

CHAPTER 1

Preliminary Planning

THIS CHAPTER

- ✓ Assists the reader in determining the scope of a project, which in turn will determine the complexity of the planning process
- ✓ Explains the process of concept development for hotels, chains, restaurants, and institutions
- ✓ Guides the person who is contemplating a design or equipment replacement project through the decision-making process regarding menu, market, management, money, and method of execution
- ✓ Introduces the elements of a feasibility study and outlines the different kinds of feasibility research that are necessary before designing a foodservice facility

SCOPE OF A PROJECT

Scope refers to the size and complexity of a foodservice facility design project. The scope of the project influences the design approach taken by the owner or manager. If the project involves only the layout of a new hot-food production area for an existing restaurant, the approach used and the planning process will be fairly simple. If the project entails the construction of a new restaurant or the complete renovation of an existing facility, the planning process becomes more difficult. And if the project includes the construction of a new facility that is to serve as the prototype for a chain or franchise, the planning process is even more complex.

Scope can be divided into four levels of complexity, each of which requires the involvement of different individuals and different amounts of planning time. Determining the scope of the project is an important first step before the planning begins.

Projects of level I scope involve no more than the selection of a major piece of equipment or the replacement of a small area of a foodservice facility. Examples of level I projects include:

- ❑ Replacement of a dish machine and dish tables in a school cafeteria
- ❑ Replacement of the display refrigerator and service counter in a delicatessen

Level I Scope

Figure 1.1. Professionals Involved in Projects of Different Levels of Scope.

	Level of Scope			
	I	II	III	IV
Owner	✓	✓	✓	✓
Foodservice Design Consultant	✓	✓	✓	✓
Architect		✓	✓	✓
Engineer	✓	✓	✓	✓
Interior Designer		✓	✓	✓
General Contractor		✓	✓	✓
Subcontractor		✓	✓	✓
Equipment Dealer	✓	✓	✓	✓
Manufacturer's Representative	✓			
Banker			✓	✓
Lawyer			✓	✓
Accountant			✓	✓
Realtor			✓	✓

- Purchase and installation of an outdoor walk-in freezer in a nursing home
- Replacement of the range section in a country club

Projects of level I scope typically can be carried out under the leadership of the owner or manager, assuming that he or she is familiar with foodservice equipment and has a good grasp of the workings of the food facility. If the owner does not have a working knowledge of equipment, a food facilities design consultant may be needed. The owner also will require the assistance of the kitchen equipment dealer and/or manufacturer's representatives in selecting and installing the equipment. Figure 1.1 compares the professionals involved in projects with different levels of size and complexity.

Figure 1.2 compares the time requirements of typical projects at each of the four levels of scope.

Level II Scope

Level II scope projects involve the renovation of a significant portion of an existing foodservice facility. Examples of level II scope projects include:

□ Renovation of the entire service area in a university foodservice facility

□ Replacement of all of the walk-in coolers and freezers in a country club

Figure 1.2. Timelines for Projects of Different Levels of Scope.

Task	Level I	Level II	Level III	Level IV
Planning	1 week	4 weeks	6 weeks	3 months
Equipment selection	1 week	2 weeks	1 month	2 months
Design and engineering	1 week	4 weeks	2 months	4 months
Preparing bid documents	2 days	4 weeks	2 months	2 months
Equipment delivery	4–6 weeks	2–3 months	4–6 months	4–6 months
Installation	3–5 days	2–6 weeks	1–3 months	1–3 months

- ❑ Replacement and relocation of the warewashing system in a hospital
- ❑ Addition of banquet rooms and serving kitchens in a hotel

The professionals likely to be involved in level II scope projects include the owner, an architect, mechanical and electrical engineers, a foodservice facility design consultant, a construction company or general contractor, and a kitchen equipment contractor. (The roles of these individuals are described in Chapter 2.) A full complement of professionals is necessary at level II because such projects are complex and require expertise in construction, engineering, and foodservice equipment layout and design.

Level II scope projects require a much longer time to complete than level I projects. Figure 1.2 shows a typical timeline for a level II renovation project.

Level III scope projects involve the complete renovation of an existing foodservice facility or the design and construction of a new foodservice facility. Examples of level III scope projects include:

Level III Scope

- ❑ Renovation of the dietary department of a hospital
- ❑ Construction of a new theme restaurant
- ❑ Renovation of the kitchen, service, and dining areas in a country club
- ❑ The development of foodservices for a new hotel

The planning process for the renovation of a foodservice facility often is even more complex than designing a new facility because of the difficulty of dealing with existing walls, structural members, utilities, and space and the demolition of parts of the existing structure. Moreover, in renovation projects, decisions must be made about which pieces of existing equipment should or could be used in the newly renovated facility.

The professionals likely to be involved in level III scope projects include the owner, an architect, mechanical and electrical engineers, a foodservice facility design consultant, an interior designer, a general contractor, and a kitchen equipment contractor.

Level III scope projects may take from one to three years from design to completion. Figure 1.2 shows a typical timeline for a level II renovation project.

Level IV scope projects involve the development of a chain or franchise prototype. Chain or prototype foodservice facilities require intense planning and design efforts because they will be constructed in multiple locations. Inefficiencies in design or inadequacies in equipment could be repeated hundreds of times and thus will be exceptionally expensive to correct. Such projects, in addition to the requirements of level III scope projects, involve a corporate strategy, a well-researched marketing plan, complex financial planning, and a strong management team. The food facility design at level IV must fit the needs of the menu, market, strategy, and financial package that are being developed by the corporation.

Level IV Scope

Professionals likely to be involved in level IV projects include investors and/or owners of the corporation, marketing consultants, financial planners, bankers, and corporate staff specialists as well as the design team, consisting of an architect, engineers, a foodservice design consultant, an interior designer, and general contractors.

The time required for a level IV scope project is longer than for a level III project in the design phases but may be shorter in the construction phases. Figure 1.2 shows the typical amount of time required for level IV scope projects. Level III and IV should not proceed unless a budget matching the expectations of the scope is prepared.

Once the scope has been determined and the budget has been approved, the owner can move forward with the project. In level I and level II scope projects, moving forward means going directly to the design process. However, when the scope of the project involves a major renovation of an existing facility or the development and construction of a new foodservice facility, the next step in the process is concept development.

CONCEPT DEVELOPMENT

The *concept* of a foodservice operation is the overall plan for how it will meet the needs and expectations of its intended market. A foodservice operation’s concept is expressed in many ways, including its menu, decor, form of service, pricing, and location. *Concept development* means developing a plan for the success of the operation in its market in advance of actually designing—let alone building—the facility.

It is not unusual for a person to consider a new restaurant or, in fact, to open a new restaurant without knowing what type of food facility will have the best chance of succeeding. The potential entrepreneur may have some investment money, a location or a theme in mind, and a great amount of enthusiasm for the food business, but may not really have thought through the total concept of the operation. Unfortunately, enthusiasm and great food products are only half of the success equation. The other half of the equation is the market.

Concept development precedes the actual design of a foodservice facility because the foodservice design team must know what the menu, demand, hours of operation, and mode of service will be.

Single-Unit Restaurant
Concept Development

The client who most frequently comes to the food facilities design consultant for help with concept development is the individual restaurant owner. The restaurant owner typically organizes a corporation comprised of a small number of local businesspeople and then begins to develop a concept that will eventually become a freestanding restaurant. The success or failure of the venture often depends on how well the concept was planned and how well the plan was followed.¹

Numerous concepts are possible for single-unit restaurants. Commonly found concepts often are described in terms of these general

¹ Adapted from K.S. Chan and R.T. Sparrowe, *Welcome to Hospitality: An Introduction*, 2nd ed. (Albany, NY: Delmar, 2000) 210–215.

- categories:
- ❑ *Fine-dining restaurants.* Fine-dining restaurants are distinguished by fine cuisine prepared by celebrity chefs, attentive service, stylish decor, and high prices.
 - ❑ *Theme restaurants.* Theme restaurants offer a dining experience that evokes special times, places, or events, such as English pubs, restaurants owned by sports celebrities, and re-creations of diners from the 1950s.
 - ❑ *Casual dinner houses.* Casual dinner houses emphasize a comfortable and contemporary decor as well as high value. Well-known casual dinner houses are not single-unit restaurants, but chains such as Chili's, T.G.I. Friday's, and Outback Steakhouse.
 - ❑ *Ethnic restaurants.* Ethnic restaurants are closely tied to the cultures or foodways from which they originated. They include Mexican, Italian, French, German, Thai, and Indian restaurants, to name but a few.
 - ❑ *Family restaurants.* Family restaurants specialize in relatively inexpensive fare and are kid-friendly.
 - ❑ *Fast casual.* Fast casual restaurants generally combine quick service with higher-quality food, a more upscale environment, and an emphasis on fresh ingredients. They include chains such as Panera Bread, Chipotle Mexican Grill, and Baja Fresh.
 - ❑ *Quick-service restaurants.* Quick-service restaurants specialize in convenience and fast service and include fast-food operations as well as delis, bagel shops, and sandwich shops.

Each of these categories of foodservice concept involves differences in menu, decor, mode of service, and price. However, not all of these factors are equally important within a given concept. Price is a critical factor in the success of quick-service, family, and casual dinner restaurants, where customers are value-conscious. However, price may not be as important in fine-dining restaurants, where customers expect to pay top dollar. Similarly, location is crucial for quick-service restaurants because their clientele depends on convenient access. But for some fine-dining and theme restaurants, location is not critical. Concept development for a single-unit restaurant is thus a complex process.

When Dave Thomas, who is now deceased, was chairman of the board of Wendy's, traveled around the country with Colonel Sanders in the mid-1950s trying to promote a chicken franchise, he learned many of the dos and don'ts of food franchise marketing. Thomas certainly picked up good ideas about concept development for chain restaurants and franchises, as the success of Kentucky Fried Chicken (known as KFC) and then Wendy's demonstrates. The basic objectives he developed, which led to the formation of Wendy's, were:

- ❑ Produce a "Cadillac" hamburger with a large number of available condiments.
- ❑ Limit the menu to the smallest number of items possible, as most restaurants can prepare only a few food items extremely well.

Chain Restaurant Concept Development

- ❑ Create an image different from major competitors. In the case of Wendy's, distinctive features included an old-fashioned, nostalgic theme, carpet on the floor, marketing directed at adults, and a larger hamburger than the competition.

Concept development for Wendy's was more comprehensive than that for a single-unit restaurant. The franchise strategy was carefully thought out to create a balance between company-owned stores and franchised stores. In 1970, only two stores were open, both of them owned and operated by the company. By 1975, 83 company-owned stores and 169 franchised stores were in operation. A ratio of 30 to 40 percent company-owned stores to 60 to 70 percent franchised stores permitted a balance of control and greater financial return. The strategy entailed rapid expansion of the franchise and heavy promotion of the Wendy's name through national advertising. Wendy's now has over 9,900 stores worldwide.

Multiunit casual dinner houses and theme restaurants, such as Chili's, T.G.I. Friday's, and the Olive Garden, follow a similar pattern in concept development. Their emphasis is on identifying the key characteristics of their target markets and then locating restaurants where there is a high concentration of individuals who have those characteristics. Key characteristics may include income, age, education, and home ownership.

What gives multiunit restaurants a competitive advantage over single-unit restaurants is the opportunity to learn from experience with multiple examples of the same concept. When a chain restaurant firm has 500 virtually identical restaurants, it can analyze the factors that differentiate its high-performing restaurants from its low-performing restaurants, and make changes as necessary before opening additional units.

Multitheme Restaurant Concept Development

A particular form of multiunit restaurant for which concept development is critical to success is the restaurant organization that opens and operates restaurants whose concepts are not identical but different. Brinker International and Lettuce Entertain You are two examples of successful restaurant chains that have developed multitheme restaurant concepts. These two companies each use several different themes, and each restaurant is promoted with its theme rather than by using the corporate name. Lettuce Entertain You, for example, operates Papagus (a Greek concept), foodlife (a multitheme marketplace concept), Ben Pao (an Asian concept), and Cafe Ba-Ba-Reeba! (a tapas bar). Through excellent marketing, well-planned menus, and good design, a very sophisticated management team has developed these restaurant concepts.

Hotel Food and Beverage Concept Development

The development of foodservice concepts for hotels has evolved in recent years from the traditional view that considered the food and beverage department as a necessary evil to the modern idea that the food and beverage department is an important profit center. Some large hotels have food and beverage sales of over \$35 million per year, an amount that exceeds room sales and creates in management a high expectation of profit from these two departments.

The Hilton Hotel in Atlanta, Georgia, has developed a concept for its first-class rooftop restaurant that goes beyond the idea of a foodservice facility as a profit center. The restaurant, called Nikolai’s Roof, was conceived as a luxury dining room and is marketed to the city of Atlanta as well as to hotel guests. The decor is exquisite, the food is served with flair and showmanship, and the entire theme captures the imagination of the city’s residents. The concept was developed with such success that the hotel’s own guests had great difficulty getting reservations to dine. A hotel restaurant so overcrowded that it could not serve the guests of the hotel would have been unthinkable in earlier days of hotel keeping in the United States. Nikolai’s Roof is an excellent example of the execution of a hotel dining concept that complements the hotel itself as well as draws a significant number of guests from the community.

Hotel managers have known for many years that hotel restaurants must have certain desirable features if they are to be successful. These features include:

- ❑ Availability of parking
- ❑ Unique theme or decor (differing from the decor of the hotel itself)
- ❑ Strong promotion to the community
- ❑ A menu and a method of service that are distinctive

The developers of hotel properties, and in some cases hotel chains, have used outside foodservice facilities and interior design consultants to create unique specialty restaurants that can be marketed successfully to both hotel guests and the community.

Institutional foodservice is usually conceived as a service to an organization and often has a not-for-profit philosophy. Most institutional food operations are expected to break even, and all are expected to budget and operate within well-defined ranges of costs so that they do not become a financial burden on the organization they serve. In some cases, the institutional food operation is expected to make a profit and to pay for all of its direct and indirect operational costs.

Often the development of an operational concept for the institution is ignored, and this is usually a serious mistake. The institution must accurately interpret its market and must “sell” its products, even when the food is indirectly paid for by the customer. For instance, in hospital foodservice, an unattractive meal presentation will cause dissatisfaction and complaints on the part of the patient and possibly adverse health effects as well if he or she does not eat a meal and thus does not get sufficient nourishment. In a college or university dining hall, a comprehensive concept of service and decor can greatly influence financial success. Attractive food court service or a marketplace design, for example, can increase the popularity of a college foodservice operation and generate additional profit. The electronic industry has had a tremendous impact on institutional foodservices, especially in the college and university sector. The use of an institution-issued identification card that identifies the student/customer and that contains a dollar amount of funds for the purchase of food can

**Institutional (Noncommercial)
Foodservice Concept
Development**

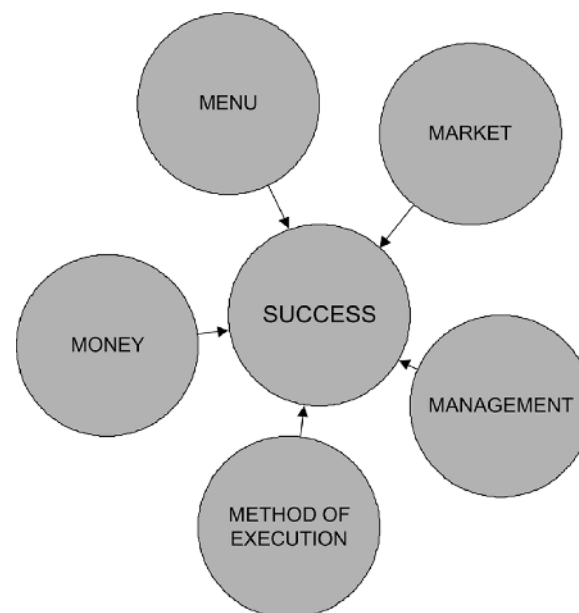


Figure 1.3. Five M's of Concept Development.

significantly increase sales. The card often can be used in dining halls, vending machines, snack bars, convenience stores, or for a late-night pizza delivery. Parents like the idea of a “food-only” card for their students away at college while students enjoy the flexibility of the card and the cash-free transactions.

A dining facility operated by a corporation for its employees should also have a well-planned concept and decor. The ability of corporate foodservice operations to attract employees may influence the degree of subsidy that a company is willing to contribute to the operation. Keeping employees within the building or corporate campus has also been shown to increase their productivity, thus benefiting the corporation.

FIVE M's OF CONCEPT DEVELOPMENT

The successful foodservice operation combines these elements of concept development: market, menu, money, management, and method of execution (Figure 1.3).

- Market** The importance of conducting market studies before proceeding with the construction of a food facility cannot be stressed too heavily. The basic marketing questions that must be answered are:
- ☐ To whom is the food operation being marketed?
 - ☐ Is the market large enough to generate sales and produce a profit?
 - ☐ How will the market be identified?
 - ☐ What level of competition exists in the market?

- ☐ What method will be used to communicate to this market?
- ☐ Will the potential customer want or need the food product?
- ☐ Will a quality assurance plan be developed that will encourage the customer to return because of superior service and/or product quality?
- ☐ Will internal marketing successfully sell the customer additional services or products after he or she arrives at the food facility?

A classic mistake made by both large corporations and individual restaurant operators is to conduct the market analysis and then fail to act on the basis of the information obtained. There are several cases in which extensive marketing feasibility studies were conducted by outside marketing firms but the owners and managers made their decisions on gut feelings rather than from the hard data derived from the study.

Even owners (or potential owners) of food operations who have no marketing background can conduct their own market research, with a small amount of guidance and a large amount of energy and common sense. Do-it-yourself marketing and the limitations of this approach are discussed later in this chapter.

The importance of the menu to the design of the food facility cannot be overemphasized. The subject of menu writing is too broad to be addressed adequately in a book on foodservice facilities design. The owner or manager is encouraged to seek additional sources of information as a part of the process of developing a menu for a new or renovated food operation.

The menu has a tremendous influence on the design and success of a food operation. From a design and layout perspective, these are just some of the factors determined by the menu:

Menu

- ☐ *Amount of space required.* A complex menu requires more space to prepare than a limited or simple menu because separate workstations and additional equipment are necessary.
- ☐ *Service area size and design.* The greater the number of menu items, the more area required for service. For example, in a cafeteria each beverage requires a dispenser and each entrée a point of service.
- ☐ *Dishwashing area size and dish machine capacity.* Complex menus often require multiple plates, dishes, and utensils, so the dishwashing area and machine capacity will need to be greater than in the case of simple menus.
- ☐ *Types of cooking equipment.* Complex menus require multiple types of equipment, especially in the final preparation area, where it may be necessary to steam, fry, bake, broil, and sauté.
- ☐ *Equipment capacity.* Limited menus may require relatively few pieces of equipment but with large capacities. Complex menus may require many different types of equipment with relatively small capacities.

- ❑ *Size of dry and refrigerated storage areas.* Complex menus may require larger storage areas to maintain the par stocks necessary to meet demand.
- ❑ *Number of employees.* Simple menus require fewer employees than complex menus.
- ❑ *Amount of investment required.* When large or complex menus require more equipment, space, and employees, costs rise.

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- Money

Successful capitalization of a food facility includes funds for:
 - ❑ Planning costs
 - ❑ Building construction or renovation
 - ❑ Equipment (fixed)
 - ❑ China, glassware, utensils
 - ❑ Furniture and fixtures
 - ❑ Decor
 - ❑ Start-up and operating costs

These funds must be identified and committed before serious planning can begin. Yet in concept development, the commitments may not be made in the early planning stage because the costs are not yet known. Therefore, planning for capital funds is a two-step process: First the financial needs are estimated and sources of financial support are contacted to determine the possibility of obtaining investment funds; then, after concept development has taken place, preliminary designs and construction estimates have been made, and market research is completed, financial commitments are made by lenders and investors.

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- Management

The quality of the management of the foodservice operation will be the most important element in achieving success. Following are typical questions to be addressed by the owners:
 - ❑ Who will operate the foodservice facility?
 - ❑ What kind of food experience and educational background must this person have?
 - ❑ Who will assist this person in covering the long hours that are usually required to operate a foodservice facility?
 - ❑ What level of pay will this person receive?
 - ❑ Will this person be rewarded in some way for excellent sales and profit results?
 - ❑ How will the owners set operational policies and communicate these to the management staff?

The answer to these questions will determine the organizational structure and the kind of management team that will be used to operate the food facility. The successful restaurant often is owned and operated by one individual whose personality becomes a part of the guests' dining experience. In contrast, the management of the food and beverage

department of a hotel may be under the control of more than one person and usually is part of a more complex organizational team. In this case, the policies and procedures of the food facility should be described in an operations manual to ensure consistent implementation of management policy. From the point of view of the investor or the institutional administration, the management of a food facility must follow traditional management principles of good communication, strong controls, and sound personnel relations regardless of the number of people operating the facility. The operational philosophy and specific management guidelines to be used in foodservice operations must be carefully considered by the investors in a foodservice facility. Failure to develop management guidelines will very likely lead to the financial failure of the operation.

The last step in concept development involves operational matters. Although the opening date might seem to be in the distant future to the person planning a food facility, decisions about operating methods must be made during the concept development phase on matters such as production methods, control systems, and personnel.

Method of Execution

PRODUCTION METHODS

Will convenience foods or traditional "from scratch" cookery be used? This decision will have a great influence on the size of refrigerated and dry storage areas and on the size of the kitchen. Production methods will also determine the number of employees in the kitchen and the skill level of these employees.

CONTROL SYSTEMS

Food and beverage controls involve many different parts of the facility, and planning for these controls before the project is under construction is strongly recommended. These areas of control should be carefully considered:

- ☐ Cash control
- ☐ Sales analysis
- ☐ Guest check control
- ☐ Food production forecasting
- ☐ Storeroom and refrigeration control
- ☐ Back door security
- ☐ Labor control
- ☐ Purchasing and receiving control
- ☐ Quality control
- ☐ Portion control

PERSONNEL

The development of financial feasibility studies cannot begin until the amount of labor required is known. The employee schedules, hours of operation, staffing patterns, staff benefits, skill levels, and level of

supervision of employees must all be determined before serious development of the food facility begins. As part of its concept development, the fast-food industry based its low labor costs on the use of hourly unskilled labor, scheduled to work short periods of time. When the food operation is busy, part-time employees are scheduled to work. The traditional eight-hour day is seldom used in the fast-food industry, except for supervisors and managers. The use of part-time employees in fast-food restaurants has also significantly reduced the cost of benefits, and was an important part of concept development in the fast-food industry.

FEASIBILITY

Many terms are commonly used in the hospitality industry to describe the process of determining whether a food facility is likely to return a profit to its owners. A partial list of these terms follows.

- Market or marketability study
- Market segmentation analysis
- Market and operations analysis
- Appraisal report
- Economic study
- Time-share feasibility study
- Feasibility study, report, or analysis
- Financial feasibility study
- ROI (return on investment) analysis
- Sales/performance study

Although each term has a slightly different meaning or involves a slightly different approach, they all share the goal of determining the potential of a facility to generate sales and a profit. In the case of the financial feasibility or ROI (return on investment) analysis, the emphasis is on financial matters, such as capital needs, operating funds, cash flow, and return on investment. However, even financial feasibility reports have as their primary focus the determination of whether a facility under good management can give investors or owners a return on their investment. For purposes of explaining the feasibility studies and of guiding the owner, manager, or student into a commonsense approach to these studies, the studies are classified here into two general categories: those that deal with market feasibility and those that attempt to determine financial feasibility. The two forms of feasibility study can be understood in relation to the financial statements for the operation. The *market feasibility study* focuses on the income statement and is conducted to determine whether revenues are sufficient to generate a profit. The *financial feasibility study* focuses on the balance sheet and is conducted to determine whether retained earnings (derived from net income) will be sufficient to satisfy the owners' expectations for a return on their investment.

Market Feasibility Study

The primary question addressed in the market feasibility study is: What level of sales revenues can the operation be expected to generate? The answer to this question really cannot be known until the operation has opened; however, building a new restaurant only to find that the sales are insufficient to generate a profit is an expensive lesson. The market feasibility study attempts to project the sales level for the operation before investors have committed their funds to purchase property, construct a building, and hire a team of employees.

The sales revenue for a foodservice facility is a function of two factors over an appropriate period of time: the number of customers and the price they paid.

Sales = Price × Quantity

Market feasibility studies thus have to formulate sales estimates from two separate projections: How many customers will there be? How much will each customer spend? These two estimates are interrelated through the simple economic principle that demand (quantity sold) is more or less a function of price.²

Market feasibility studies can be conducted either to test the feasibility of an established foodservice concept or to develop new foodservice concepts that would be appropriate for a given market. Chain restaurant organizations interested in expansion usually want to determine whether, or where, in a given market area their concept would enjoy the greatest opportunity for success. Independent restaurateurs, as well as chain restaurant organizations, who are interested in developing a new restaurant use the market feasibility study to develop and refine the concept.

Because the market feasibility process is complex and time-consuming, often it is conducted by specialized consultants. Independent restaurateurs may find that the cost of engaging a market feasibility consultant is prohibitive. However, it is possible—and certainly advisable—for entrepreneurs to conduct an abbreviated market feasibility study. Resources and guidelines for conducting a restaurant feasibility study are available from the National Restaurant Association. (Consult Appendix 1 for information on contacting the National Restaurant Association.)

Market feasibility studies generally follow the process presented—in simplified and shortened form—in Figure 1.4. *Demographic data* and *economic factors* for the community are analyzed to determine the potential market for the restaurant. *Traffic counts* and proximity to *demand generators* are used to assess the viability of possible sites for the restaurant. A *competitive analysis* is performed to determine whether the market can sustain another restaurant at each potential site. Based on these analyses, sales projections are formulated. Each of these steps in the market feasibility study is described in greater detail in the sections that follow.

²The term “more or less” refers to the price elasticity of demand, a concept that goes beyond the scope of this book.

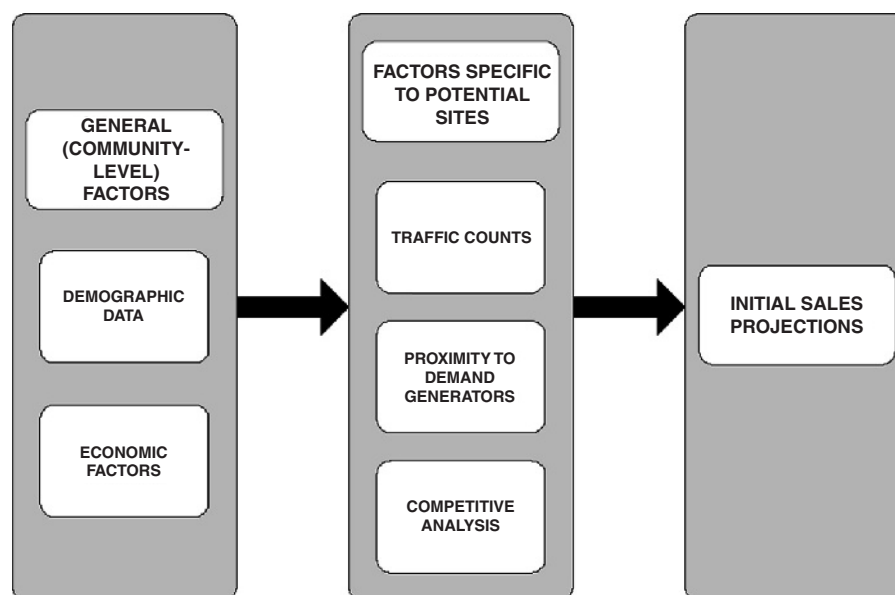


Figure 1.4. Market Feasibility Process.

DEMOGRAPHIC DATA

Demographic data include information about the population near the proposed location of the restaurant, including age, income, gender, occupation, number of children at home, home ownership, the use of automobiles, and similar information. These data about individuals are relevant because target market segments for restaurants are often described in terms of the same factors. Demographics thus are known to predict restaurant behavior. For example, the developers of a casual dinner restaurant believe that their concept will attract young, single professionals between the ages of 26 and 34 who have incomes in the \$35,000 to \$50,000 range and who pay monthly rents between \$1,000 and \$1,600. Obviously, the restaurant should be located where there is a high concentration of individuals who fit the profile of the target market. Gathering demographic data enables the developers to detect the presence of the proposed restaurant's target market segment.

The most comprehensive demographic data are gathered in the decennial U.S. Census. Until recently, using census data involved either extensive library research or access to a mainframe computer. Now, however, detailed census data are available to the public on CD-ROM at a reasonable cost. Also, in the interest of promoting economic growth, many local municipalities have developed extensive databases combining demographic data with information about businesses, organized on detailed maps of the area. This kind of database, called a GIS (geographic information system), gives restaurant developers immediate access to information about the market and the competition.³ GIS software and databases also are increasingly available for desktop computers, bringing the resources of high-priced market consultants to the fingertips of entrepreneurs.

³M. Muller and C. Inman, "The Geodemographics of Restaurant Development," *Cornell Hotel and Restaurant Administration Quarterly* 35 (3) (1994): 88-95.

ECONOMIC FACTORS

The prevailing economic climate in a community has a significant impact on the market feasibility of a foodservice operation. The health of the restaurant industry in a local area is closely related to the disposable income of its residents. Generally, when disposable income rises in boom times, restaurants prosper. In bust times, disposable income falls and restaurants suffer. However, the effects of economic prosperity and depression affect various restaurant concepts differently. Concepts that offer a high degree of perceived value for the price will suffer less than restaurants with high prices. Also, restaurants that draw customers from a particular industry or from a few large, nearby firms may be protected from broader economic fluctuations if the industry or the large firms prosper during down times. Economic projections for a local area often are available from the chamber of commerce or the local economic development council.

New housing developments are an important indicator of economic growth, especially when they are located on the fringes of existing communities. New restaurants often follow new housing developments. County planning commissions usually are quite willing to share information about planned housing developments, new roads, and zoning issues.

TRAFFIC COUNTS

Restaurants are usually developed along major thoroughfares. Determining market feasibility requires an estimate of the number of cars that pass by each potential location, and traffic counts are used in determining which site is optimal. Traffic counts can usually be obtained free of charge from the local chamber of commerce, highway department, mayor's office, tourism agency, or other municipal offices.

Some fast-food chains have developed very exact specifications for locating a good site for the foodservice facilities. For instance, one of the guidelines for placement of a Kentucky Fried Chicken (KFC) outlet is that it be located on the "going-home side of the street," for obvious reasons. Other chains have minimum community size, minimum traffic count, and minimum average income standards that must be met before consideration will be given to building or franchising on a particular site.

DEMAND GENERATORS

Demand generators are destinations that draw extensive traffic, such as shopping malls, recreation and sports facilities, and public facilities such as museums, zoos, and parks. Restaurants located near demand generators benefit from the traffic they produce—as, for example, when shoppers have lunch after visiting the local mall.

For some foodservice concepts, proximity to other restaurants enhances rather than hurts market feasibility. Fast-food concepts, for example, often locate in clusters along interstate highway interchanges. Similarly, cities and suburbs often have a "restaurant row" in commercial areas.

COMPETITIVE ANALYSIS

A competitive analysis is crucial to the market feasibility study because the local market potential for a given concept must be shared among all of the competitors. If demographic research identifies an area that has a sales potential of \$6 million to \$8 million for casual dinner houses, it is important to know how many already are in operation. Moreover, when the restaurateur identifies an area that appears to be ripe for development, he or she should assume that the competition will soon arrive. Most chain restaurant organizations have access to GIS market data, and many of them use those data extensively to identify prime development opportunities.

An independent restaurant entrepreneur who is conducting a market feasibility analysis should identify all the similar concepts within the geographic area, compare menus and prices, and count seats. More important, he or she should count customers at various times during the week at the restaurants that would be the closest competition. If patrons are lined up outside the doors to get a seat on Monday or Tuesday night, that is good news. However, if there is no waiting at the competition on Friday or Saturday night, the independent restaurateur should look elsewhere. It is also important to take seasonal factors into account. Counting cars and customers at the competition during the summer months will bias estimates upward, just as counts taken during the winter when two feet (610 mm) of snow are on the ground may bias estimates downward.

Sales Projections Sales projections are affected by the information gathered about demographics, economic factors, traffic patterns, demand generators, and competitive analysis. Recall that sales projections are composed of estimates about quantity (number of customers) and price. Demographic data indicate the relative size of the local population and thus are useful in projecting the number of customers (quantity). Income information may also be found in demographic data and may thus assist in estimating the price range people are willing to accept. Economic factors are especially important in projecting price. Entrepreneurs often make the mistake of basing their sales estimates on data gathered during boom times and find themselves suffering during bust times. Traffic pattern data are crucial in estimating customer counts, as is the presence of demand generators. Competitive analysis helps the entrepreneur determine his or her share of the customer market and predict price points against the competition.

The weakness in many market feasibility studies can be found within the sales projection section. This part of the feasibility report is often the first place that a banker will look to determine the accuracy of the financial forecast. Bankers always appreciate conservative sales projections that reflect the restaurateur's planning for sales fluctuations during difficult periods. Restaurant entrepreneurs also often overestimate the dining patterns and price sensitivities of the local market. Sometimes this is the result of wishful thinking, but other times it is the result of insufficient planning and preparation. A valuable way for the entrepreneur to check his or her assumptions about the market is to develop a questionnaire and

distribute it to those who reside or work in the area. A questionnaire is helpful in determining such things as:

- ❑ Detailed demographic data about age, income, and family size
- ❑ Eating-out patterns (frequency, meal preferences)
- ❑ Price sensitivity and the average price paid for lunch and dinner at competing establishments
- ❑ Favorite eating places for various occasions

For a hotel, the sales pattern would be influenced by the house count (number of persons who occupy the guest rooms). The calculation, therefore, should be based on the projected occupancy. Data on hotel occupancy levels are available from leading hospitality industry accounting firms. PricewaterhouseCoopers and Pannell, Kerr, Foster, for example, regularly publish hotel operations data from all parts of the country and different segments of the hotel field (resorts, transient hotels, and motels).

By utilizing these resources, one should be able to make accurate sales projections that will be credible to the lending institution or investor.

Projections for hospitals and nursing homes are based on patient room occupancy data, but in the health care field a feasibility study usually does not include any data on sales. Foodservice in hospitals and other health care institutions is a service and support arm of the facility, with the primary management and financial considerations focused on the quality of the service and cost containment of the operation.

Once relevant market data have been gathered, a complete sales forecast should be prepared. Figure 1.5 describes the basic steps involved in preparing the sales forecast and illustrates how it is done in a hypothetical college foodservice operation.

This overview of marketing feasibility studies should give the manager, owner, investor, or student a basic understanding of the process, as well as the confidence to conduct such a study if the project is not too large in scope. The associations that represent segments of the foodservice industry are excellent sources of more detailed information on the subject.

The lending institution, investor, owner, and manager will all want to know the financial projections for the planned new or renovated food facility. Each of these persons will, of course, have a different set of reasons for seeking the projections, and each will want data from the projections presented in a different manner. For instance, the banker will be looking in part for the ratio of invested capital to borrowed capital. The banker may also want to know the amount of operating cash and the cash flow from sales that will be involved in the operation. The manager needs to know what his or her budget is and what the expectation of the owners is concerning profit and loss. The manager and the banker probably will not be using the same financial reports and projections, but they certainly will be getting their information from the same original source, which probably will be the financial feasibility study. In the financial feasibility study, two basic documents—the projected balance sheet and the pro

Financial Feasibility Study

The projected sales revenue for a foodservice facility is a function of customer count and the average check for a given period of time. Sales equal customer count multiplied by average check.

Step 1: Customer Count (Projected)

The market research should indicate the total number of seats necessary for the new or renovated facility. During any meal period, each seat is likely to turn over, or be used by more than one customer. How often a seat turns over is a function of several factors, including how long the meal period is and how long it takes a customer to finish his or her meal. Seat turnover between 11:30 A.M. and 1:30 P.M. in a fast-food restaurant may be relatively high compared to a fine-dining restaurant.

To determine the total potential customer count, the number of anticipated seats is multiplied by the seat turnover to determine the customer count for each meal during a given period of time, such as a week. It is essential to make separate calculations for each meal during the week, because the total number of seats needed for the new or renovated facility derived from market research should represent the optimal capacity during peak demand periods—for example, Friday and Saturday evenings in a fine-dining restaurant. Other meal periods are likely to have a lower demand (expected customer count). The next example shows projected customer counts for a college dining facility.

	Sun.	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	Total
Breakfast	Closed	200	225	250	250	220	100	1,245
Lunch	Closed	300	350	375	375	300	200	1,900
Dinner	Closed	320	350	350	300	200	150	1,670

Step 2: Average Check (Estimated)

Determine the average check by using the actual average check if the operation already exists or the prices from the new menu if one is anticipated. If a new operation is being planned, check the questionnaire results and the average check for similar operations or restaurants in the area. Check averages will be different for breakfast, lunch, and dinner. In the college dining facility next example, the estimates are in the far right column.

	Sun.	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	Total	Price
Breakfast	Closed	200	225	250	250	220	100	1,245	\$2.75
Lunch	Closed	300	350	375	375	300	200	1,900	\$4.00
Dinner	Closed	320	350	350	300	200	150	1,670	\$5.00

Step 3: Multiply Projected Customer Count by Estimated Average Check

The sales estimate for a week is the sum of the project sales for each meal period (far right column).

	Sun.	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	Total	Price	Sales
Breakfast	Closed	200	225	250	250	220	100	1,245	\$2.75	\$3,423.75
Lunch	Closed	300	350	375	375	300	200	1,900	\$4.00	\$7,600.00
Dinner	Closed	320	350	350	300	200	150	1,670	\$5.00	\$8,350.00
										\$19,373.75

Step 4: Prepare a Sales Projection for the Year

Sales projections for an entire year are computed by multiplying the weekly sales estimate by the number of weeks the operation is open during the year. It is necessary, however, to correct for seasonal fluctuations in demand. A restaurant with an outdoor patio seating seventy-five is likely to have greater sales during the summer months. For the college dining example, the yearly sales are calculated in this way: 30 weeks of full operation @ \$19,373.75 = \$581,212.50, plus 10 weeks of summer school (50 percent sales potential) @ \$9,686.88 = \$96,868.75, for a total of \$678,081.25.

Figure 1.5. Calculation of Projected Sales.

JOE'S GRILL PROJECTED COMPARATIVE BALANCE SHEET		
	January 1, 2008	January 1, 2009
ASSETS		
Current assets		
Cash	\$12,000	\$14,000
Food inventory	6,000	7,000
Total	\$18,000	\$21,000
Fixed assets		
Building	\$220,000	\$220,000
Furniture and fixtures	60,000	65,000
Land improvements	10,000	10,000
Total	\$290,000	\$295,000
Total assets	\$308,000	\$316,000
LIABILITIES		
Current liabilities		
Accounts payable	\$8,000	\$13,000
Note to bank	40,000	35,000
Total	\$48,000	\$48,000
Long-term liabilities		
Mortgage, building	\$180,000	\$175,000
OWNER'S EQUITY		
Capitalization	\$80,000	\$93,000
Total liabilities and equity	\$308,000	\$316,000

Figure 1.6. Example of a Projected Balance Sheet.

forma profit-and-loss statement—usually are prepared, along with other supporting reports and schedules. A good outline of the kind of information that must be projected can be made by examining the line items on each of these documents.

PROJECTED BALANCE SHEET

A simple comparative balance sheet, like that shown in Figure 1.6, illustrates the kind of data that must be determined. This balance sheet is a simplification of the projected comparative balance sheet that should be developed under the guidance of an accountant. Note that the balance sheet shows a projected comparison between the assets, liabilities, and capital for a 12-month period. The balance sheet illustrates a number of projections that must be made by the person or firm preparing the financial feasibility study.

On the asset side of the balance sheet:

- ❑ Amount of cash needed as operating funds
- ❑ Amount of cash tied up in food inventory
- ❑ Investment in land and building
- ❑ Cash needed for a down payment on land and building
- ❑ Cost of furniture, fixtures, equipment, and utensils
- ❑ Cost of parking lots, driveways, lighting, and other improvements to the property

On the liabilities and equity side of the balance sheet:

- Necessary short-term funds that must be borrowed
- Amount of payables
- Amount of long-term mortgages on building and land
- Amount of funds that will represent the owner’s equity (capitalization)

Decisions regarding the type of business organization (proprietorship, partnership, corporation, etc.) and control of ownership (closely held, limited number of investors, the sale of common stock, etc.) are made prior to preparing the projected balance sheet.

PRO FORMA PROFIT-AND-LOSS STATEMENT (INCOME STATEMENT)

The pro forma profit-and-loss (P&L) statement should be prepared by the owner, manager, or other persons who will be involved in the management of the food facility. This statement projects the income and expense for a particular period of time. For the financial feasibility study, a three-to-five-year projection would be considered sufficient. The format for the P&L should follow the Uniform System of Accounts developed for hotels and restaurants for income and expense categories that fit the needs of the food operation. An example of a pro forma P&L is found in Figure 1.7.

JOE'S GRILL			
PRO FORMA STATEMENT OF PROFIT AND LOSS			
Revenue	2008	2009	2010
Food sales	\$400,000	\$500,000	\$600,000
Cost of food sales (40%)	(160,000)	(200,000)	(240,000)
Beverage sales	200,000	300,000	400,000
Cost of beverage sales (30%)	(60,000)	(90,000)	(120,000)
Gross profit on sales	\$380,000	\$510,000	\$640,000
Controllable expenses			
Salaries	\$60,000	\$70,000	\$80,000
Wages	120,000	140,000	160,000
Benefits	3,600	5,200	6,000
Supplies	2,000	3,000	4,000
Insurance	3,000	3,500	4,000
Entertainment	4,000	4,500	5,000
Utilities	30,000	32,000	34,000
Maintenance	10,000	15,000	20,000
Replacement china and glass	3,000	7,000	8,000
General	2,000	3,000	4,000
Total	\$237,600	\$283,200	\$325,000
Fixed expenses			
Real estate taxes	\$15,000	\$15,000	\$15,000
Lease on land	12,000	12,000	12,000
Total	\$27,000	\$27,000	\$27,000
Total controllable and fixed expenses	\$264,600	\$310,200	\$352,000
Net profit before taxes	\$115,400	\$199,800	\$288,000

Figure 1.7. Pro Forma Statement of Profit and Loss.

Menu Item: Ham and Cheese Sandwich			
Ingredient	Portion Size	Cost (\$)	Total (\$)
Ham	2 oz	2.00 lb	.25
Swiss cheese	2 oz	2.40/lb	.30
Rye bread	2 slices	.80/loaf, 20 slices/loaf	.08
Mustard	1/4 oz	3.60/gal	.01
Mayonnaise	1/2 oz	4.80/gal	.02
Lettuce	1/20 head	.80/head	.04
Pickle chips	2 slices	4.00/gal	.02
Total			\$.72

Figure 1.8. Calculating Standard Recipe Cost.

Several supporting schedules are prepared to supplement the P&L statement. Because food and labor costs combined typically run between 60 and 80 percent of sales revenue, schedules providing detailed information on how the cost of food sales and the cost of personnel and related expenses were calculated are often provided.

Cost of Sales A schedule detailing how the amount shown on the cost-of-sales line of the P&L statement was calculated often is prepared. Because the cost of sales for the menu equals the selling price minus the cost of the ingredients used in preparation, two closely related steps are involved in preparing the schedule: determining the portion cost for each menu item and estimating the price for each menu item.

The portion cost for each menu item is determined by examining the recipe and costs for each ingredient. Figure 1.8 illustrates the costing process for a menu item. The form provides this information:

- ☐ List of all food ingredients
- ☐ Portion size of each ingredient
- ☐ Cost of each ingredient
- ☐ Total portion cost

If the menu price includes the meat, vegetable, dessert, and beverage, then the example would necessarily include a complete list of all foods that are a part of this meal. A small amount (\$.05) might be added to cover the cost of seasonings and other condiments.

The two traditional methods for determining the selling price for menu items are (1) to divide the portion cost by a set percentage (the desired food cost percentage for the operation) and (2) to add a set dollar amount to the cost. Using the first pricing approach, a manager who seeks to have a 32 percent food cost percentage would divide the food cost of a menu item by the desired percentage. For example, a food cost for a ham sandwich of \$1.40 would be divided by 0.32, and the selling price would be \$4.38. Using the second approach, the manager would add a fixed amount to the cost of each menu item. Adding \$3 to the cost of the ham sandwich would result in a selling price of \$4.40.

A third approach to setting prices involves looking not at each item but at the menu and *menu mix* (the quantity sold of each menu item) as a whole. The goal of this approach is to set prices so that the *contribution*

Menu Item	Selling Price (\$)	Portion Cost (\$)	Contribution Margin (\$)	Item Food Cost Percentage (%)	Item Quantity	Total Sales (\$)	Total Cost (\$)	Total Item Contribution (\$)
1	8.95	3.11	5.84	34.75	240	2,148.00	746.40	1,401.60
2	7.95	2.74	5.21	34.47	225	1,788.75	616.50	1,172.25
3	11.95	3.88	8.07	32.47	85	1,015.75	329.80	685.95
4	6.95	3.05	3.90	43.88	280	1,946.00	854.00	1,092.00
5	9.95	3.18	6.77	31.96	160	1,592.00	508.80	1,083.20
6	11.95	4.01	7.94	33.56	110	1,314.50	441.10	873.40
7	8.95	2.77	6.18	30.95	220	1,969.00	609.40	1,359.60
8	5.95	2.43	3.52	40.84	315	1,874.25	765.45	1,108.80
						13,648.25	4,871.45	8,776.80
						Food Cost Percent	35.69%	

Figure 1.9. Spreadsheet for Determining Cost of Sales.

margin (the amount of revenue remaining when the cost of sales has been subtracted from revenue) is sufficient to pay all expected fixed expenses and satisfy the owner's expectations for a return on investment.

A spreadsheet like that shown in Figure 1.9 can be used to estimate the overall cost of sales by building from the cost of each menu item.⁴ It shows columns for the projected price, the portion cost, the contribution margin (price minus cost), the menu item cost percentage (cost divided by price), the projected quantity sold (the menu mix), the total sales (price multiplied by quantity), the total cost (portion cost multiplied by quantity), the total cost (cost multiplied by quantity), and the total contribution (contribution multiplied by quantity) for each menu item. The total cost, \$4,871.45, when divided into \$13,648.25, the total sales, gives an overall cost percentage of 35.69 percent given the projected prices, costs, and menu mix.

Using a spreadsheet like that shown in Figure 1.9 allows the owner to evaluate the effects of different pricing strategies on the overall food cost percentage for the operation. The advantage of the spreadsheet approach over traditional strategies to pricing, such as simply marking up the cost by a given percentage or dollar amount, is that prices can be set to generate the maximum contribution margin. In foodservice, profits come not from minimizing the food cost percentage but from maximizing the contribution margin. However, for the purposes of preparing the pro forma profit-and-loss statement, the overall food cost percentage derived from the spreadsheet can be used to estimate the cost of sales.

Finally, it is essential to check the competition in setting prices for each menu item, because an operation that is not competitively priced will suffer.

Once the menu pricing and preferred menu mix have been established, the calculation of the cost of food sales is simple: The projected sales revenue is multiplied by the overall food cost factor, and the result is shown on the pro forma P&L statement. In Figure 1.9, the cost factor is

⁴The spreadsheet is based on the "menu engineering" process developed by Kasavana and Smith. For further information, see M. Kasavana and D. Smith, *Menu Engineering: A Practical Guide to Menu Analysis* (Lansing, MI: Hospitality Publications, 1981).

Position	Number of Persons	Hours per Week	Weekly Cost
Manager	1	40–50	\$800.00
Assistant manager	1	40–50	600.00
Chef	1	40	600.00
Cook	2	80	960.00
Cook’s helper	1	40	400.00
Dishwasher	3	120	840.00
Server	4	160	960.00
Total weekly cost			\$5,160.00
Weekly labor	\$5,160 × 52 weeks		\$268,320
Overtime at 10%			26,832
Benefits at 25%			73,788
Total labor and benefits			\$368,940

Figure 1.10. Calculating the Cost of Personnel and Related Expenses.

40 percent of food sales. For the years shown, the cost of food sales is estimated to be 40 percent of the sales revenue.

Cost of Personnel and Related Expenses The method of projecting the total labor costs for the pro forma P&L statement is to decide on the number of persons needed in each job category and then prepare an employee schedule. Salary and wage levels should be estimated and the annual cost of labor computed. A small amount, perhaps 10 to 12 percent, should be added for overtime. The labor schedule might appear as shown in Figure 1.10.

The examples illustrated are very simple to construct and take a commonsense approach to providing the backup data that often are required for a financial feasibility study. Other major costs, such as utilities and taxes, should be obtained from local utility and government agencies, to be sure of accurate projections. The estimates of other expense categories should be made by using comparative data from the National Restaurant Association or any of the professional associations shown in Appendix 1.

After completing the market and financial feasibility studies and presenting them to bankers and potential investors, the owners can make a good judgment as to the potential success of the food facility project. Further contacts with zoning boards, liquor license agencies, and other municipal groups will bring the project to a point of decision. The accumulation of the data contained in the feasibility studies together with encouragement or discouragement from lenders, investors, and municipal agencies will lead the owner to the first go/no-go decision. In other words, if the project looks financially sound, the market is identified, a need for the foodservice exists, and the capital is obtainable, the decision to go ahead can be made. If one or more elements of the go/no-go decision are uncertain, there are three alternative courses to explore. The first is to correct the problem area that has been identified. Is the facility too large? Are the labor costs too high? Is the menu wrong for the market? Is the competition too strong in the immediate trading area?

The Go/No-Go Decision

The second option is to abandon the project and look for another place to invest the funds. The third alternative is to delay the decision until the final go/no-go decision point. This alternative is financially risky, because to progress from this point means incurring costs for foodservice facilities design consultants, architects, lawyers, accountants, and other professionals.

Chapter 2 describes some of the outside assistance that will be needed to ensure a successful foodservice project. The biggest mistake that could be made at this point in the process is to try to do the planning without the help of professionals.

SITE SELECTION AND PLANNING

E. M. Statler's famous quote, "The three most important things for the success of a hotel are location, location, and location," is certainly true for many foodservice facilities. A poorly located restaurant will certainly experience a low level of sales, and a coffee shop in a hotel may miss a significant amount of business unless it has easy access both to the hotel guests and to street traffic. On a college campus, students typically will select convenience as the primary reason for eating in a particular food facility. Avoiding high rent by selecting a location that is inconvenient or out of the mainstream of foot or automobile traffic is usually a bad decision. A location on the immediate left or right of an entrance to a shopping mall is often considered a poor location for a food facility, because the typical mall customer needs first to enter the mall and then look around for interesting places to shop and/or eat.

Site selection has been discussed in the feasibility section of this chapter. It includes the calculation of foot traffic, automobile counts, and distance to travel as a part of the feasibility study process. Other considerations for site selection are:

- *Visual recognition.* Can the food facility be seen easily by potential customers? Will the appearance of the outside of the facility communicate the character and concept of the dining experience inside?
- *Convenience.* The developers of a destination restaurant, in which the customer has previously made a decision to dine, must consider parking, an attractive entrance, valet parking, and safe surroundings as important site selection criteria. Coffee shop, deli, and fast-food entrepreneurs must depend on impulse buying as the primary market, and therefore site selection must focus on signage, ease of entry, and drive-in windows and/or take-out service.
- *Code restrictions.* Site selection may involve local code requirements for setback from the street, parking capacity, street access, or the acceptability of a food facility in a particular neighborhood. Usually these code requirements are available from the engineering or city planning office of the municipality where the food facility will be located.
- *Environmental issues.* In suburban areas, the development of an attractive site for a foodservice facility may encroach on wetlands

or adversely affect water runoff in nearby neighborhoods. In older, urban areas, sites may have previously been used for industrial and manufacturing processes that left dangerous materials in the ground. Environmental factors such as these are increasingly important to the site selection process because they present additional costs.

OBTAINING NECESSARY APPROVALS FROM AGENCIES

The approval process for a new or renovated foodservice facility is typically long and complicated, involving many different agencies. Developers often experience the approval process—and the inevitable delays that occur—as frustrating because they are eager to get the facility open and operating so that it can generate a positive cash flow. In defense of those agencies and departments that must be satisfied before proceeding, it is worthwhile to recall that the project needs to be controlled so that it does not create an unsanitary, unsafe, or unattractive addition to the community. Each municipality has a different group of agencies that must approve the food facility, and each has a definite sequence in which the approvals are given. For example, a health department may require preliminary approval of the equipment layout before construction begins and a final inspection after the facility is built and the equipment is in place.

The solution to obtaining necessary approvals for a complex project (new construction or major renovation) is to develop a comprehensive checklist, in which each member of the planning team (architect, engineers, foodservice consultant, financial advisors, lawyers, etc.) submits a list of necessary agencies and deadlines. After dates are recorded, one person (usually the architect) serves as the coordinator of the approval process.

Typical approval agencies involved in foodservice projects include:

- ☐ Zoning board
- ☐ Health department
- ☐ Municipal engineers (water, sewer, gas, and electrical)
- ☐ City planner
- ☐ Fire marshal
- ☐ Liquor control board
- ☐ Telephone company
- ☐ State or federal agencies (on state or federal projects)

SUMMARY

A food facilities design project, regardless of its scope and complexity, must start with a preliminary plan. If the owner or manager follows the planning method suggested in this chapter, a successful food facility is not

necessarily guaranteed, but the chances of its success are greatly enhanced. The preliminary planning process should include:

- *Careful consideration of the scope and complexity of the project.* This will enable the selection of an appropriate planning team. If the project is simply a replacement of equipment, the team will be small or perhaps consist of only the food facilities design consultant and the owner or manager. If the scope involves major renovation or construction, a larger group of professional people would be drawn into the project.
- *Concept development.* For hotels, restaurants, and institutions, this is now recognized as an important planning stage. It includes consideration of menu, market, money, management, and the method of execution of the plan.
- *Feasibility studies.* Marketing and financial feasibility studies often are requested by bankers, investors, and others before financial commitments can be made. For large projects these may be conducted by professional accounting firms; in other instances the owner or manager may want to undertake it him- or herself. A go/no-go decision on the project should be made only after the marketing and feasibility studies have been completed.
- *Site selection.* Site selection will have much to do with the success of the facility. The best location may have higher rent or capital costs, but these costs will be covered through increased sales.
- *Agency approvals.* Agency approvals are often long and frustrating to obtain, but they are helpful in avoiding safety or architectural problems for the protection of the community.

KEY TERMS

Scope	Demographics
Five M's	Go/No Go
Feasibility	Approval agencies

QUESTIONS

1. How could the scope of a level IV project be reduced? How could the planning time be reduced?
2. Menu limitation is one of the most effective management methods for increasing profits; why is this true?
3. This chapter mentions 10 control systems. Describe 5 of them.
4. How many of the control systems involve electronics?
5. Can the planning for a foodservice facility proceed before a feasibility is complete? Could you do a feasibility study without professional help?
6. What does *pro forma* mean? Does it apply to both the profit and loss statements and the balance sheets?

DISCUSSION QUESTION

If a prospective client, who had solid foodservices management experience and excellent marketing skills but limited financial resources, sought to use your consulting services, how would you decide whether to take him or her as a client?

P1: OTE/SPH P2: OTE

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