaurant operator may use cost-based pricing to determine the menu price of an item and then check with the competition to see what they are charging for the same item. If there is a significant difference in favor of the competition, then the operator must either choose another item or alter the ingredients of the existing item to bring its price in line.

**Contribution Pricing** Most operators do not price more expensive items using the cost-based method because it would make them appear too expensive. An expensive meat or fish item, for example, might cost \$7 per plate, but there would not be many takers at \$21; therefore, the price is adjusted down to an acceptable level. Remember that the contribution of the dish will be greater than one of the lower-priced menu items. Contribution pricing is a method of computing a product's selling price so that that the price, at the least, contributes to the gross income even if a contribution to net income is not possible.<sup>10</sup>

Another important aspect of pricing is the amount of labor cost involved with the preparation and service of the menu items. Food and labor costs, when added together, are known as *prime costs*. Combined, they should not go above 55 to 60 percent of sales, generally speaking.

- *The relationship of demand and supply is crucial to the pricing equation.* This basic factor controls all pricing policies. If demand is high and supply is limited, prices may be increased. Regrettably, as most restaurateurs know, the opposite is generally the case. In many markets, a saturation point has been achieved, with more and more restaurants opening. They mostly split up the available market just as a hostess divides up an apple pie when an unexpected guest arrives for dinner. Each restaurant receives a smaller market share, assuming equal distribution.
- *Declining guest loyalty has an effect on pricing.* At one time, it was possible to increase guest loyalty, repeat business, and brand loyalty by dropping prices. Now, however, customers are more inclined to shop around for the best deal in order to make their dollar go further. One strategy that major

chains in the airline and hotel business have adopted is to identify heavy users and reward them for their loyalty with frequent-flyer programs and reduced accommodation rates. This concept, while good in theory, has, in a number of instances, run into serious difficulties and contributed to shrinking profits.

- *The price–value relationship is extremely important, especially in difficult economic times, when guests pay more attention to the value they receive for their dollar.* If a guest is charged \$6.95 for a soup, pasta, and salad bar with no service, he or she may think twice about returning if the restaurant across the street is offering a cooked entrée with a soup or salad starter with full table service for the same price. This is why many pizza, Mexican, Chinese, and Italian restaurants are successful. Due largely to low food costs, they appear to offer greater value to customers.
- *Sales mix is an important aspect in setting pricing levels.* Restaurants have a variety of items on the menu, some of which sell more frequently than others. The trick is to have a sufficient volume of popular items. While these items may have a smaller contribution margin, they are able to offset the less frequent sellers, which may have a higher per-item contribution. Because they sell less frequently, they do not produce as great a contribution toward overhead and profit.

**Price and Quality** There is a direct correlation between price and quality. If high-quality ingredients are used, an appropriate price is charged. Ruth’s Chris Steakhouse uses only USDA prime aged beef and charges more than Outback Steakhouse. Both restaurants are successful and balance price and quality. Price is also discussed in Chapter 4.

## PROMOTION

Promotion is the activity by which restaurateurs seek to persuade customers to become not only first-time buyers but also repeat customers. Promotion, which includes communication, seeks to inform and persuade customers. A promotional campaign may have these eight goals:

1. To increase consumer awareness of the restaurant
2. To improve consumer perceptions of the restaurant
3. To entice first-time buyers to try the restaurant
4. To gain a higher percentage of repeat guests
5. To create brand loyalty (regular guests)
6. To increase the average check
7. To increase sales at a particular meal or time of day
8. To introduce new menu items

Notice how this paradigm becomes a funnel. The large number of people at the top are the target market, guests we need to first make aware of the restaurant.

Other activities are undertaken until the customers become brand-loyal, regular guests. Promotions are conducted to increase sales in several ways:

- To increase guest awareness of the restaurant or a particular menu item. Advertising often does this
- To introduce new menu items, such as Domino's Dots and Subway's wraps
- To increase customer traffic, perhaps by advertising a menu special to act as a bring-them-in or a better deal than the competition
- To increase existing guests' spending by building check average. This is often accomplished by personal selling and promotions
- To increase demand during slow periods that are unproductive in that little or no contribution is made to overhead. Examples of efforts to boost sales during nonpeak periods are McDonald's McBreakfast and early-bird dinners for seniors that fill restaurant seats in the early evening—seats that would otherwise be empty

Promotional programs take a variety of forms. When the economy weakens, some restaurants reduce their prices by finding innovative ways to promote their restaurants, like substituting a three-course, \$38 prix-fixe menu for a \$52 dinner. The art of downscaling is to create exciting food from lower-cost ingredients.

Of the many promotional ideas for restaurants, some work and some do not. The degree of success varies and often depends on the relevance and value of the promotion as perceived by the target market. McDonald's does a great job not only of getting the attention of kids but also of enticing them to persuade their parents to take them to McDonald's.

A plan would be to ask the town's movers and shakers to come up with a list of foods that they would like to see on the menu. The owners can then select their menu from the list.

Another idea would be to have a soft opening, meaning to open without a big announcement and spend a month working out the finer details. Then have a grand opening, with media in attendance, and enjoy rave reviews. Some restaurants have a camera handy to take photos of guests and then send them along with a thank-you-for-your-patronage note. The next examples are from the American Express booklet entitled "50 More Promotions that Work for Restaurants":

- In order to speed up lunch service, allow guests to fax and deliver orders. In some restaurants, this has boosted delivery and take-out by 20 to 25 percent.
- If your restaurant is in an area where you are likely to receive guests from other countries, have menus available in the relevant languages.
- Have reading glasses or menus with large print available for those who left their glasses at home.
- Create promotions around the many occasion days of the year. Example: Secretaries' Day.
- Create a dinner club to fill the slow nights. Focus around a theme and inform potential guests of the club night by mailings.



Joyce and  
Evan Gold-  
stein of

Square One, San Francisco, say that the relationship between a restaurateur and his or her customers is "like marriage or a relationship—the trick is keeping things fresh and interesting even after the passion period is over."

- Encourage guests to leave their business cards for a prize drawing. This creates a mailing list.
- One quiet night, say a Monday or Tuesday, announce to the restaurant and the media that one table's bill will be on the house, and that every Monday or Tuesday you plan to "comp" one table. The restaurant will likely fill up on those otherwise quiet nights.
- Give people something to tell their friends about or something to take home as a remembrance of their visit to your restaurant.
- Offer special birthday promotions.
- Send your menu and any relevant information to your catchment area. For example, if you have an Italian restaurant and decide to feature food from various regions of Italy, perhaps with a featured chef, mail an announcement to all addresses in the target market in the catchment area.
- Arrange a cook-off with a prize for the best pie (or whatever). Inform the local media and ask them to be the judges. That should ensure plenty of free coverage.
- Use coupons to build traffic and, once the goal is reached, phase them out. One of the difficulties is reaching the target market. The *Penny Saver* crowd may not be your market.
- Send postcard photos of your menu items to your guests.
- Invite guests to complete an application for dinner for two in another city. Purchase an open ticket and give a \$500 spending allowance.<sup>11</sup>

Many restaurants use coupons to promote their restaurants. Coupons may be a mixed blessing. They come in a variety of offerings and are generally distributed in the vicinity of the restaurant. Their purpose is to build awareness and traffic in off-peak periods, such as weeknights and early evenings, and to entice new guests into trying the restaurant. Some offer a price reduction, while others promote a two-for-one deal or other form of discounting.

Corporations like Taco Bell would not promote a discount value strategy with popular menu items already reduced to 99 cents if they did not feel this was sound common sense in the prevailing economic climate. Taco Bell's success in recent years is the envy of the restaurant industry.

Some promotions involve a tie-in to cartoon characters popular with children. Off-hour dinner discounts are a means of capturing higher frequency from regular diners and more patronage from first-time guests. Entrée prices are chopped during nonpeak hours. This trades food costs for occupancy, which is good old-fashioned advertising, according to Mike Hurst, former president of the National Restaurant Association and a pioneer in early-bird discounting at the 15th Street Fisheries, his high-volume waterfront dinner house in Fort Lauderdale, Florida. The early-bird strategy has worked for Hurst, who discounts the entire menu. In fact, his restaurant does one and a half turns before 7:00 P.M., because, he says, early-bird patrons are so impressed with value that they insist on either sending or bringing their friends to dine. This appeals to retired individuals on fixed incomes.



Paul Dobson, a prominent San Diego restaurateur, has not only realized the benefit of early-bird pricing but also appeals to night owls. His restaurants build on the Latin custom of later dining, offered after midevening patrons have finished.

**Advertising** The extent to which a restaurant needs to advertise depends on several variables. If the restaurant is part of a national chain, a percentage of sales is automatically taken for national advertising. A strictly enforced budget for local advertising is normally a percentage of sales.

Most independent restaurants rely heavily on local guests, so advertisements are placed in city, town, and neighborhood newspapers. It is difficult to determine precisely the degree of success that advertisements have. Operators generally try an advertisement and check the response. The advertisements are coded to a particular telephone number or a person's name for tracking. Coupons are easy to track because people cut them out and bring them in themselves.

Many restaurateurs engage the professional help of an advertising agency. The agency can offer expertise in media services such as artwork, copy (wording), and media relations. The cost of these services can add up, so it is advisable to be well organized by having the key points of the message conveyed in order to achieve the maximum benefit from the advertising budget.

The advertising budget should be carefully planned and not limited to a percentage of sales, because if sales were to drop—as they do periodically—so would the amount spent on advertising, and this may be the time you need more advertising to help increase sales.

Some restaurants refuse to spend money on advertising. They would rather give every guest a \$5 bill under every entrée plate, while others give coupons to encourage repeat visits.

Whatever method is chosen, care is required to ensure that the advertisement is appropriate to the target market and will induce the guest to come into the restaurant again and again.

Some restaurants deliberately take a low-key approach to marketing. Instead of expensive television, radio, and media advertising, they concentrate on producing the finest food, service, ambience, and value. Reliance on word-of-mouth advertising has worked for Chart House, which attributes its success to a combination of location, food, and service. This is interesting because their locations often buck conventional wisdom. Many of the Chart House restaurants are in outstanding ocean locations in California, Hawaii, Florida, Puerto Rico, the U.S. Virgin Islands, and New England. Many restaurateurs would not touch a location where half the catchment area is in the ocean! Chart House locations are in “destination locations,” most of which are close to major markets.

The first Chart House was opened in 1961 in Aspen, Colorado, with two cocktail tables and four dining tables. On the first night, four customers were served. In 1991, one opening in Scottsdale, Arizona, had sales of over \$250,000 in the first month and a healthy operating profit. Patience has been a virtue for Chart House. This was underlined by the five-year wait to secure its prime Philadelphia location and seven years for the one in Indianapolis. The sites are

not always successful, however. The restaurant in San Francisco struggled for several years because it was two blocks from the hub of the Embarcadero.

Another contributing factor to the success of the Chart House chain is that the restaurants are not faddish or “themeish.” Tastefully and timelessly decorated, they feature a lot of wood and glass to harmonize with natural surroundings.

**In-house Advertising** Some innovative restaurant operators embrace in-house advertising by other businesses by letting vacant space be used for advertising media. This either generates additional revenue or decreases costs such as menu printing, which may be as much as \$20,000 per year. In-house advertising goes as far as bathroom stall doors and paper cups! Other restaurants have gone to a magazine-type menu advertising a variety of products and services, which guests can read while they wait for their meal. Fast-food chains often do movie tie-ins with their kids’ meals. By doing so, they share promotional costs with the movie.

**Filling in the Periods of Low Demand** Sales curves for restaurants vary by day of the week and time of the year. Sales for the typical restaurant start off the year at the lowest point in January and gradually increase until June or July, when sales reach their maximum. After that, sales decline through December. Weekly sales also follow a typical curve that is lowest on Monday and Tuesday and reaches a peak on Friday and Saturday. Sales usually drop off a little on Sunday, then the weekly cycle repeats. Each restaurant, moreover, has individual sales curves.

Marketing efforts are most needed during the low periods early in the week and the year. Fixed costs remain the same during the slow periods, and efforts are needed to reach and exceed the break-even point during these times.

**Tie-ins and Two-for-Ones** Downtown restaurants often provide tie-ins with department stores, movies, and the theater. Dinner at the restaurant and tickets to the play or movie provide the buyer with a substantial discount.

Two-for-one promotions are an effective way of getting people into a restaurant for the first time, people who otherwise might not have been aware of the restaurant. Some restaurants give a 50 percent discount on the total food check for two persons. The usual two-for-one is made available by a newspaper advertisement or by sales of dining discount books. On certain days of the week during certain hours, two persons can dine for the price of one. The problem is that regular guests, who would come anyway, also take advantage of the promotion.

**Loss-Leader Meals** While a restaurant is not likely to price a food item at cost, as is done sometimes at supermarkets, it may offer one or several items at a price that produces much less profit than normal. Some quick-service restaurants offer a free hamburger when one is bought. Discount coupons offer reduced prices for dinner houses, perhaps on selected days, usually on the slow first days of the week. The purposes are to gain market penetration, to attract new guests to the restaurant, and to get people into the restaurant so that they will buy more profitable items as well.

Some restaurants find such loss-leader advertising highly profitable because of the liquor sales generated. The operators reason that any such sales are likely to be above the break-even point and, even though the food cost may be high, fixed costs are already covered. Serving personnel are happy because they are busy and making more tips.

There are literally hundreds of innovative promotional ideas for bringing in new guests, building repeat business, building during slow periods, increasing average checks, and enhancing community relations.

**Advertising Appeals** The reasons for going to a restaurant vary all the way from plain necessity (the only restaurant around) to great adventure (a trip to a three-star restaurant in Provence). Several motivational forces may operate simultaneously: a respected friend has praised a restaurant, an anniversary is being celebrated, and time is limited.

Generally there are six benefit appeals used in restaurant advertising: food quality, service, menu variety, price, atmosphere, and convenience.

Quality of food is the most important factor in choosing a restaurant. Each of the other factors is important and is featured with greater prominence according to the type of restaurant and the target market for the advertisement.

**Twitter and Facebook** Twitter is like a “mini blog”—it’s a series of posts limited to only 140 characters—perfect for any busy restaurateur, bar manager, or chef. Twitter is a free social networking and micro-blogging service that allows its users to send and read others updates—known as tweets—which are text-based posts. Updates are displayed on the user’s profile page and delivered to other users who have signed up to receive them. The sender can restrict delivery to those in his or her circle of friends—delivery to everyone is the default.<sup>12</sup>

Restaurants are increasingly using Twitter as a low-cost way to connect with patrons and ultimately improve profits. Consider this Twitter success story: Four months before the opening of Tupelo in Cambridge, Massachusetts, the wife of the chef began tweeting about the opening, from getting inspected to planning the menu and picking the paint . . . so that for opening night the restaurant was packed and at least half the guests were there because of Twitter. A lot of restaurants are discovering Twitter and posting everything from daily specials to luring followers with offers of free appetizers to offering a glimpse of kitchen life.<sup>13</sup>

Sahana Mysore writes in her excellent article:<sup>14</sup> “Restaurants are leveraging Facebook to win new patrons by creating a Facebook page. In a few simple steps, you can advertise your restaurant’s location and hours to a community of over 150 million people—45 million of them in the U.S. alone. It’s definitely worth your time and it will take you less than one hour to display some basic information about your restaurant.” Sahana Mysore suggests making your page engaging with applications—show your restaurant’s great ratings by displaying the Zagat application or add a reservations widget through Open Table on your main page; display a video of the chefs making the house’s special; allow users to click through an interactive menu. The possibilities are endless—create and

promote events online and offline. Let people know about a special Mother's Day brunch or a regular Friday happy hour by sending invitations and asking people to RSVP on Facebook. This can be a great way to increase viral marketing as information travels through news feeds from your network of friends and family outwards in the greater social graph.<sup>15</sup>

**Travel Guides for Free Advertising** A listing in one of the major travel guides can be worth thousands of dollars in extra sales at no cost to the restaurant operator. The National Restaurant Association states that travelers and visitors account for 50 percent of all table-service restaurant sales with average checks of \$25 or more. The *Mobil Travel Guide* lists thousands of hotel/motels and restaurants located in more than 4,000 cities, and can be viewed at [www.exxonmobiltravel.com](http://www.exxonmobiltravel.com). Some 750,000 copies are sold each year. Solicitations from restaurant operators who wish to be rated are accepted.

By far the largest distribution of travel guides is that of the *AAA Tour Book*, which reaches more than 40 million AAA members. Those near major tourist attractions are preferred. Solicitations from restaurant operators are welcome.

**Yellow Pages Advertising** Probably the most widely used advertising medium in North America is found in the local telephone directory—the Yellow Pages, a medium that the restaurant operator is almost forced to use because it is available to everyone who has a land-line telephone.

The operator opening a new restaurant must apply for a listing in the Yellow Pages several weeks in advance of publication—which could mean several months, because most directories are published yearly. The restaurant that opens without a published phone number and without a listing in the Yellow Pages is at a disadvantage. A small ad in the Yellow Pages can tell something of the character and menu of the restaurant—that the place serves vegetarian dishes, is “the most romantic dining spot,” serves Cajun cuisine, has mesquite-broiled steaks, cooks fish using live oakwood, has fresh seafood, and so on.

**Developing a Mailing List** Restaurants that appeal to a fairly stable market—some coffee shops, some dinner houses, and luxury restaurants—develop guest loyalty and increase sales by regular mailings. The mailings can be newsy and informational. Photos of guests, receptions held at the restaurant, descriptions of a new wine, or the announcement of specials can be sent to patrons on a mailing list. Restaurant party announcements, such as Halloween and New Year's parties, are examples of events that can be covered in a mailing.

Mailing lists can be purchased, but it is usually better to develop a list of people who are known or potential guests.

Charity affairs attended by the affluent are occasions to collect addresses. Attendants can be asked to sign a register and give addresses. Persons calling for reservations can be asked their addresses. If the caller asks the reason for the address request, the reservation taker can explain that regular guests are mailed information about special events and seasonal affairs offered by the restaurant.

Figure 15.6 shows a comparison benefit matrix that can be used to assess one restaurant's benefits or drawbacks in comparison with other restaurants.

## Summary

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No restaurant can reach its potential without an understanding of the principles of a good business plan and marketing. Some streetwise owner-managers do not possess formal marketing skills; however, their informal skills are often as savvy as those of any marketing expert. Marketing focuses on the needs and wants of guests, whereas sales focuses on the needs and wants of the restaurant operator. Once the potential market is identified, planning can take place.

The business and marketing plan is completed after an assessment of the marketplace, the competition, and the restaurant's strengths, weakness, threats, and opportunities. The marketing plan, if properly completed and executed, will greatly assist in ensuring that the restaurant's goals are met. The main components of the marketing plan are known as the four *Ps*: place, product, price, and promotion.

## Key Terms and Concepts

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Actual market share	Marketing philosophy
Ambience	Marketing plan
Atmospherics	Position/positioning
Business plan	Prime costs
Comparison benefit matrix	Product levels
Competition analysis	Product life cycle
Excellent food	Product analysis
Fair market share	Segmented
Goals	Service
Market	Strategies or action plans
Market share	SWOT analysis
Marketing	Value
Marketing action plan	

## Review Questions

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1. Describe restaurant marketing.
2. What is the difference between marketing and sales?
3. Discuss marketing philosophy in the restaurant business.
4. Give examples of how marketing solves customer problems.
5. In your restaurant project, which will be your principal target market?
6. What is meant by market positioning?
7. In what way does market assessment aid the marketing process?

8. Some restaurant owners question the necessity of developing marketing plans. What is your response?
9. Develop an outline for your restaurant's marketing and business plan.
10. What are the differentiating characteristics of your restaurant?
  - a. Product
  - b. Atmospherics/decor
  - c. Service
  - d. Place/location
  - e. Price
11. How will you advertise your restaurant? What percentage of total sales will be allocated to advertising?
12. Discuss which restaurant promotions are the most effective.
13. How will you determine your restaurant's pricing policy?
14. How will contribution pricing affect your restaurant's pricing policy?
15. Discuss how the four *P*s of marketing are utilized in your restaurant.

## Internet Exercise

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Search for information on restaurant business plans—there is no need to use sites that want money. Check the SBA Web site and search for business plans. Share your findings with your class.

## Endnotes

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