1 ECONOMICS OF SITE SELECTION

INTRODUCTION AND LEARNING OBJECTIVES

The United States has about 925,000 restaurants, and 8,000 new ones open each year. Restaurant customers now spend more than half of the average household food budget on meals purchased outside the home.

The compelling reason why people pay for a meal instead of making it themselves, or go out of their way to eat at a particular restaurant instead of visiting the closest one in their area, is the restaurant's ability to make its customers feel comfortable. Sometimes this means creating a memorable experience, perhaps for a special occasion; but it also means providing a consistent, favorable impression, something the customer can count on, day after day. It's important to keep this focus when creating a restaurant concept. A winning ***concept*** is a focused promise to the guest, a unique proposition that includes an emotional connection. It also must have the power to create positive word-of-mouth awareness. In short, whatever the type of foodservice operation, it knows its customers. Its concept should encompass everything that influences how a guest might perceive the operation.

In this chapter, we will discuss:

- Concepts for restaurants, and what goes into choosing a concept
- Research that must be done to determine whether a concept fits an area or a particular location
- Site selection: the advantages, or possible problems, in choosing your location
- Major considerations when deciding whether to buy or lease your site
- Common factors and advice for negotiating a lease

Concept development is the identification, definition, and collection of ideas that constitute what guests will see as the restaurant's ***image***. Before you can sell the idea to the customers, however, you've got to sell it to investors, your bank, and your business partners. This requires the time-consuming job of mapping out a thorough business plan that has the important side benefit of forcing you to look realistically at your big idea. Most restaurateurs are dreamers—and that's a good thing. This chapter examines the initial decisions that are necessary to make the dream a reality.

1-1 TODAY'S DINING SCENE

The dining world today is populated by a new generation of restaurateurs serving confident, educated, and sophisticated consumers. Together, they have redefined the landscape with simple-but-stylish food and décor. How much have things changed? You may not be old enough to remember when, in any U.S. city, French restaurants were the most upscale and Asian cuisine was Chinese takeout. Diners of the 1970s sure as heck didn't see arugula, chipotle, and pesto on menus. They wouldn't have tolerated small portions or "shareable" plates. They didn't expect smoke-free dining areas. They weren't counting carbs and didn't know a thing about the Atkins or South Beach diets.

Today's consumer is not immune to economic downturns, but at the same time, he or she also looks to the foodservice industry to serve up the small pleasures of life that are still affordable in the larger picture: a nice lunch, an upscale coffee drink, a decadent dessert, a handy meal to go on a frantic school night. "I work hard," they seem to be saying with their food and beverage purchases. "I deserve this little indulgence." And who can blame them?

At the end of 2004, the well-known Zagat Survey Guides looked back to pinpoint four key social and/or economic changes that set today's trends in motion:

1. *The school lunch program.* You might not have guessed it, but starting in the 1950s, the school cafeteria trained the Baby Boomer generation to purchase lunch instead of bringing it from home, a habit they continued as adults. The dual phenomenon of working women and working mothers continued the convenient pattern of eating out, usually in inexpensive places.
2. *Affordable jet travel.* Starting in the 1970s, middle-class Americans could afford to fly. At the same time, immigrant quotas in the United States were lifted in 1965, allowing people from other nations to bring their own restaurant concepts and cuisine to a new and enthusiastic audience. Jet travel also gave chefs reliable access for the first time to an extraordinary variety of fresh and/or exotic ingredients.
3. *The celebrity chef craze.* When Julia Child held court in the 1970s with her television show *The French Chef*, she was in a class by herself. Today, with Food TV and our celebrity-focused culture, the public's perception of the cooking profession has changed. Many chefs have become household names, overseeing virtual empires—Web sites, television shows, cookbooks and restaurant chains—and lending their names to ingredients, cookware and more.
4. *Restaurant redesign.* In response to the desires of customers, the restaurant itself looks different. Linen tablecloths, heavy draperies (usually deep red), and flower-filled vases have all but disappeared. They've been replaced by understated, often avant-garde décor. The guests themselves look different too. Relaxed casual is the norm, and even the fanciest dining spots are less pretentious and more welcoming than they were in the 1970s.

Late in 2005, a group of foodservice designers and equipment manufacturers weighed in on the future of the industry in *The Consultant*, a publication of the Foodservice Consultants Society International. Both camps agreed that, by 2015, restaurants will be more automated and less labor-intensive, greater numbers of customers will be served in a typical day, and customers will enjoy a wider array of ethnic food choices. Consultants will use computers rather than old-fashioned blueprints to create and fine-tune service and production systems. Manufacturers will focus on food safety, creating product enhancements to automatically monitor and control food handling processes. Additional expectations are that kitchen equipment will become more compact, more energy-efficient, and multifunctional as well. Manufacturers will receive more of their orders by Internet, requiring fewer equipment dealers. And the dealers who remain must serve as partners to their customers, offering excellent prices, solid advice, and prompt repair services.

In terms of employees, the panel agreed that the foodservice industry will continue to suffer a labor shortage. This is one reason that equipment will be increasingly automated and easier to clean, but it also means that managers and kitchen employees will require more training in order to program the equipment and troubleshoot problems. Internet-based training will be a growing part of the foodservice environment.

1-2 CREATING A CONCEPT

To better understand the notion of concepts, the dining market may be divided into four basic subgroups:

Quick-service restaurants (QSR), formerly known as *fast food* and not to be confused with ***fast casual*** (a term discussed in greater detail later in this chapter), midscale, and upscale. These subgroups are not clear-cut; the lines between them blur often in today's market. That's why it is so important to determine who your potential customers will be—what market segments you will serve—before you settle on a concept.

The good news appears to be that there are plenty of people with plenty of reasons to eat out. You've just got to decide which ones you want to satisfy. It will be helpful for you to begin your concept search as many successful businesses do: by writing a ***mission statement***, a few sentences that explain what your restaurant will be to future diners. Make the mission statement as simple and straightforward as possible.

One component of this statement that should help bring your idea to life is the name chosen for the restaurant. The name should indicate the type of place it is (casual, upscale, etc.) or the type of food that is served. Suggested names should be researched, to make sure they're not already a registered name or trademark of some other business. After you choose a name, you should take immediate steps to register the name with your city or county, so no one else can use it. If it's a name that was used in the past (but not lately) and is still registered, your attorney can write to the original "owner" of the name to ask if you might use it now. Don't underestimate the importance of doing this name research. It could save you an expensive legal battle in the future.

The next crucial step is menu development. When you think about it, you'll realize you cannot even pick a location until you have decided on a menu. So many other factors—kitchen size and equipment, price range, skills of your potential workforce—all vary depending on the foods you will be serving.

THE DINING EXPERIENCE

Creating a Concept

What are the variables in creating a concept? Here are the four big ones:

1. *Food.* What type of food will be offered? What is the style of preparation? How extensive will the menu be? What will the price range be?
2. *Service.* How will the food be made available to the guest? Self-service? Counter service? Or full service, where the guest is seated and a waitstaff takes orders? In each of these situations, the overall aim is that all guests feel reasonably well cared for by the employees who serve them.
3. *Design/Décor.* There are as many options here as there are restaurants. In general, however, the building's exterior should be inviting. Its interior should be comfortable and clean. The noise level should reflect the style of eatery. *Very important:* No matter how cavernous the room, seated guests must feel a sense of intimacy, of being able to watch the action without feeling "watched" themselves. This is a major component of most people's basic comfort and safety needs.
4. *Uniqueness.* In marketing, you'll hear the term "unique selling proposition," or "USP." A USP is like a signature. Everyone's is a little bit different, and the difference makes it special in some way.

A good restaurant concept will have USPs that enable it to attract and retain patrons. Some examples: A restaurant relies on homemade crackers and luscious cream soups as its hallmark, or serves the town's biggest cut of prime rib, or offers a selection of fresh pies that most moms don't have time to make anymore. Eating establishments with the best USPs provide instantly noticeable differences that distinguish them from their competitors.

Take a look back at the restaurants you just listed. Can you easily determine their USPs?

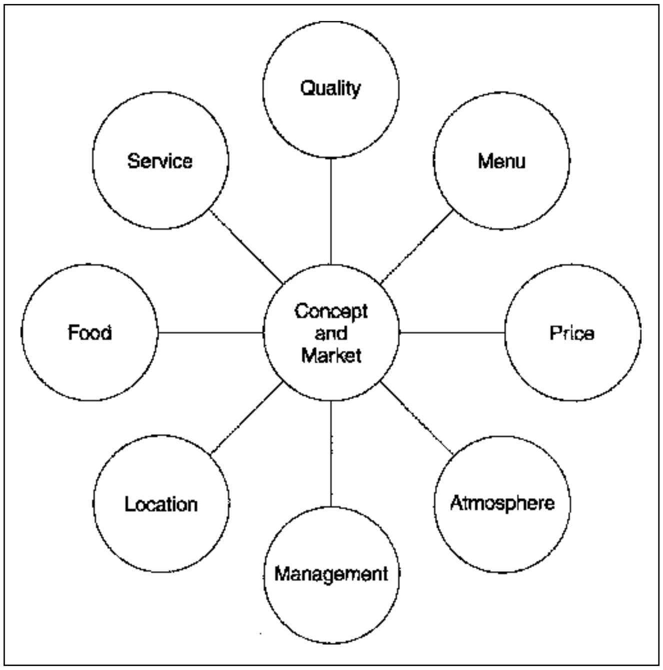

ILLUSTRATION 1-1 A restaurant begins with a concept and potential market. All other components revolve around these two important considerations.

Source: Donald E. Lundberg and John R. Walker, *The Restaurant from Concept to Operation,* 4th ed. (Hoboken, NJ: John Wiley & Sons, Inc., 2005).

How many dining concepts have you seen come and go over the years in your own area? Try listing them, briefly describing each one. Do their names reflect their "personalities"? Can you sum up their concepts in a single sentence? Truthfully, not all restaurants have a clear-cut concept. And of those that do, most are neither huge winners nor dismal failures. In fact, few of them handle all the variables equally well. The successful concept is one containing a mix of variables that are, overall, better than those offered by its competitors.

Illustration 1-1 shows another way to check all the components of your concept. When laid out in circular form, it's easy to see how important each is to the other. When you insert your own concept information, be very critical. Do the "parts" complement each other? Is each compatible with the overall concept? Are they geared to satisfying the market segments you plan to serve?

Interestingly, as you learn this process, you may see some glaring inadequacies in the existing restaurants you visit. Certainly everyone knows of at least one hole-in-the-wall that serves terrific Tex-Mex food. (Just don't think about its last health department inspection!) Or there may be a bistro that's considered incredibly romantic because it has outdoor tables and a beautiful fountain, not because the food is great. The point is, few restaurants manage to combine all the elements *and* add enough USPs to consistently attract loyal crowds of patrons. But that doesn't mean you shouldn't try.

The process from concept development to opening day may take as long as two years. It will also include the acquisition of space, the design process, building and/or remodeling, and placement of equipment. Illustration 1-2 shows a timeline of development for a typical restaurant.

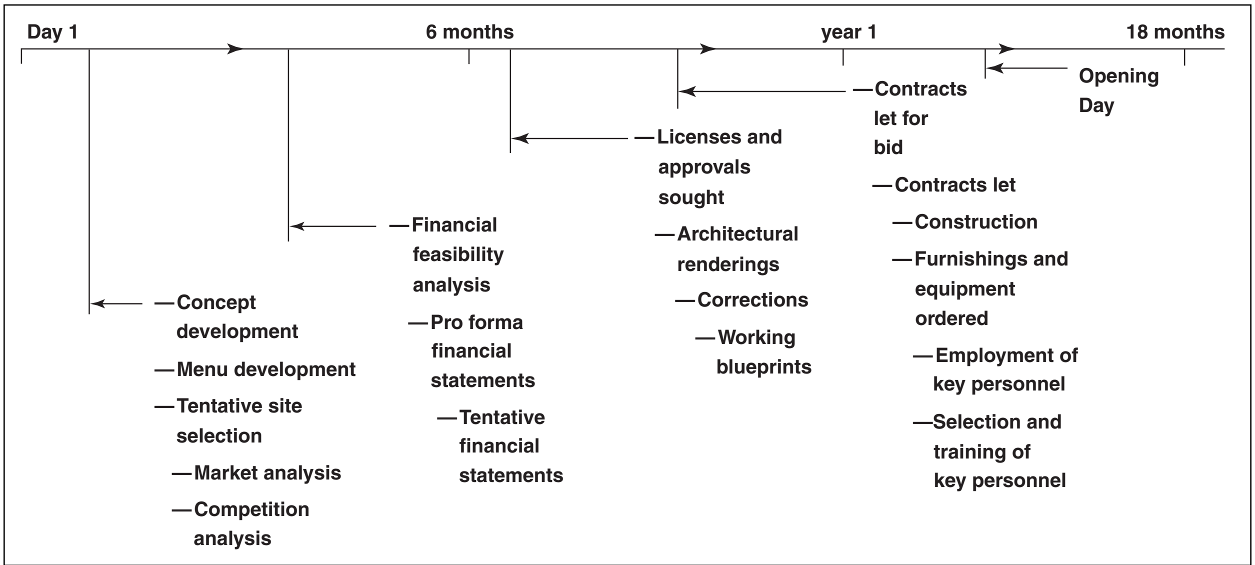

ILLUSTRATION 1-2 This timeline shows the major points in the restaurant planning process. It may be two years or more before its doors open to the public.

Source: The Restaurant from Concept to Operation, 4th Edition, by John Walker and Donald Lundberg. This material is licensed by permission of John Wiley & Sons, Inc., 2005.

1-3 THEMES, BRANDING, AND MORE

If a concept is a generalized idea, a ***theme*** takes the idea and runs with it, reinforcing the original concept. A generation ago, for example, the American dining public was bombarded with a wave of so-called *theme restaurants.* It became the norm to dine out in a Roman ruin, a Polynesian village, an English castle, or a train car. These illusions were costly to create, distracting at best, and downright boorish at worst. Today, this type of recurring theme is viewed with some skepticism, perhaps because often more attention was paid to the trappings than the quality of food served. By 1998, a front-page *New York Times* article chronicled "the demise of theme restaurants," suggesting that elaborate décor may be impressive, but it was also distracting and did not make up for mediocre food or service. A year later, in *Food Arts* magazine, writer Michael Whiteman contended it was not the themes themselves that failed these ***eatertainment*** venues but the fact that they too often depended on nonfood themes—and that more sophisticated diners got bored with too much "tainment" and not enough "eat," so to speak. All this naysaying doesn't mean the theme restaurant will ever disappear entirely. It means that, to be successful, the theme must be driven as much by the menu as the clever setting or costumed waitstaff.

If there's a theme in the 2000s, it is adaptability, as U.S. restaurateurs create unique niches to help them maintain a competitive edge. One thing is certain: Successful restaurant concepts exude an attitude of ease and conviviality. It may help to visualize your concept as a stage upon which to practice the art of hospitality. Your eatery must first be a welcoming place; only then can it take the next steps to becoming a great restaurant.

Take your cues from the places you like best. An Italian restaurant in Milan was the inspiration for New York's venerable Gramercy Tavern. As tavern owner Danny Meyers put it, "I've never been in a place that had better food, better service, or better kindness, all rolled into one." Isn't "kindness" an interesting choice of words? But it perfectly describes a welcoming atmosphere. Meyers goes on to describe the Italian place: "You are greeted, and at the same time, your coat is taken right at the door. I think that is a welcoming act; you feel taken care of. It's an opportunity for hospitality that creates goodwill."

In discussing concept development, restaurateurs must understand that food choices in an affluent society are highly personal, based on one's family background, income level, work environment, living conditions, and the particular social occasion, to name a few. There are so many variables to the dining experience that 100 people can sit at the same table (not at the same time, of course), order the same menu item, be served by the same waiter, and pay the same amount, and yet it will be a different experience for each of them.

Therefore, you cannot escape the application of marketing principles to ensure a satisfactory meal experience. Consider a group of people who have deliberately decided to eat at a certain restaurant. Sure, they thought about the types of food and beverages that will be served; you can almost take that for granted. Ultimately, however, they chose the place because it suited their mood, their dress, their time frame, and so on.

Branding

Branding is a buzzword you'll hear a lot in the foodservice industry. It is the combination of the advertising and design elements used to familiarize consumers with a concept—everything from the logo and colors selected for signage, to a slogan, the menu, business cards, advertising, uniforms, catchy names for signature dishes or drinks, and so on. Your brand is what you are building when you take your concept and decide how to market it to the public, differentiating it from competitors as well as strengthening the promise and emotional benefits that you want customers to associate with your concept.

Branding also gives your business some legal protection from competitors and copycats. The branding process begins when you first start searching for a business name, by researching any other business that may already use the name, and/or registering the name legally for your own use. Here there is room for duplication—if you discover that your name is already in use, say, in California and you are in Oklahoma, you may be able to secure the right to use the same name by contacting the California business owner, explaining that your business is not (and will not be) in any kind of competition with theirs, and asking for written permission to use (or purchase the right to use) the name. However, if your restaurant name hints at any large, well-known business (McAnything, The Cheesecake Anything, T.G.I. Anything), you are likely to face a court challenge sooner or later. Branding is a very serious, multimillion-dollar investment for major restaurant chains.

The costs associated with branding go beyond the fees of hiring a designer or advertising agency to help you create a logo and branded materials, which can be quite expensive. Legally registering the name as a ***trademark*** or ***service mark*** can cost a minimum of $1,500, and more if foreign rights also are sought. If yours is going to be a small business limited to a single state, it is considerably cheaper to apply for a trademark only in that state. Although you can undertake a competitive name search on your own using the Internet, the application process is best handled by a patent and trademark attorney. The results may take up to six months. You may seek additional trademark applications if you wish to market specific products under your brand name.

There are hundreds, if not thousands, of trademark infringements every year in the United States. Court decisions in these cases generally boil down to whether the two names are similar enough to cause customers confusion about whether the two businesses are affiliated.

Nontraditional Concepts

An idea that seems to have captivated the foodservice industry in recent years is the "nontraditional" restaurant site. It is perhaps more an expansion strategy than a concept, but it has the potential to be a lasting phenomenon. The idea is simple: Instead of building a restaurant from the ground up and then trying to attract customers, you contract with a site to prepare the food in places where the customers already are. The possibilities are almost endless, including airports, convenience stores, retail stores, highway travel plazas, college campuses, corporate office buildings, shopping malls, sports stadiums, supermarkets, and hospitals.

The idea requires that the restaurateur enter into a symbiotic, if not parasitic, relationship with a partner. There are pros and cons to this type of arrangement. First, the potential advantages:

- You sell to an existing customer base, the current customers of the host establishment (baseball fans, airport travelers, theme park guests, etc.).
- It's faster to set up and open your business, because the basic construction may already have been done.
- The host has already done much of the paperwork, getting the necessary zoning, permits, and so on.
- You can be added to (and pay for your portion of) the host's utilities and insurance policies, so you don't have to get your own.
- In some cases, employees of the host company may be the ones implementing your concept, eliminating the need to hire your own daily workers.
- If the concept is already well established (a national chain like Starbucks, Kentucky Fried Chicken, etc.), you gain an instantly loyal, built-in customer base familiar with the brand and products.

However appealing this may sound, industry experts urge extreme caution in striking a deal between a foodservice proprietor and a host site. The caveats that follow appeared in the August 1995 issue of *Restaurants, USA,* the trade publication of the National Restaurant Association, and they are still appropriate today:

- *You are only as good as your host site.* Don't rely on your host's traffic projections; conduct your own customer counts and studies first.
- *You may be judged by the company you keep.* Even if the cash flow projections look promising, consider the marketing implications of the site for your overall image. Think of it this way: You wouldn't build a really nice house in a less-than-desirable neighborhood, because your surroundings would negatively impact your property value.
- *Insist on quality control.* In some nontraditional deals, employees of the host company are responsible for handling and selling your product. If it's a service station and your products are fine French pastries, do you see the potential incompatibility? Be sure your wares fit not only the environment but the prospective sales force.
- *Be ready for the rush.* Customers of a nontraditional "express" location have the same high expectations for good service, good value, and good food. They'll remember poor service, and they'll also remember your company's name when visiting your remote locations.
- *Protect your product.* If you're selling a signature item, insist on contract language that protects or restricts its sale elsewhere in that particular market area without your written permission. Carefully targeting, and even restricting, others' sales of your products can be critical to your success.
- *Bid carefully.* Read the fine print with an attorney, and be prepared to walk away from the contract if you are not absolutely sure you can make it work.

Knowing both your customers and your capabilities are two basic tenets that apply particularly to nontraditional sites. Beyond these basics, it will be necessary to determine the minimum number(s) of items that can be served to meet customer demand (while preventing waste) as well as how you will make use of your limited space. Can ingredients be cross-utilized to minimize the need for storage and inventory? Can a few pieces of equipment make multiple menu items? Is sufficient kitchen exhaust capacity available for the equipment you wish to use? What is the maximum amount of food your crew can turn out in its busiest 15-minute period? Finally, how few staffers will it take to provide prompt service and adequate cashiering duties as well?

In short, there is a lot more to the nontraditional idea than expanding handily into already existing buildings with already-hungry customers.

The quick-service restaurant's chief competitor is the *fast casual* restaurant, a hybrid that combines speedy service with higher-end cuisine for a per-person check average of $6 to $10. Fast casual focuses on fresh, healthful dining choices, more sophisticated flavor profiles (geared to adults rather than children), and fast but attentive service. Diners order at a counter and pay in advance, then the food is prepared to order and delivered to the table by a server/runner. Décor is airy and comfortable, with upscale touches like upholstered booths and accent lighting. Unlike a QSR format, the environment encourages guests to linger and chat.

The fast casual segment is predicted to be a $30 billion category by 2010, which sounds like a lot but is less than 10 percent of the total foodservice industry, up from 4 percent in 2004. Baby Boomers and GenXers are the primary customers: 45 percent of fast casual users are 35 to 54 years old; 31 percent are in the 25-to-34 age group. These busy diners are proof that people will pay a bit more for the combination of convenience and food choices that they consider a more healthful and/or upscale alternative to traditional "fast food."

Good examples of fast casual include Café Express and The Corner Bakery restaurants. Indeed, the bakery-café concepts have been some of the brightest stars in this category so far. Ethnic-based eateries also have shown great promise, growing 27 percent from 2001 to 2005. The challenge for today's fast casual restaurant is getting people to come back for dinner—they are successful primarily as breakfast and lunch spots.

Multiple Locations and Multichain Operators

Like most businesses, restaurants have life cycles, according to Phil Friedman, chief executive officer of the fast casual sandwich chain McAlister's Deli. Friedman ranks them thusly:

- In the *entrepreneurial phase,* the company has one to four successful local restaurants and is still founder-dependent, focused on growing its brand.
- In the *emerging stage,* the company becomes a chain of five to 20 units and, although it does business close to home, it is beginning to open stores in other markets. The founders have little choice but to delegate some authority.
- In the *expansion stage,* more than 20 units are operating in multiple markets. Strong brand loyalty has been developed, and the company has a model for sustainable growth that is still being refined.
- In the *mature stage,* the concept operates in multiple regions, the brand is strong but must be protected, and strategic development is under way to maintain the value the company has achieved.

The decision to open more than a single location is made for a variety of reasons, but the chief one is financial. The most common example nowadays is the fine dining establishment with a solid reputation for quality, which yields a respectable income but with not much left over after paying the bills. Often the chef and/or owner decide to capitalize on their success by offering an abbreviated version of the menu in another, more relaxed setting—"fast gourmet," if you will—with nice touches such as an extensive wine by-the-glass program and an upscale condiment bar.

You would think that toning down service levels and scaling back on some high-dollar ingredients would be simple enough, but it is not necessarily so. It can be difficult to keep food costs in line with the lower per-check averages, and the staff is held to the same standards of production, from techniques to sanitation. The customers do expect something "a bit more" from this type of dining experience. Another dilemma is how to staff the new restaurant; sometimes the best employees from the fine dining venue are reassigned to get the new site off the ground. Food and service at the original restaurant may suffer accordingly.

Another popular expansion strategy is being used by many large national chains crowding the midscale restaurant segment. They become ***multichain operators* (*MCOs*)**, opening what are sometimes called ***second-tier*** restaurants to keep their primary or flagship concept from saturating the marketplace. A second-tier brand is similar to wineries' secondary label concepts—Robert Mondavi also bottles wine under the Woodbridge label; Frei Brothers Vineyards have Redwood Creek; and so on. The difference is that secondary labels are less expensive in the wine business. In the restaurant world, the second tier may compete at the same price point or higher than the flagship brand.

Chili's Bar and Grill has been a flagship brand for Brinker International, but its second-tier Macaroni Grill restaurants represent a higher-end concept. Brinker also owns the On the Border franchise. Darden Restaurants, Inc.—with a flagship brand of Red Lobster—has the second-tier concept Bahama Breeze. The Lone Star Steak House and Saloon represents the best-known but most casual concept in that Kansas-based company, with a check average of $20. Its "sister" eateries are Sullivan's Steakhouses (check average $40) and Del Frisco's Double Eagle Steakhouses (check average $60). Some MCOs partner with hotels, specifically to offer upscale dining; New York–based B.R. Guest is an MCO that has taken the idea a step further by launching its own lodging facilities, James Hotels.

In short, if yours is a national chain, at some point senior management will realize that, in order to corner more "share of stomach," you have to expand—not just in numbers of restaurants, but in numbers of concepts—to increase your appeal to more segments of the dining public.

Convenience Concepts

Convenience is crucial—so much so that many restaurants are appealing to customers who can't even take the time to come into the building to eat. Industry observers refer to the phenomenon as ***convenient meal solutions,*** and interestingly, research indicates that the "to-go" side of a restaurant's business augments the more traditional, dine-in dollars rather than taking away from them.

Call it what you wish—in addition to takeout and to-go, you'll hear the terms "curbside," "carry-out," "grab-and-go," and the rather lofty "home replacement meal"—but if it is to be successful, a food-to-go component must truly be speedy. Dedicated parking spots, online ordering capabilities, and a separate counter or register for ringing up take-out orders help guarantee a smooth to-go process from start to finish. Customers expect the same levels of service and quality from a take-out experience as they do from the dine-in experience at the same restaurant. And don't forget the packaging, which should reinforce the concept and quality as well as protecting the food. Chapter 19 includes a section on how to select single-use packaging.

Even convenience stores have gotten into the act, with some populating a subcategory known as ***convenience restaurants***. Sheetz is one such chain, a $2.8 billion annual business that ranked 87th on *Forbes* magazine's list of the largest family-owned companies in the United States. It operates more than 300 locations in six states and employs more than 10,000 workers. The Sheetz menu includes hand-tossed pizza baked on the premise, toasted subs and grilled paninis, salads tossed to order, a children's menu, and 14 gelato flavors made in the store; some locations include coffee bars staffed by baristas. Everything is prepared in a "food theatre," a staging area in full view of customers—and all for an average check of $8. The company also is testing drive-through access with weatherproof touch screens people can use to place orders, plus indoor booths (with wireless Internet access) and outdoor tables (with umbrellas) to invite on-site dining. To combat shrinking profit margins from traditional convenience-store staples like gasoline and cigarettes, Sheetz is wisely targeting its food and beverage sales for maximum profitability.

Another category of foodservice business has sprung up in the 2000s. The ***cook-and-carry*** segment combines customers' desire for fast, healthful meals with their wishes to eat at home, at least some of the time. Now, with names like *Dinner's Ready* and *Super Suppers*, cook-and-carry franchises provide a roomy, well-equipped kitchen and "prepped" ingredients that a person can use to prepare a preselected menu of items to take home with them, typically in large enough batches for several meals, days, and/or persons. These operations run almost like cooking schools. Customers do their own mixing and cooking using the recipes they have selected; employees circulate among the workstations with refreshments and advice, if needed.

Cook-and-carry places can save families' time as well as money, but they haven't caught on as well as many in the industry had predicted, perhaps because people aren't motivated to plan so many meals in advance. Many have dropped their minimum requirements of a certain number of meals for a certain price, offering single meals instead. Others go a step further—for an additional fee, they'll do the cooking for you, and even deliver the food to your doorstep.

Changing Concepts

Restaurateurs may come to the conclusion that they're in the right place—with the wrong concept. ***Repositioning*** and ***reengineering*** are the classy terms for updating a concept. Whether it is simple décor change or a menu revision, a concept change involves two basic parts: defining what the problem is with the current concept and addressing it correctly. How do you know there's a problem in the first place? Lagging sales, fewer visits from repeat customers, higher employee turnover, sagging morale, or the general feeling that the restaurant is looking "tired" or "dated" are just a few of the signals. If you're doing your research—which should be a continuous process, even after the doors open—you'll see them.

You can ask employees and customers for ideas, hire a professional designer, employ a "mystery shopper" to rate the dining experience, and spend some time at your most successful competitors' locations studying what they are up to. Check all of your processes, from seating, to order-taking, to garnishing—could anything be done faster, more efficiently, or more attractively for the guests? And finally, do some research about what might have changed about your surroundings. It may be a temporary economic slump or may signal a demographic change in the overall area—local families' kids have grown up, for instance, and left empty-nester parents whose dining needs are different. Using what you have learned, update your mission statement and business plan along with your concept and menu. The section of Chapter 2 called "The Redesign Dilemma" contains more details on updating existing space.

1-4 STUDYING THE MARKET

If you have a clear vision of where and what your restaurant will be in the future, you have a much better chance for survival. Why? You know where you are going and have thoroughly researched potential advantages and pitfalls. In determining the potential success of your concept, we have to see if it will:

- Work in the particular location you have chosen
- Generate sufficient sales to realize a profit
- Have a certain amount of "staying power" no matter what the economy does

Any potential investor will most definitely want to see the proof that you have thought through these items thoroughly and put them in writing. The written document is your ***feasibility study,*** the research you have done to justify the implementation of your concept.

There are two basic types of feasibility studies, and you should do them both. A ***market feasibility study*** defines the target customer, analyzes the competition, and also looks closely at the trade area around the restaurant. A ***financial feasibility study*** covers the money matters—income versus outgo—plus the costs of getting started.

Market Feasibility Study

How you go about this research depends on whether you have a site in mind already, or whether you have a concept and are searching for the best place to locate it. Site-specific research will focus on data for the immediate and nearby neighborhoods; research to pick a location will probably include data for an entire city, to be narrowed down as your site choices narrow.

Potential Customers.

If you have decided on your concept first, this is the time to define it so well that you can convince investors it is worth financing. The study's goal is to pinpoint who the average, most frequent guest at your proposed restaurant will be. To do this, you need ***demographics*** on these folks: their age, sex, income per household, level of education, number of kids, ethnic group, religious affiliation, and so on. Categorize them by lifestyle and see how much you can find out about them. Also consider the ***life cycle*** of the potential population. Singles marry and have children, or not. Traditional families may end up as two single-parent households after divorce. Empty nesters eventually retire and become affluent, middle-, or low-income senior citizens, active or inactive. Gauging these life cycle trends can help you fine-tune a concept that won't lose its appeal because its primary group of customers is dwindling.

This type of research can be time and labor intensive, and it may be easier to purchase data on some topics, so build in a modest budget for it. Most investors understand that market research is an investment that will not pay off for many months. However, they also understand that it is absolutely necessary.

Where do you find demographic information? Think about which government agencies in your city or county would want to know these same things, and ask if they'll share their statistics with you. You will find information not only about the customers themselves, but much about the area in which you want to locate.

The public library is another promising place to start. If nothing else, look for a reference book there called *The Insider's Guide to Demographic Know-How*, which lists more than 600 sources of demographic information and tells you how to analyze the data when you get it. National Decisions System, a San Diego–based company, offers market reports of all types: financial, consumer, crime, retail sales, and more, at www.sitereports.com Its "Segmentation Report" groups every U.S. household into one of 50 unique market segments. The U.S. Census Department tracks statistics in about 20,000 different categories and says marketers and researchers request only about 10 percent of them. So there are plenty of numbers to crunch.

In addition to numbers, the personal habits of your guests are key, especially their eating and spending habits and family structure (empty nesters, single parents, etc.). This kind of information is known as ***psychographics***, and it can be harder to dig up than demographics. Your area or state restaurant association may be a good starting point. Also, in your own school campus there may be a marketing or advertising department with students who are willing to help research. Present them with a specific project or need, and ask if they will assist you in exchange for school credit or for a small fee.

BUDGETING AND PLANNING

Resources for Demographics

WHERE TO ASK	WHAT TO ASK FOR
Department of Economic Development Chamber of Commerce City Planning Office	Maps, employment statistics (average income, unemployment rates, plans for upcoming commercial and residential developments, data about retail food and beverage sales, shopping habits and patterns, major employers and industries
Building Department Planning and Zoning Department Commercial Realtors	Area master plans, residential occupancy and housing statistics, property values, urban renewal projects, zoning information about property, laws about parking, signage, building height, permits and any other construction-related restrictions
Local Publications (newspapers, magazines)	Dining guides, advertising rates, restaurant reviews, some business demographic data
Transportation Department	Proposed road improvements, types and routes of public transportation, traffic count data by roadway
Department of Revenue and/or Taxation	Property taxes by address (or neighborhood averages), breakdowns of real estate taxes, income and sales tax figures
Utility Companies	Past pattern of gas or electric bills at an address, information about typical rates, seasonal usage, conservation discounts
Convention and Visitors' Bureau	Tourist information—data on numbers, spending habits, annual events and average attendance, dates and sizes of upcoming conventions and meetings

Source: Neal Gersten, Partner, Citrin Cooperman & Co., LLP, for Myriad Restaurant Group (New York). This information first appeared in *Santé: The Magazine for Restaurant Professionals* (November 2002). Used with permission.

Demographics and psychographics have multiple uses for the restaurateur. First, you can use them to determine if a project will be continued or scrapped. Then, if it is continued, this information will help determine how to price, how to provide service, what atmosphere will please the customers you have targeted, and so on.

Trade Area and Location. Research into trade area and location begins after site selection is well under way. Can the location support your concept? Here we evaluate the strength (or weakness) of the local economy. How much industrial, office, or retail development is going on? In what shape are nearby houses and apartments, and what is the vacancy rate? How much is property worth? What's the crime rate? How often do businesses and homes change hands? In short, you're learning about the overall stability of the area.

This part of the study should also include details about a specific site: its visibility from the street, public accessibility to the driveway or parking lot, availability of parking, city parking ordinances or restrictions, and proximity to bus or subway lines. Ask about your ability to change the structure, if you decide to add a deck, a porch, or a second floor.

Don't forget to add details about your proximity to a museum, park, hotel, sports facility, college, military base—anything that would serve as a regular crowd generator for you. Starting from the potential location of your restaurant, the five-mile radius around the site is your prime market for customers. For QSRs, the radius is a little smaller; for table-service restaurants, a little larger. You'll want to get to know this five-mile circle as well as you know your own home.

Competition. You will be eating out a lot to do the research for this section! In your five-mile radius, you must find out, in great detail, what other types of restaurants exist. Classify them as self-service or table-service; then zero in on any restaurant that has a concept even remotely similar to yours. These will be your *direct competitors*. Take notes as you observe their seating capacity, menu offerings, prices, hours of operation, service style, uniforms, table sizes, décor—even the brand of dishes they use is valuable information. Will your concept stand up to their challenge? In your market feasibility study, you might classify the competition in one of two ways:

1. The existing direct competitors seem to have more business than they can handle, so there's room for you.
2. Even though they're direct competitors, they have distinct weaknesses—outdated décor, overpriced menu, limited parking—that give you a viable reason to enter the market. If their concept is poorly executed, test your own skills by figuring out why.

Obtaining Operating Capital

Here's a universal truth: Everyone in the restaurant business needs money, whether it is to open a new place or remodel an existing one, to open a second location or smooth out a particularly uneven business year. Most have to borrow money from a bank, with the noble goal of using other people's money (OPM) for pursuit of their own business happiness. Another universal truth: Bankers seem to prefer the pain of a root canal to the prospect of financing a restaurant. It doesn't seem fair—unless you know that the foodservice industry is hardly a model of stability and/or predictability. It is a complex, highly competitive business, and even the "next big thing" is never a sure thing. Today's foodservice borrower can expect to borrow no more than two to four times their store's prospective cash flow and should expect to bring equity of 20 to 30 percent into any deal. This may mean using a home or existing savings as collateral, or bringing private investors on board.

The loan officer does not care about your secret recipes or daily specials unless you are using them to generate sufficient cash flow to repay the loan. Bankers are doing their jobs by viewing the world with worst-case scenarios in mind, and loan officers are haunted by grim predictions about the frequency of restaurant failures. Moreover, their loan departments may or may not have the expertise to accurately evaluate a restaurant's true value or loan application. So they focus on collateral. If you are planning (the most likely situation) to lease the location, the value of used foodservice equipment plummets like Alaska's temperature in January.

The best way to prepare for this challenging series of meetings is with a well-documented, market-wise and streetwise business plan. And the best source for most borrowers is the National Restaurant Association (NRA), the giant and well-funded trade organization based in Washington, D.C., that represents about 300,000 restaurants and the companies that do business with them. You will see NRA publications and research quoted often in this textbook. Staples like the *Restaurant Industry Operations Report* and *A Guide to Preparing a Restaurant Business Plan* should be part of your arsenal of research materials.

Anyone who borrows money must possess two types of credibility: professional and financial. Professionally, the bank wants to see a résumé loaded with career highlights and pertinent experience. If you have had little professional experience actually working in foodservice, be prepared to brag about how your previous jobs and other skills have prepared you for success as a restaurant owner. In terms of financial stability, you will be expected to submit two to three years of income tax returns and a full slate of current personal debts and savings. If there are blemishes on your credit report, be prepared to explain them.

The prospective borrower can also wield some power in these negotiations. First, don't be afraid to let banks know that you are shopping around for the best loan package. Think of money as the commodity that a bank "sells," comparing interest rates and examining the fine print closely. If your business plan and feasibility studies are solid, the bank should want to do business with you. By all accounts, this relationship will grow into a long-term partnership. If you are uneasy at all about it, keep shopping.

The bank will also expect you to have decided how to structure the business. The options listed here are very basic; a good accountant and/or attorney is the best person to advise you about how to set up your company. Your choices include:

- *Sole proprietorship.* A single person is responsible for the business. This arrangement offers maximum flexibility and no operational formalities (no annual meetings, written minutes, etc.). Unfortunately, it also means that there is no one to share the multiple responsibilities and/or potential liabilities of business ownership. Sole proprietorships also cannot take advantage of the tax breaks that are offered to corporations.
- *General partnership.* More than one person is legally responsible for the business, and each partner accepts personal liability for the financial decisions made in the partnership.
- *Limited partnership.* This is a more formal type of partnership than the general partnership. As its name suggests, the partners have limited liability—that is, their own financial investment in the business is at risk, but their other personal assets are considered separate from the business and cannot be seized by creditors or in lawsuits.
- *Corporation.* Every state has its own set of incorporation laws, and they are complex enough that it is smart to hire an attorney to create the new corporation. There are three types of corporations:
  1. In a traditional corporation (called a C corporation), the corporation has its own identity, separate from any of its owners, and pays its own federal, state, and local income taxes. Corporate earnings and any dividends are taxed twice: The company pays its taxes, and owners pay their personal income taxes on salaries and/or dividends they receive from their investments in the corporation. This double taxation is one reason lawmakers often seem sympathetic to corporations, keeping their tax rates lower and/or providing tax breaks.
  2. The S corporation is a hybrid of sorts, part traditional corporation and part partnership. It is taxed as a partnership—that is, the income, losses, and deductions generated by the company all are shared by the individual shareholders. This avoids the so-called double-taxation situation. In addition,

shareholders of S corporations can deduct business losses on their personal income taxes. In most other ways, an S corporation operates like a traditional corporation.

3. The limited liability corporation (LLC) was created to allow larger groups of investors to participate than are allowed in an S corporation. The LLC offers the same tax advantages as a partnership, and limited liability for its members. However, LLC rules vary significantly between states. Do your research before deciding that it is the appropriate business structure for your venture.

Financial Feasibility Study

The idea of opening or working at a new restaurant is fun and exciting, but don't let the mood carry you away before you do the paperwork. You may be encouraged by the results of your market study. Unfortunately, however, in this business, romantic notions often determine failure rates.

It is going to take a solid financial analysis to make your dreams into reality. Your financial feasibility study should detail these elements: your projected income and projected expenses, including both food and labor costs.

Projected Income. The first requirement is to project sales levels for each day, each week, and the entire year. However, if you haven't even opened yet, how in the world do you calculate *that*? You must first determine:

1. The number of guests you plan to serve each day
2. The average amount that each guest will spend (known as the ***average check*** or ***check average***)

The first "Dining Experience" box presents a simple example of these calculations.

Understandable? Just remember, you can't get accurate projections unless you have realistic numbers to start with. And in putting your final plan together, it is always smart to slightly underestimate sales. After all, every seat will probably not be filled for every meal, every day. Leave yourself a buffer.

Projected Expenses. Before you decide you'll be a millionaire restaurateur, you must also calculate your expenses. The three major (meaning "most depressing") costs are food, beverage, and labor, which collectively are known as ***prime costs***.

The NRA conducts extensive annual studies to compile the expenses and percentages for many different types of restaurants. Because the organization uses national averages, the figures are only estimates. Taking a look at them, however, will be very helpful in making your own calculations.

After studying the most recent NRA Restaurant Industry Operations Report, Chez Ralph owners have decided that their food costs will total no more than 30 percent of the restaurant's income and beverages will cost 10 to 12 percent of its income. (How much food will people buy versus how much beverage? Chez Ralph figures the check will break down to about 85 percent food and 15 percent beverage.) We'll add labor costs to that in a moment. But, first, using the numbers we have, let's calculate the daily food and beverage costs for Chez Ralph. (See "Calculating Food and Beverage Costs" on page 16.)

This type of guesstimating may seem a bit overwhelming at first, but it is really a simple, logical process based on your own estimates of how many people will walk into your eatery and how much money they will spend there.

Labor Costs. You can't decide how many people to hire or what to pay them until you've figured your labor costs. From the same NRA surveys, you can get an accurate picture of what restaurants spend on payroll, and compare this to the local wage and employment figures

THE DINING EXPERIENCE

Figuring Average Attendance and Average Check

"Chez Ralph" has 140 seats. In most restaurants, each seat is occupied two times for lunch and one time for dinner. (We're going to keep this simple and assume that Chez Ralph is open daily for both lunch and dinner.) So, the daily customer count is:

Lunch 140 × 2 = 280

\+ Dinner 140 × 1 = 140

Total guests per day = 420

- How many guests per week? Multiply 420 by 7 (days per week) for a total of 2940.
- How many guests per month? Multiply 420 by 30 (days per month) for a total of 12,600 guests.
- How many guests per year? Multiply 12,600 by 12 (months per year) for a total of 151,200.

Now let's look at how much money these people spend at Chez Ralph. This is a very simple estimate, based on the price of the average entrée. Since you're probably not far enough along to have created and priced a menu of your own, you could average the prices of your direct competitors. In Chez Ralph's market feasibility study, the direct competitors' average check is $10 per person.

DAILY SALES:

Average check = $10.00

× Daily number of guests = 420

Sales per day = $4200

WEEKLY SALES:

Average check = $10.00

× Weekly number of guests = 2940

Sales per day = $29,400

MONTHLY SALES:

Average check = $10.00

× Monthly number of guests = 12,600

Sales per month = $126,000

ANNUAL SALES:

Average check = $10.00

× Annual number of guests = 151,200

Sales per year = $1,512,000

you get from the city. Of course, labor costs are always higher the first few months of business, since it takes extra time to train your staff and you may hire more than you need at first. At this writing, a restaurant spends 30 percent of its income on labor costs. This does not include employee benefits (some of which are optional), which add another two to four percent to overall costs.

Chez Ralph estimates labor costs will be 33 percent of its total sales. This means:

Daily Labor Cost

$3360 (daily total sales) × 33% (0.33) = $1108.80

Monthly Labor Cost

$1108.80 (daily labor cost) × 30 (days per month) = $33,264

Annual Labor Cost

$33,264 (monthly labor cost) × 12 (months per year) = $399,168

THE DINING EXPERIENCE

Calculating Food and Beverage Costs

FOOD SALES:

$3360 (daily total sales) × 85% (0.85) = $2856

FOOD COSTS:

$2856 (daily food sales) × 30 (0.30) = $856.80

BEVERAGE SALES:

$3360 (daily total sales) × 15% (0.15) = $504

BEVERAGE COSTS:

$504 (daily beverage sales) × 12 (0.12) = $60.48

Multiply these totals by seven to obtain your weekly cost estimates:

FOOD:

$856.80 (daily cost) × 7 (days per week) = $5997.60

BEVERAGE:

$60.48 (daily cost) × 7 (days per week) = $423.36

Multiply these totals by 30 to obtain your monthly cost estimates:

FOOD:

$856.80 (daily cost) × 30 (days per month) = $25,704

BEVERAGE:

$60.48 (daily cost) × 30 (days per month) = $1814.40

Multiply the monthly totals by 12 to obtain your annual estimates:

FOOD:

$25,704 (monthly cost) × 12 (months per year) = $308,448

BEVERAGE:

$1814.40 (monthly cost) × 12 (months per year) = $21,772.80

Now do you see why the restaurant business is not for the faint-hearted? Sure, you may make $1 million, but you'll spend almost $730,000 of it on food, drinks, and employees to prepare and serve them. And did you notice that labor costs total more than food and beverage combined?

Other Expenses. You also must estimate other expenses, from rent to utility cost to legal fees, taxes, and equipment payments. When you have gathered and estimated all expenses, you are ready to prepare your projected income statement and projected cash flow statement.

1-5 SELECTING A SITE

Be aware that in site selection, there are two important designations: whether your concept is ***convenience oriented*** or ***destination oriented***. A convenience-oriented restaurant, like a fast-food franchise, depends primarily on a nearby base of customers to be drop-ins, generally for unplanned visits. Because it is likely to have similar competition throughout the area, customers probably would not drive a long distance to visit this particular site, unless it happens to be a convenient part of their daily commute or errand route.

Destination-oriented restaurants attract guests often because of their unique concepts. Customer visits in this case are planned ahead of time, and may involve driving 10 or more miles, depending on the attractiveness and availability of the concept. A destination restaurant is more likely to be the choice for a special occasion or fancier meal. Ideally, you'll attract both types of customers: some drop-ins and some who planned their visits.

Site Selection Research

Unfortunately, most customer research seems to include only demographic information, when location-related background can be equally important. Location-related information might include frequency of use, distance traveled, where the trip originated, reasons for the visit, whether the visit was in tandem with other activities, proximity to home and/or work, and how often key competitors are also frequented.

Luckily, there now exists site selection information specific to the foodservice industry—sales in existing eating and drinking establishments, market share of QSRs, and National Restaurant Association data known as the Restaurant Activity Index (RAI) and Restaurant Growth Index (RGI). The RAI is an indication of a population's willingness to spend money eating out instead of cooking at home. The RGI is a statistical prediction of cities where a new restaurant has the "best" chance of succeeding. In both surveys, the number 100 is used as the benchmark, or "national average"—in other words, a score of above 100 indicates better-than-average prospects, and lower scores indicate poorer prospects. The RGI is not a gauge of where restaurants *are* but where it is best for them *to go.* That's why well-established cities already known for their lively dining scenes may not fare as well in these surveys of as-yet-undiscovered markets.

Restaurants that make it are those that meet a need, and research like this certainly pinpoints these needs by area. Nowadays it rarely is available free of charge, but it can be purchased online. Finding out an area's fast-food market share is another valuable key because it provides insight into the food preferences there, both in terms of price range and level of sophistication.

The sandwich giant Subway uses a special computer program for its site selection needs. On-screen, a map shows each existing Subway store, with population rings around it that indicate the surrounding market potential for that store. Competitor locations have also been programmed into the system and are shown on the same map. This shows Subway where there are holes without restaurants. Then the population in those "hole" areas is studied for demographics and compared to the customers of a successful Subway nearby. By the time the store development team visits potential sites in person, they have truly done their homework.

Large MCOs now operate their own food think tanks and idea centers, keeping an eye on retail and supermarket trends to predict how these might shape the foodservice industry. "Life Styling" is a Sodexho Corporation research term for following trends in consumer habits and leisure activities. Sodexho also monitors the nation's 500 top restaurants, their menus and cooking methods.

Technology does not ensure a successful restaurant. It is simply another useful tool that makes it easier and faster to analyze statistics on many levels and to take advantage of research that's already available on the Internet. Individual operators can do something as simple, for instance, as subscribing to online versions of trade journals, or researching wine lists and menus online for ideas.

Guidelines for Site Selection

The location of a restaurant is the bridge between your target market and your concept. And yet, as long as there's a vacant building and a willing investor, there will be hot debate about the true importance of site selection. Some experts feel that as long as the restaurant is located in the "right" area of a city, with a strong economic base, the actual site doesn't matter as much—that unique food and beverage offerings and good service will attract customers, even to a less obvious location. Others are not so optimistic. For the time being, let's agree that, at the very least, the restaurant's concept and location must fit each other. This also means that, as certain things about the location change, the concept must often change to adapt.

Where does our fictitious Chez Ralph fit? The location selected will have an impact on:

- The type of customer
- Construction or remodeling costs
- Investment requirements by lending institutions
- Local ordinances, state and federal laws
- Availability of workers
- The option to sell alcoholic beverages
- Parking availability and accessibility
- Occupancy costs: rent, taxes, insurance, and so on

Study your own neighborhood, and you'll probably find a few restaurants that seem to thrive despite less-than-optimum locations. Most information, however, indicates the reverse: A good location is crucial to survival and success.

At this point, we will list some important guidelines for selecting a site. If any one of these conditions exists, proceed with extreme caution. Your business survival may be at risk if they are not handled properly.

Zoning Restrictions. Zoning ordinances must allow your specific type of operation to do business at this location and must also permit adequate parking on or near the property. Do not waste time and money attempting to get a ***variance***, which is a long and costly procedural struggle with your city or county.

Likewise, if there are restrictions on the sale of alcohol, look elsewhere. Unless your concept warrants absolutely no need to serve beer, wine, or drinks (during regular hours or for private functions), you most definitely restrict your profits when you limit yourself with a liquor prohibition.

Small or Oddly Shaped Lot or Building. If the parking area isn't big enough or easily accessible, you're asking for trouble. Can the lot meet the basic city parking requirements? (They are typically stringent, as discussed in detail in Chapter 4.) Can people drive in and out of the area as easily as they can park? Do garbage trucks have enough space to empty your Dumpster? Also avoid narrow frontage to the street. You want people to be able to see the place!

There is no perfect shape for a restaurant space, but some configurations do work better than others for maximizing the total number of seats for the square footage. Even the way the building is placed on the lot determines whether you'll constantly be opening and closing window coverings at certain times of day because of glare or direct sunlight annoying the customers. Get professional design advice before you commit to an unusual space or site.

Short-term Lease. Do not lease for less than five years, with one five-year option after that. Generally, short-term rental agreements prohibit most restaurants from realizing their potential. Also, beware the shopping center pad site, which requires that you pay rent plus a percentage of profit based on monthly sales to the owner or management company of the center. Can you handle the added expense?

Low Elevation. This is seldom a consideration, but it should always be. Elevation affects gravity, and gravity affects drainage away from the building. A good site is environmentally friendly. It will minimize your sewage backup, plumbing, and grease interceptor problems. It does not require extraordinary modifications to get good water pressure throughout the building. Also, find out if the property is located in the floodplain of an adjacent river or creek, which may make insurance difficult or expensive to obtain.

Utility Requirements. Amazingly, some people put down earnest money on a piece of property, only to find out that gas lines or sewer lines are not available there or are inadequate for commercial use. Your real estate agent or local utility companies can check this for you. And as you'll learn in Chapter 5, electrical power requirements are complex for restaurants and may mean you need more power than now exists in the space. Be prepared to negotiate with the landlord for the cost of converting or modernizing the electric service.

Along the same lines, the HVAC (heating, ventilation, and air conditioning) system works hard in a dining establishment. Usually the landlord provides this service, so have the system inspected to ensure that it meets current city codes for ventilation. Add an inspection of the hood exhausts, or if there are none yet, determine where they will be located. Modern building codes require exhaust systems be located as much as 10 feet from any door, window, or fresh air intake. In a multistory structure, hood installation involves building a shaft through other stories to the roof, which is very costly. It is better to know early if it's even possible—or that the landlord will agree to do it.

Urban Challenges. There are some immediate concerns when locating in a downtown area as opposed to a roomier suburb. Specific environmental restrictions may have been enacted for good reasons, but they may also make it impossible for you to do business in certain locations without extensive capital outlay and/or building modifications. Precipitators, pricey equipment to clean exhaust fumes before expelling them into the atmosphere, may be required, and exhaust vents can't simply be punched through a wall—as mentioned, they may have to snake up several floors to the roof of the building. Sewer and grease trap requirements are often more complicated. Licensing can be more expensive, and regulations stricter overall, in an urban area.

Logistics also figure prominently in busy or congested locations. Where will trucks park to make their deliveries? How difficult will trash removal be?

Speed of Traffic. The roadway in front of your proposed site provides an important clue to its future success. Do cars whip by so quickly that the motorists never see your place? Drivers traveling at 35 miles an hour or less will be best able to read your signage and to turn spontaneously into your parking lot without causing a traffic mishap.

Is the nearest intersection so busy that most people would think twice before trying to cross the street to patronize your business? Does the outside traffic hinder or help you? Stand outside the location and watch both automotive and foot traffic in the area. Ask yourself if anyone, coming from any direction, would be frustrated by the sheer hassle of getting to your site. This also applies to restaurant space in high-rises, shopping malls, and other locations that aren't necessarily at intersections.

Proximity to Workforce. Almost as important as being accessible to the public is the need to be located close to a potential labor pool. Are your employees able to live close by? Do the routes and hours of public transportation systems mesh well with your business? The foot-traffic patterns also are worth close examination. Do plenty of people pass your prospective location on foot? Are the sidewalks wide enough, in good shape, and brightly lit? Can customers access your building from the outside, or must they enter another door first before they can find yours?

Previous Ownership. Was this site previously a restaurant? If so, take great care to determine why it closed. If it is appropriate, talk with the previous tenants and neighboring businesses about the pluses and minuses of the location. Putting up an "Under New Management" sign is not enough to guarantee success where others have failed. A bankruptcy in the building's past may make it more difficult to secure financing for another venture there. Today's investors are cautious.

Now that we've discussed the possible drawbacks, how about those characteristics that are almost always attributes? Since we're speaking in general terms, no single factor will make or break a business. A combination of them, however, will certainly enhance the desirability of your site.

Visibility. If people cannot find you because they cannot see you, you're almost always in trouble. Exceptions exist, but they are rare. If possible, your building should be visible from both sides of the street, as far away as 400 feet. This also means checking local signage laws. Cities, counties, and even your neighborhood merchants' group may have restrictions on the types, sizes, height, and even brightness of outdoor signs. As we write this, Seattle authorities are cracking down on the painted murals on some downtown buildings as violations of its billboard ordinance.

Another visibility issue: If you're looking at a strip-style shopping center, go for the ***end cap***, or end location; in other situations, choose a corner lot rather than a middle-of-the-block lot.

Parking. In suburban locations, local ordinances specify the ratio of parking spaces to the size of the building. For restaurants, the general rule is one space for every three seats. Busy places may need more. Again, we describe the specifics in Chapter 4.

Closely examine parking availability during peak hours—at lunch and dinner, and on weekends—and query neighboring businesses. Will the dour drycleaner next door tow your customers before the main course has been served? (We know of one instance in which a law firm next door to an Italian restaurant has diners' cars towed from its lot even after dark and on weekends, when there's nary a lawyer in the office.) Don't assume that after hours it'll be okay to use others' parking lots without a specific written agreement. Parking fights among businesses can be nasty, protracted, and counterproductive.

If parking is that tight, study the option of offering valet parking. Will your guests pay the added cost for convenience or security? Or will you offer complimentary parking and foot the bill yourself? Finally, where will your employees park?

Accessibility. Make it easy for guests to enter and leave your parking lot and your building. Check the locations of traffic lights or stop signs, which may affect foot traffic. One-way streets or speed limits of more than 40 miles an hour may make your place a little tougher for cars to get to.

Your city planning and zoning department will be able to provide any recent surveys of vehicle or foot traffic as well as details of future plans for the street. A prolonged construction project that restricts access could be deadly to business.

Accessibility also includes compliance with the federal Americans with Disabilities Act (ADA), which was passed in 1992. Businesses are required by law to provide reasonable amenities—such as handicapped parking spaces, wheelchair ramps, and accessible restrooms—that enable physically challenged persons to be customers too. (We detail a few of the major requirements of the ADA in Chapter 4.)

The first year the ADA went into effect, almost 1800 complaints were filed against businesses with the Department of Justice, 60 percent of them for physical barriers. Contact a charitable organization that assists disabled persons and ask for guidelines to help you make them loyal customers instead of litigants.

Traffic Generators. Large, natural gathering places will affect your ability to draw people into your establishment. In some cases, when events are held near mealtimes and yours is one of the only restaurants in the area, they provide captive audiences. In other situations, a crowded spot may be a drawback if the area gets a reputation for being inaccessible ("You can never find a parking space," etc.). Only you can decide if being near a sports arena, museum, department store, school, hospital, or mall will help your business. On the positive side, you can use proximity as part of your theme or concept and cater specifically to those patrons. However, there are some drawbacks.

Let's say you're considering a site near a high-rise office with 2500 employees. It sounds promising at first, and you're imagining a bustling lunch business. If the office building already has its own cafeteria, executive dining room, and ground-floor sandwich shop, however, the location may be less than ideal.

Also ask if the area has an active merchants' association, which may sponsor business builders like parades, street fairs, or holiday events.

Design Flexibility. Your own ability to adapt to an attractive space when you find it is important. For instance, Starbucks has four different prototype store designs, knowing it will encounter promising locations that may be of different sizes and shapes. Adaptable designs for both an urban and suburban setting might be the way to go if you're open to either type of location—or if you're simply planning ahead for expansion.

Restaurant Cluster. There are streets in most cities that seem to be lined with eating places. Such areas are commonly known as ***restaurant clusters***. People tend to congregate in these areas, which helps your place become a regular destination for some. For all their advantages, however, clusters have life cycles. Make sure you choose one that is not headed for a downturn in economics or popularity. Do not try to duplicate any of the concepts already at work in your cluster, and remember that the national, casual dining chains seem to work better in a cluster than fancy, white-tablecloth establishments.

Guests, Both Regular and Infrequent. You want 50 percent of your guests to fall into the category of "regulars," who visit your restaurant three to five times per month. The market segments that typically can provide these diners are:

- Singles
- Young families
- Retirees
- Affluent empty nesters
- Office or professional crowd

These folks must live or work nearby. When you visit your competition to do market research, notice who eats out and when. Observe what they order and how long they stay. What is it about this particular site that seems to attract them?

However, do not overlook the infrequent guest as an attribute. Having a strong base of infrequent guests—tourists, conventioneers, regional salespeople who come to town occasionally—helps insulate a restaurant against the impact a new competitor may have on the whims of the regulars. A regular clientele may suddenly evaporate, at least temporarily, as they all rush to try a new eatery, while the infrequent guest is not prey to these whims.

THE DINING EXPERIENCE

How Bad Locations Are Chosen

1. Insist on the most convenient location *for you*, ignoring demographics or site problems.
2. Select a weak strategic position in a highly competitive market.
3. Overlook the importance of drive-by features, such as access and visibility.
4. Select a site that can be easily outpositioned by a major competitor.
5. Be one of the last concepts to enter a market that is already saturated.
6. Don't bother to find out why there are no competitors near the site you're considering.
7. Locate in an office area where the businesses close earlier than your normal hours.
8. Overlook demographic information that suggests the closest neighbors aren't really the lifestyle types who will enjoy your concept.
9. Select an out-of-the-way location because it's quaint—when there's little foot traffic.
10. Overlook vehicle traffic patterns around the site.

1-6 OWNING OR LEASING SPACE

Once you have identified a location where your concept will fit, where you can find employees, and where members of your target market will visit on a regular basis, your work has just begun. Will you lease the site or purchase it? Remodel or build from the ground up?

You may consider hiring a commercial real estate broker to assist in your property search, but it is smart to do concept and target customer research before you do so. Some property owners don't want to pay the broker's commission fee to make a sale, but the broker brings real estate negotiation experience to the table as well as knowledge of multiple locations and market demographics. Brokers are not in the restaurant business—but then again, you're not in the real estate business—so they may add some valuable insight to the selection process.

Buying Land and Building on It

Even if it is raw land, the same attributes (and problems) of site selection in general hold true here, too. Your first step should be to find a real estate broker who will help with the myriad details of land purchase. You'll want to know if the selling price is fair, based on other recent sales in the area.

Although many other factors were mentioned in the previous section, "Guidelines for Site Selection," the reality is that the purchase price of the land will have the single greatest impact on the character and the ultimate success of the business. Why? Because it determines the size and type of restaurant you can put there as well as the amount of funds that remain to cover all the other expenses.

Sales prices in urban areas are calculated in dollars per square foot; in undeveloped areas, dollars per acre. If you can afford to pay cash for the land, you'll bring the cost down considerably. Most people, however, buy land for businesses just like they buy houses—with a down payment and a mortgage of monthly payments with interest charges. Will the person selling the land be willing to finance the mortgage (carry the note), or will you get a bank loan? In either case, the land itself will be used as collateral to guarantee the loan. If you don't make payments, you lose the land and, most likely, anything you've built on it.

When making a land purchase for a restaurant site, pay close attention to two long-term factors:

1. The ***floating interest rate*** is the rate of interest you will pay. It is one or two percentage points higher than the bank's prime rate or the Consumer Price Index (CPI).
2. The ***payout period*** is the number of years it will take to pay back the amount borrowed. In most situations, this will be 10 to 15 years.

When it's time to build on your land, you'll use your projected income statement to tell you the upper limits you should spend on construction. This may sound cynical, but only you can decide if you'll have enough guests coming in the door to support massive construction debts in addition to land costs. So, before you decide on the buy-land-and-build strategy, you would do well to meet with a restaurant or foodservice consultant and an architect. Together, after listening to your needs, they should be able to present a preliminary budget that covers all aspects of construction. In addition to design fees, the budget must include:

- Electrical
- Mechanical
- Plumbing
- Painting
- Heating/air conditioning
- Interior finish-out (for specific areas: kitchen, dining room, bar)
- Special features (glass, doors, etc.)

It is impossible to generalize about these costs, but professionals can break them down into an approximate ***cost per square foot*** figure that you can plug into your budget. Just like home prices, square-footage costs for retail and restaurant sites in large metropolitan markets have skyrocketed in recent years. Be prepared for some sticker shock.

One way to save money in constructing your own restaurant is to rehabilitate an existing structure. Some call this ***adaptive reuse***. The Internal Revenue Code details the potential savings for renovation work, since Congress has decided it is generally better to save old buildings than demolish them. Usually, if the building was constructed before 1936, you can receive a tax credit of 10 percent of all qualified expenditures; in refurbishing some historical buildings, the tax credit can be as high as 20 percent. The credit is deducted directly from actual taxes owed. For instance, if qualified rehabilitation expenses total $100,000, a $10,000 tax credit is allowed. The actual cost of purchasing the structure, however, is not included. An accountant and/or tax attorney should be consulted if you're undertaking historical renovation.

Leasing an Existing Space

Most first-time restaurant owners lease space because it is the least expensive option. In some instances, the site is simply not available for purchase. Again, a good real estate broker will save time in site selection and lease negotiations. In every city, there are real estate professionals who specialize in restaurant locations or in specific trade areas, and their expertise is worth their fee. In fact, the fee (which usually amounts to 4 percent of the total lease amount) is often paid by the property owner. Make sure to check on this before you begin the negotiating process to avoid misunderstandings.

Did we just say "least expensive option"? As with purchasing property, leasing costs are relative. Higher-end Manhattan restaurants now pay $200-plus per square foot, in a market where anything over $100 used to be unthinkable. Part of the reason for the price inflation is that large, successful MCOs are entering these urban markets, and property owners know they are able to charge these types of tenants more. However, a Lower East Side location may be had at the relatively reasonable cost of $75 per square foot.

The time to get an architect or foodservice consultant involved is before the lease is signed. Yes, their services can be expensive, but it is worth it to have a realistic idea of whether the space can become what you intend it to be. Stay on good terms with your designers and contractors by being completely honest as your estimates are being compiled. It is time consuming and expensive to ask them to draw up preliminary plans, then continually downsize them because your budget does not fit the project.

As with a purchase, a lease price is referred to in cost per square foot. Since you're planning on a successful long-term operation, ask for a lease of at least five years. That way you know the exact monthly amount to budget for, and you know it won't increase before then.

In negotiating for space, you should ask about:

- The exact size of space available, including parking
- The exact price, in dollars per square foot
- The amounts of finish-out allowances, and exactly what is included in them

A ***finish-out*** or ***build-out allowance*** is money for a new tenant to complete the interior of the space with paint and fixtures, usually chosen by the tenant. This may also be known as ***tenant improvement dollars***. If the landlord provides this money, the actual monthly rent figure will be higher than if the tenant opts to pay for finish-out. Who should pay? Your cash flow situation should determine that. Frankly, most new restaurants need their cash to sustain them in the first lean months before they see a profit. If that is the case, try to let the landlord assume finish-out costs.

If you're a good negotiator, test your skills by offering to do the finish-out in exchange for a much lower rent for the first six months to one year. We also know of situations in which restaurateurs have done their own finish-out in exchange for *free* rent for the first three to six months. It all depends on how badly the landlord needs a tenant in the space.

One important precaution is to consider the tax implications for spending money on and/or doing work to someone else's property. If the landlord pays for the improvements, the contract should clearly state that the landlord owns them. At income tax time, you cannot depreciate the value of these improvements because they don't belong to you. You also will be paying more income tax if you have fewer up-front expenses to write off in the first year. The basic depreciation rates are:

- 5 years for personal property (furniture, fixtures and equipment)
- 15 years for land-related improvements (e.g., adding a parking lot)
- 39 years for real property

For obvious reasons, it is wise to allocate as much of the build-out cost as possible to the personal property category. Accelerating depreciation is a legal and acceptable way to lower your taxable income and, in the first years of business, can be very helpful. Additionally, a method known as ***cost segregation*** allows some types of assets (electrical, plumbing, HVAC) to be valued both as personal and real property. A tax professional can assist in determining the correct ways to depreciate these items.

The other time to ask for leniency in paying rent is just after move-in, when improvements are taking place. Many property owners will grant a 60- to 90-day grace period before the first rent check is due, knowing that the place is not yet open. Even with this reprieve, budget in rent costs anyway. You never know when overruns and delays will slow your progress. If you're technically in the space, you should be able to pay the rent.

Specifics of the Typical Restaurant Lease

The annual cost for leased space is calculated per square foot and is known as the ***base rate***. Chez Ralph is considering a space of 5000 square feet, at a bargain rate of $20 per square foot. The annual rent would be:

5000 (size in square feet) × $20 (cost per square foot) = $100,000

The monthly rent would be:

$100,000 (annual rent) ÷ 12 (months) = $8333.33

On average, total rent costs should be about 7 percent of yearly gross sales. In many lease agreements, a ***percentage factor*** also is added to the base rate, usually 6 to 8 percent. This means that the more profit the restaurant makes, the more money it must pay to remain in the space. Let's say the percentage factor in this particular lease is 8 percent. How much money can Chez Ralph make without an automatic rent hike? It's easy to calculate:

$100,000 (monthly rent) × 1.08 (rent plus 8%) = $108,000.00

This lease states that Chez Ralph's rent will remain at $8333.33 per month, as long as its ***net sales*** *do not exceed* $108,000.00. Be sure that this figure is based on net sales, *not* gross sales. Also, specify what the net sales figure will *not* include: items like liquor taxes or license fees and other expenses (credit card discounts, sales tax on food, etc.). All parties must agree on how sales for each month will be verified. Who will drop by to look at your books, and when? Whenever a percentage factor is part of a lease, your attorney should go over the lease carefully with you before you sign anything.

Percentage factors are controversial simply because they ask you to pay an additional price for success. Let's say, after seven months in business, Chez Ralph has a terrific month: $112,000 in net sales. Well, this also means more rent to pay. How much more?

$112,000 (net sales) − $108,000.00 (rent base plus the 8% factor) = $4,000.00

$4,000.00 (additional sales) − 0.08 (8% factor) = $320.00

Some restaurateurs shrug this off as the cost of doing business; others see it as a subtle disincentive to strive for bigger bucks.

Term of Lease. Most foodservice business leases are for a period of five years, with two more five-year options—a total of 15 years. In addition to rent and percentage factors, it is not unusual to have an ***escalation clause*** in the lease, detailing a "reasonable" rent hike after the first five-year term. The increase may be based on the Consumer Price Index or the ***prevailing market*** rate (what similar spaces are being rented for at the time the lease is negotiated). Make sure the basis for any rent hike is clearly spelled out in the lease agreement.

Financial Responsibility. Early in the lease negotiations, you should cover the touchy topic of who will be responsible for paying off the lease in case, for any reason, the restaurant must close its doors. If an individual signs the lease, the individual is responsible for covering these costs with his or her personal assets. If the lease is signed as a corporation, then the corporation is legally liable. As you can imagine, it makes more sense to pay the state fees to incorporate before signing a lease.

It may well be your landlord who goes broke, not you. Your lease should stipulate that, in case of the landlord's financial default (or sale to a new owner), your business cannot be forced out and the new owner must abide by the terms of the existing lease until it expires. This is sometimes called a ***recognition clause***.

Within your corporation, multiple partners must have specific agreements about their individual roles in running the business. You should probably also outline how a split would be handled if any partner decides to leave the company. Having these important contractual agreements written and reviewed by an attorney and an accountant is well worth the cost.

Maintenance Agreement. Another important part of a lease is the complete rundown of who is responsible for repairs to the building. Some leases specify the tenant takes full responsibility for upkeep. Others give the landlord responsibility for structural and exterior repairs, such as roofing and foundation work, while tenants handle interior maintenance, such as pest control service or plumbing and electrical repairs. These items are easy to gloss over if you have your heart set on a particular site. Remember, however, that all buildings need maintenance, and the costs can really add up. How much are *you* willing to do—and pay for?

Insurance. Generally, the tenant is responsible for obtaining insurance against fire, flooding, and other natural disasters as well as general liability insurance for accidents or injuries on the premises. The lease must specify how the policy should be paid—monthly or yearly are the most common stipulations—and also the amount of coverage required. Both tenant and landlord are listed as the insured parties, so the landlord should be given copies of all insurance policies for his or her records.

Real Estate Taxes. Each city and county decides on the value of land and buildings, and taxes an address based on its *assessed value*. These taxes are typically due once a year, in a lump sum, but most landlords will ask that the taxes be prorated and paid monthly, along with rent and insurance. A ***triple net lease*** is the term for a lease that includes rent, taxes, and insurance in one monthly payment.

Municipal Approval. Just because you sign a lease doesn't mean you'll ever serve a meal at this site. Cover your bases by insisting in writing that this lease is void if city or county authorities do not approve the location to operate as a restaurant (or bar, or cafeteria, or whatever you're planning). Potential roadblocks: Do you intend to serve alcohol? Is your concept somewhat controversial—scantily clad waitstaff, for instance? You'll save yourself a lot of time and money if your lease allows these items in writing and if you also obtain permission from the county or city first. Politely inquire about all necessary licenses and permits before you begin finish-out work on the site.

Moving On. Always allow for contingency plans should you decide this is not the right location for you. Insert a clause in the lease that says you do not have to pay the remainder of the lease in full if you decide to close and/or relocate. If there *is* a "lease buyout" amount, it should decrease with the age of the lease. Also include your right to ***assign and sublease***—that is, to lease the premises (along with the lease itself) to another business without having to pay the landlord for the unexpired term of your lease. The landlord usually requires his or her prior written consent, which is understandable. Insert this statement in the lease: "Consent will not be withheld unnecessarily." That way, when you find a reasonable and financially sound tenant to take over your lease, the landlord can't refuse without a very good reason.

In mall or strip mall locations, two other clauses may be appropriate. A ***go-dark clause*** allows you to terminate the lease or receive a rent reduction if an anchor tenant or other major tenants in the mall decide to leave or go out of business, compromising the success of your business and others that remain. An ***exclusivity clause*** protects your business by restricting the types of operations that can open, either in the same mall or in a particular section of the mall, so that you're not outdone by a competitor on your own turf.

The Infamous "Other." Many unusual or unforeseen circumstances might hamper your progress. It may be an antiquated town ordinance, a surprise deed restriction, or an old lien on the property that has resurfaced in your research of the site. Whatever the case, check carefully at city hall to make sure there is nothing unexpected on the horizon. Talk with the landlord, the real estate broker, and other businesses in the area to piece together a complete history of the site you are about to lease. Think of it as a marriage, of sorts. Go in optimistically, but go in with your eyes open.

As an example, a restaurant often requires a greater than normal number of roof penetrations to accommodate kitchen and bathroom exhaust systems, fresh air intakes, and the like. The landlord should be aware of this, and provisions should be made in the lease for the original roofing company to make these modifications and seal the holes. This should keep the roof's warranty intact.

In the "Building and Grounds" box, we reproduce some advice for tenants from *Restaurants USA*, the monthly publication of the National Restaurant Association. These hints were first published in the November 1993 issue and still apply today.

BUILDING AND GROUNDS

Advice for Tenants

BE A SMART NEGOTIATOR

1. Research rents and common area maintenance charges (CAMs) in your area—research anything that will help in the negotiations.
2. Set limits on what you'll pay based on your break-even point and your plans.
3. Leave a lot of time for negotiation, so you'll have room to dicker. Smart negotiators give themselves months to conclude favorable agreements, rather than being pressured into making hasty decisions that could mean trouble later.
4. Tell the landlord what you want. If you don't ask, you won't get it.
5. State your case, giving the facts and their impact on your restaurant. Armed with information, a restaurateur can tell a landlord what market rent and CAMs are, and ask that the rent be reduced by several dollars a square foot to be more competitive.
6. Recognize that all leases pose risks. Decide which are acceptable to take and which aren't. Understand that the landlord is also taking a risk (investing thousands of dollars) and wants some assurance that he or she will be properly compensated.
7. Use longevity in business as a bargaining chip. It brings clout to the negotiating table.
8. Include as many options and escape clauses as possible in your lease to increase flexibility.
9. Seek lower rent in the first few years of the lease, to give your restaurant a fighting chance.
10. Be prepared to make concessions for concessions. If a landlord lowers the rent, you might add a few years to the lease. One landlord lost $45,500 in future rent from a tenant, who moved out when they couldn't close a $3,000 gap during negotiations.
11. Get professional help before signing a lease. In fact, bring in an attorney well before you sign. It can produce benefits during negotiations.
12. Make final decisions yourself. Don't leave it to lawyers. They should advise you, not decide your course of action.
13. If you can't make the deal work, walk away from negotiations.

Source: Reprinted from *Restaurants USA* with the permission of the National Restaurant Association.

Lease-Purchase Options

A final word on the question of owning versus leasing space. Many successful restaurateurs have included in their leases an option to purchase the space at a predetermined time and price. Should your location prove to be successful, we urge you to exercise the option to buy it. From personal experience, we feel that owning the land brings you much additional freedom to operate your business. Of course, it can also cause you many sleepless nights!

SUMMARY

At the heart of any successful foodservice establishment is a creative, marketable concept. The idea will differentiate you from your competitors and create a mix of variables that will encourage your customers to return.

Who are today's customers? We describe them as "confident, educated, and sophisticated." Demographic research tells us they also are aging, culturally diverse, and always pressed for time. How can your restaurant serve these people, and how will it distinguish itself in their minds? Begin by creating a mission statement that defines your concept and target market. Then outline specifics: the name of the establishment, menu, pricing, location, design, and décor. To fine-tune your concept, visit restaurants that you enjoy as well as those that will be your competitors. In your visits, try to pinpoint exactly what the owners do well and what needs improvement.

Preliminary name research must be done, and this probably will require the services of a patent and trademark attorney who can file the paperwork to legally protect the name and brand as the project moves forward. Legal services also will be required as you decide how to set up your corporate structure and register it with the appropriate authority in your state.

You must develop both market and financial feasibility studies for potential investors. A market study analyzes the overall area, the competition within a five-mile radius, and the demographics and psychographics (physical and mental characteristics) of customers. Sophisticated types of research are now available that can tell you how much money customers in your market spend dining out and how saturated the market is with any particular concept. The financial study projects how much money it will take to start the business and what kind of profit can be expected.

Expect caution from prospective lenders, who will want to see both professional and financial prowess in your presentation. Don't be afraid to brag about your accomplishments or to shop until you find a bank that you will comfortable with in a long-term financial relationship.

One of the most important considerations in the future success of your restaurant is site selection. Pay attention to zoning restrictions, access to adequate utilities, proximity to both a customer base and a potential workforce, and previous ownership. Also examine both lease and purchase options for the site. Hire experts (designers, architects, foodservice consultants) before mortgage or lease paperwork is ever signed, for their opinions on whether the space can be adapted to what you have in mind and what that will cost.

STUDY QUESTIONS

1. Why should a restaurant concept include "an emotional connection"? Describe two restaurants in your own area that you think meet this challenge especially well, and explain your choices.
2. Using examples from your own dining-out experiences, list and briefly discuss four components of a restaurant's concept.
3. Think of good examples in your market for each of the four phases of a restaurant's life cycle, as summarized by Phil Friedman on pages 10–11, and explain your choices.
4. Let's do some simple figuring. At your own "Chez Restaurant," you have 200 seats. If each seat is occupied two times at lunch and one time at dinner, and the average check is $10, how much money do you collect in one day?
5. Why is it important to do both financial and market feasibility studies? What are you trying to prove when you do them?
6. What is a restaurant cluster? Is there an example of one in your town?
7. Name three of the long-term factors to consider when buying a restaurant site and working with designers and building contractors.
8. List two of the positive—and two of the negative—factors in restaurant site selection. What makes them good or bad?
9. If you had the choice, would you lease or buy a site to start your foodservice business? Explain your decision.
10. Define the terms "base rate" and "percentage factor" in a restaurant lease agreement. Give examples of each.