DESIGN AND EQUIPMENT FOR RESTAURANTS AND FOODSERVICE

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A Management View

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PREFACE

At times, the details involved in running a foodservice business may seem overwhelming, even to longtime professionals. This textbook is an attempt to make those details easier to understand and cope with. The idea grew from the authors' needs—both as academics and foodservice professionals—to find a good, basic compilation of information for teaching, training, and troubleshooting.

This text is intended primarily for students in a culinary school, or in a food and hospitality management program, taking a course in foodservice equipment, layout and/or facilities management. However, the wealth of information, along with many handy tips and suggestions, could be used by anyone who aspires to open his or her own restaurant.

ORGANIZATION

The text is organized in a format similar to the process in which a restaurant would be planned, designed, and equipped. The book starts at the beginning stages of planning a restaurant, with discussions about concept development, site selection, budgeting, and market research (Chapter 1). Design concepts and space allocation guidelines for both the kitchen and dining areas are then introduced (Chapters 2–4). A thorough discussion of utilities follows (gas, water, electricity), along with information on energy management, meeting safety requirements, and sanitation codes (Chapters 5–7).

The last dozen chapters focus on acquiring and using specific pieces of foodservice equipment in all areas of a restaurant, from the kitchen to the tabletop (Chapters 8–19). The complexities of purchasing, installing, operating, and repairing foodservice equipment are explained in clear, simple terms. Individual chapters are devoted to equipment selection, purchasing and installation, storage equipment, the cook/chill process, ranges and ovens, broilers and griddles, fryers, steam cooking equipment, dishwashing and waste disposal, smallware, tableware, and linens. Perhaps these subjects are not as glamorous as other aspects of the foodservice field, but they're just as important as the design of your logo or the way the food tastes.

The underlying purpose behind all of these discussions is to demystify the myriad decisions a new restaurateur or foodservice manager will be faced with, which are as wide-ranging as where to put a laundry room, how many place settings you should order, how to save energy and lower utility bills, how to buy a walk-in cooler and how big it should be, how to create a pleasing tabletop presentation—even how the air conditioning system and water heaters work. The focus is on useful, up-to-date information about equipment, procedures, techniques, safety, government and industry regulations, and terms of the trade.

FEATURES

To help students process this wealth of information, several pedagogical features have been incorporated into the text.

Introduction and Learning Objectives appear at the beginning of each chapter. The introduction sets the scene for what will be covered, while the learning objectives—arranged in a bulleted list—alert students to the concepts they should focus on as they read.

The discussions in each chapter are supported by a multitude of real-world examples and useful hints, many excerpted from leading industry publications. These examples appear in the form of boxes that are inserted into the text at various points. The boxes have been organized into four distinct types:

The Dining Experience looks at ways to enhance the atmosphere and improve operations in the front of the house, from ideas for creating a restaurant concept (Chapter 1) to a discussion of different carpeting types and their effect on a restaurant's overall decor (Chapter 7).

In the Kitchen concentrates on design solutions for the kitchen and storage areas of a foodservice operation, with discussions as diverse as the safety rules for electricity and gas (Chapter 8), and suggestions for sizing a kitchen (Chapter 4).

Building and Grounds focuses on the maintenance and engineering of foodservice facilities, including recommendations for designing an energy efficient building (Chapter 7) and negotiating lease agreements (Chapter 1).

Foodservice Equipment takes a closer look at specific pieces of equipment, with topics as wide-ranging as how to buy a refrigerator (Chapter 9) and the best way to dry linen (Chapter 19).

Photos and illustrations have been added to support the text and clarify concepts which might otherwise be difficult to visualize. Some of the technical information and code information are arranged as **tables** for easier comprehension and reference.

Each chapter ends with a concise **Summary** that highlights the most important points discussed within the chapter.

Study Questions appear at the end of each chapter, and are intended to test students' recall of the material and serve as an aid in their studying.

A **Glossary** at the end of the book defines and explains all of the key terms introduced in the chapters.

A Conversation With . . . To enhance the text's practical, real-world focus, and make the subject "come alive" for students, we have included several conversations with chefs, design consultants, and other foodservice professionals. A short biographical sketch precedes each conversation. There are nine conversations, placed evenly throughout the book behind chapters. We are indebted to the following individuals for sharing their best advice and insights with us:

Larry Forgione
Proprietor and Chef, An American Place
New York, New York

Kathleen Seelye
Design Principal, Thomas Ricca Associates
Denver, Colorado

Alice Waters
Chef and Owner, Chez Panisse
Berkeley, California

Mark Buersmeyer
General Manager, Business Foodservice, Marriott Corporation
Boise, Idaho

Joseph Phillips
Technical Manager, Food Equipment Program, NSF International
Ann Arbor, Michigan

Kathy Carpenter
Hospital Foodservice Consultant
Grand Junction, Colorado

Allan P. King, Jr.
Foodservice Design Consultant
Reno, Nevada

Jim Hungerford
Foodservice Maintenance and Repair Specialist and Co-owner, Boise Appliance and Refrigeration
Boise, Idaho

Mike Fleming
Tabletop Designer, US Foodservice
Portland, Oregon

An **Instructor's Manual** (ISBN: 0471-10284-9) to accompany this textbook is also available from the publisher. The instructor's manual features outlines and suggestions for teaching from the book in a classroom setting, answers to the Study Questions, and chapter quizzes with answer keys.

■ ACKNOWLEDGMENTS

We are indebted to many individuals who offered their guidance, suggestions, and insights as this book was taking shape. Foodservice educators from across the country reviewed early drafts of this manuscript and suggested ways to enhance its value as a learning tool. They include:

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Diane Miller
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Donald Rose
Oklahoma State University

Kathleen Schiffman
St. Louis Community College

Carol Wohlleben
Baltimore International College

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John Trembley, district manager of Hobart Corporation, read several chapters in draft form and provided us with helpful advice. Chef David Root also edited early drafts of some chapters. Equipment repair experts Jim Hungerford and Roy McMurtry were always willing to explain the intricacies of refrigeration. The late Bill Hines of Lone Star Gas Company first made us aware of the many ways natural gas plays a role in foodservice, and the staff at the American Gas Association was also helpful in providing us with information. Chuck Ellis of Dallas Power & Light, and later, William C. Aubrey of Texas Utilities Electric supplied us with

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We are especially indebted to Joe Berger, a retired principal of Fabricators, Inc., who taught the Foodservice Equipment course at El Centro College, and urged Gus Katsigris to put all of these ideas into textbook form. Joe continues to be the inspiration for this text. Terrell Blair and her assistants in the Business and Public Service Division at El Centro College were invaluable in deciphering the earliest versions of the text. Writer Lark Corbeil conducted some of the conversations that appear in the book. The line drawings that appear are the work of Richard Terra, our ace illustrator.

Thanks to our intrepid editors at John Wiley & Sons, JoAnna Turtletaub, Matt Van Hattem, Jennifer Mazurkie, Claire Zuckerman, and Maria Colletti, who have been fun, helpful, thorough, and completely supportive.

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And finally, thanks to the equipment manufacturers—too numerous to mention—who graciously supplied photos.

It is our hope that you feel comfortable with this wealth of information; that you find it useful; and that it inspires you to embark on a most rewarding career: offering great food and great hospitality in a world that has too little of either valuable commodity.

Costas Katsigris and Chris Thomas
March, 1999

1

ECONOMICS OF SITE SELECTION

Introduction and Learning Objectives

Making all the decisions that go into the early planning of a restaurant is a process called ***concept development.*** The dictionary defines a ***concept*** as a generalized idea, but in the restaurant business, that definition hardly seems adequate. We'd all be successful restaurateurs if it were as simple as saying, "Most people will really like this, if it's a nice place and the food's good and we treat 'em right!"

Your concept should encompass everything that influences how a guest might perceive the restaurant. Concept development is the identification, definition, and collection of ideas that constitute what guests will see as the restaurant's ***image.*** This process challenges the owner and planner to create a restaurant in which every component is designed to reinforce the guest's favorable perception and to make that guest a repeat customer.

Part of that is the job of mapping out a thorough business plan that will be profitable for the people who risk the money and effort to put this plan into action.

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

1–1 ■ CHOOSING A CONCEPT

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 "who" 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 that is chosen for the restaurant. Its name should indicate the type of place it is (casual, formal, 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. When a name is chosen, immediate steps should be taken to register this name with your city or county, so no one else can use it.

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.

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. So the successful concept is one containing a mix of variables that are, overall, better than those offered by its competitors.

As you create or select a concept, ask yourself: What do diners want in their restaurants?

The Dining Experience

CREATING A CONCEPT

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

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?

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.

Design/Decor. 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.

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, which distinguish them from their competitors.

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

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.

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 2 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 time line of development for a typical restaurant.

1–2 ■ THEMES AND CONCEPTS

If a concept is a generalized idea, a ***theme*** takes the idea and runs with it, reinforcing the original concept over and over again. A generation ago, 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 more attention was often paid to the trappings than the quality of food served. The modern diner is more adventurous and sophisticated,

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,* 2nd ed., John Wiley & Sons, Inc., New York.)

Illustration 1–2.
This time line shows the major points in the restaurant planning process. It may be 2 years or more before its doors open to the public! (*Source:* Donald E. Lundberg and John R. Walker, *The Restaurant from Concept to Operation,* 2nd ed., John Wiley & Sons, Inc., New York.)

with a passion for culinary honesty that has more to do with the chef and menu than with decor. It doesn't mean the theme restaurant has disappeared. It means that, to be successful, the theme must involve every part of the operation, not just clever surroundings. And that's what makes it a full-fledged concept. Look closely, and you'll see that today's themes are driven as much by their menus as their settings.

Take a look at the amusing time line shown in Illustration 1–3. Remember these concepts? And now we're heading into the "Great Beyond" at the top of the chart, in the 21st century. If there's a theme so far for the new century, it is adaptability, as U.S. restaurateurs create unique niches to help them maintain a competitive edge. Some redesign interior or exterior spaces to match new menu items. Does an exotic tropical island theme work in a Midwestern town? Maybe. If not, be prepared to transform it into something else that does.

One thing is certain: Successful restaurant concepts exude an attitude of ease and conviviality. It helps if you 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 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

Illustration 1–3.
Time marches on! A historical development of dining concepts. (*Source: Foodservice Management.*)

conditions, and the particular social occasion, to name a few. Sometimes, the choice is simple: "I'm exhausted; what's the closest place to eat?"

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.

Because there are so many variables, 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. The prestigious Cornell Hotel and Restaurant School refers to these variables as meeting the customer's need for acceptability. This need manifests itself in dozens of ways, as you can see in Illustration 1–4, Cornell's Checklist of Restaurant Needs.

Nontraditional Concepts

An idea that has caught the attention of the foodservice industry in recent years is that of the "nontraditional" restaurant site. It is, perhaps, more an expansion strategy than a concept, but it has the potential to be

Here are some of the many elements that your potential customers will consider when they decide whether they find your restaurant "acceptable."

1. **Expectation**
   Price
   Facilities

2. **Choice**
   Related to powers of discrimination
   Time available

3. **Mood**
   To seek novelty to pioneer (contemporary)
   To wish to conform
   To escape (antique or fantastic)

   To do things for oneself
   To have things done for one
   To be sociable (alone, small or large groups)
   To feel at ease (mass, individuals)

   Real tempo to be appropriate
   Apparent tempo to be appropriate

   Timing to be appropriate
   Formal, informal, functional, clinical, etc.
   Happy, relaxed, hurried, slow, escapist, realistic
   To have entertainment provided

4. **Five Senses**
   Sight
   Wholeness or totality
   Harmony
   Contrast
   Order and consistency
   Balance
   Colors to suit mood

   Brightness to suit occasion
   Hue of colors corresponding to levels of discrimination
   Identification
   Recognition

   Human error
   Taste
   Quality of flavor
   Intensity of flavor
   Pleasing each of the four taste subgroups: sweet, sour, salt, and bitter
   Contrast

   Smell
   Quality of aroma
   Intensity of aroma
   Pleasing each of the four taste subgroups: sweet, sour, salt, and bitter

   Condition of air
   Touch
   Pleasing texture (austerity, fussiness)
   Acceptance of temperature

   Comfort
   Heating
   Communications with waiter or waitress
   Intensity of voices, operating noises, music
   Nature of music
   Tempo of music (if any)

5. **Metabolism**
   Digestion
   Quantity of food
   Quantity of liquid
   Calories
   Vitamins
   Salts

6. **Value for Money**
   Acceptability
   Consistency
   Appearance

7. **Cost**
   Money
   Time
   Patience
   Dress

8. **Function**

9. **Protection**
   Anxiety
   Accidents
   Cleanliness
   Elements

10. **Accessibility**
    Accessible
    Convenient

Illustration 1–4.
A checklist of restaurant needs. These timeless standards were first published in 1970. (*Source:* Copyright Cornell University. All rights reserved. Reprinted with permission.)

a lasting phenomenon. The idea is simple: Instead of building a restaurant from the ground up and then trying to attract customers, you take the food to places where the customers already are. The possibilities are almost endless, including airports, convenience stores, retail stores, highway travel plazas, college campuses, 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 present customers of the host establishment (baseball fans, airport travelers, etc.).
- It's faster to set up and open your business, because the basic construction has already 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.

However appealing this may sound, industry experts urge extreme caution in striking a deal between a foodservice establishment and a host site. The following caveats appeared in the August 1995 issue of *Restaurants, USA*, the trade publication of the National Restaurant Association:

- 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 particularly apply 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? 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.

1–3 ■ STUDY YOUR MARKET

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. Let's look at the two types more closely.

Market Feasibility Study

Let's be optimistic. Let's assume there actually are humans out there who are potentially willing to buy (and eat and enjoy) what your concept is offering. Of course, you've got to locate them before you can convince them to come in and try it! You must prepare your market feasibility study to convince your investors that these hungry humans are out there waiting.

Another way to view your feasibility study is as a "check" of your concept. The concept is the idea; the study will help us pinpoint who, in fact, is interested in the idea. The study is the first part of your long-range plan. If you have a clear vision of where your restaurant will be in future years, you have a much better chance for survival. Why? You know where you are going, and have thoroughly researched potential advantages and pitfalls.

An analogy from the Fall 1995 issue of *The Consultant:* "A consultant sat down with the three partners of a future restaurant and said, 'Where are you going to be in five years?' One said, 'We will have three restaurants.' One said, 'We will have 12 restaurants!' And one said, 'I don't know if we will still be in business. . . .' " A clear focus helps dispel this confusion.

Starting from the potential location of your restaurant, the 5-mile radius around the site is your prime market for customers. For fast-food places, the radius is a little smaller; for table service restaurants, a little larger. But, overall, 5 miles is a good rule of thumb. You'll want to get to know this 5-mile circle as well as you know your own home.

What are you looking for? First, for potential *customer sources,* or where customers will come from. Typical customer sources include: residents (live in the trade area); employees (work in the trade area); shoppers (come to spend money in the trade area); commuters (on their way to or from work but don't actually live or work in the trade area); enjoyment seekers (in the area for some form of entertainment, such as a ballgame or a movie); travelers (passing through the area or staying overnight on their way to someplace else). Finally, consider any *special populations,* for example, a college or military base near your restaurant, which may provide an extra customer source; or takeout customers, who may not stop except to patronize a drive-up window.

Potential Customers. Who will be the average, most frequent guest at your proposed restaurant? 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. Meet your market!

How 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. The Chamber of Commerce should be another terrific source of information. The local newspaper's advertising department may keep some of these facts on file. The public library is also a 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.

You also need to know about the patterns and habits of your "target guests" when they are dining out. This kind of information is called ***psychographics,*** and it's generally harder to dig up than demographics. Your area or state restaurant association may be a good starting point. Also, right on your own school campus, there may be a marketing or advertising department with students who are willing to help do research. Present them with a specific project or need, and ask if they will assist you, for school credit or for a small fee.

This brings us to another good point. Research is time and labor intensive. In the early planning and budgeting process, build in a small budget for research. 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. 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 forth.

Trade Area and Location. Can this 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.

Your city's economic development office and/or chamber of commerce, or even a seasonal local realtor in the neighborhood, can share some of this data or point you in the right direction to look it up yourself.

This part of the study should also include details about your 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 anything—like a museum, park, or sports facility—that would serve as a regular crowd generator for you because of its events.

Competition. You will be eating out a lot to do the research for this section! In your 5-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, decor—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 decor, 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.

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 the following 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 for 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 **average check**)

Here's a simple example of these calculations.

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:

$$\begin{array}{r} \text{Lunch } 140 \times 2 = 280 \\ + \text{ Dinner } 140 \times 1 = 140 \\ \hline \text{Total guests per day} = 420 \end{array}$$

- 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.

Okay, 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 entree. 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 $8 per person.

Daily Sales:

$$\begin{array}{r} \text{Average check} = \$8.00 \\ \times \text{ Daily number of guests} = 420 \\ \hline \text{Sales per day} = \$3360 \end{array}$$

Weekly sales:

$$\begin{array}{r} \text{Average check} = \$8.00 \\ \times \text{ Weekly number of guests} = 2940 \\ \hline \text{Sales per week} = \$23{,}520 \end{array}$$

Monthly sales:

$$\begin{array}{r} \text{Average check} = \$8.00 \\ \times \text{ Monthly number of guests} = 12{,}600 \\ \hline \text{Sales per month} = \$100{,}800 \end{array}$$

Annual sales:

$$\begin{array}{r} \text{Average check} = \$8.00 \\ \times \text{ Annual number of guests} = 151{,}200 \\ \hline \text{Sales per year} = \$1{,}209{,}600 \end{array}$$

Understandable? Just remember, you can't get accurate projections without 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 National Restaurant Association (NRA) conducts extensive annual studies to compile the expenses and percentages for many different types of restaurants. Because they use national averages, they 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 28 to 35 percent of the restaurant's income, and beverages will cost 18 to 24 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.

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.

The Dining Experience

CALCULATING FOOD AND BEVERAGE COSTS

Food sales

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

Food costs

$2856 (daily food sales) × 35% (0.35) = $999.60

Beverage sales

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

Beverage costs

$504 (daily beverage sales) × 24% (0.24) = $120.96

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

Food

$999.60 (daily cost) × 7 (days per week) = $6997.20

Beverage

$120.96 (daily cost) × 7 (days per week) = $846.72

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

Food

$999.60 (daily cost) × 30 (days per month) = $29,988

Beverage

$120.96 (daily cost) × 30 (days per month) = $3628.80

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

Food

$29,988 (monthly cost) × 12 (months per year) = $359,856

Beverage

$3628 (monthly cost) × 12 (months per year) = $43,536

Labor Costs. How many people can you afford to hire, and at what wages? You can't answer that question until you've figured your labor costs. From the same NRA surveys, you can get an accurate picture of what restaurants spend on payroll. 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 between 20 and 25 percent of its income on labor costs. This does not include employee benefits (some of which are optional), which add another 4 to 5 percent to overall costs.

Chez Ralph estimates labor costs will be 23 percent of its total sales. This means:

Daily labor cost

$3360 (daily total sales) × 23% (0.23) = $772.80

Monthly labor cost

$772.80 (daily labor cost) × 30 (days per month) = $23,184

Annual labor cost

$23,184 (monthly labor cost) × 12 (months per year) = $278,208

Now do you see why the restaurant business is not for the fainthearted? Sure, you may make a million dollars, but you'll spend almost $700,000 of it on food, drinks, and employees to prepare and serve them.

Other Expenses. Those NRA studies will also point to other expenses that need to be estimated, from rent to utility cost to equipment payments. Illustration 1–5 shows income and expenses as percentages for a typical restaurant with an average check of less than $10 per person. Look at the income figures at the bottom, and you'll see what a smart restaurateur you have to be in order to make even a very modest profit.

When expenses are all gathered and estimated, you are ready to prepare your projected income statement and projected cash flow statement.

1–4 ■ SELECTING A SITE

Ask almost any seasoned restaurateur or consultant to define the three most common reasons for the success or failure of a foodservice concept, and they'll probably mutter, "Location, location, and location."

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," for often 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 fall "conveniently" into their daily commute, route of errands, and so forth.

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.

Unfortunately, most customer research seems to include only demographic information, when location-related background can be equally important. For example: 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.

	Type of Establishment					
	Food Only			Food and Beverage		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Sales						
Food	100%	100%	100%	73.4%	87.4%	96.1%
Beverage (alcoholic)	N/A	N/A	N/A	3.9	13	26.6
Total Sales	100	100	100	100	100	100
Cost of Sales						
Food	30	34.6	38.9	29.4	33.4	37.6
Beverage (alcoholic)	N/A	N/A	N/A	25.6	30	35.4
Total Cost of Sales	30	34.7	38.9	29.1	32.6	36.3
Gross Profit	61.1	65.3	70	63.7	67.4	70.9
Operating Expenses						
Salaries and Wages	26.6	30.6	36.5	26.9	30.3	36.2
Employee Benefits	*	2.8	*	*	4.0	*
Direct Operating Expenses	2.5	4.6	7.1	3.8	5.4	8.1
Music and Entertainment	0.0	0.0	0.0	0.0	0.0	0.3
Marketing	0.6	1.3	2.3	0.8	1.8	3.5
Utility Services	2.7	3.7	4.8	2.6	3.5	4.6
Restaurant Occupancy Costs	1.1	4.3	6.7	2.3	4.9	6.9
Repairs and Maintenance	1.1	1.6	2.4	1.0	1.6	2.3
Depreciation	0.0	1.5	3.4	0.6	1.8	3.1
Other Expenses (Income)	0.0	0.0	1.8	(0.3)	0.0	0.7
General and Administrative Expenses	0.0	1.3	4.0	0.8	2.9	5.0
Corporate Overhead	0.0	0.0	2.0	0.0	0.0	4.3
Total Operating Expenses	50.8	58.7	64.3	56.1	62.3	67.8
Interest Expense	0.0	0.1	1.3	*	*	*
Other Expenses	*	*	*	*	*	*
Income Before Income Taxes	(0.4%)	5.4%	12.2%	(0.3)%	4.4%	10.8%

Note: Computations include respondents that provided zeros and numerical amounts.
N/A = Not Applicable.
* = Insufficient data.

Illustration 1–5.
A rundown of every financial detail that impacts a restaurant's bottom line. This particular example is a full-service restaurant with an average check under $10 per person. All ratios are based as a percentage of total sales except food and beverage, which are based on their respective sales. (*Source:1998 Restaurant Industry Operations Report.* National Restaurant Association and Deloitte & Touche LLP, 1998.)

As long as there's a vacant building and a willing investor, there will be hot debate about the true importance of site selection. 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 usually change to adapt.

Where does 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.

Guidelines for Site Selection

At this point, we will list some important guidelines that should serve as red “warning flags” when selecting a site. If any one of these conditions exist, proceed with extreme caution. Your business survival may be at risk.

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. 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!

Short-Term Lease. Do not lease for less than 5 years, with one 5-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 trap 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 flood plain of an adjacent river or creek, which may make insurance difficult or expensive to obtain.

Utility Access. 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 realtor or local utility companies can check on this for you.

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? 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?

Previous Ownership. Was this site previously a restaurant in its "past life"? 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.

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 and sizes of outdoor signs allowed. If you're looking at a strip-style shopping center, go for the ***end cap*** or end location; in other situations, a corner lot versus 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, 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.

Today, accessibility also includes compliance with the federal Americans with Disabilities Act (ADA), which was passed in 1992. Businesses are now required by law to provide commonsense amenities—such as handicapped parking spaces, wheelchair ramps, and 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 its 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.

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 other concepts already at work in your cluster, and remember that, generally, casual dining works better in a cluster than a fancy, white-tablecloth establishment.

Guests, Both Regular and Infrequent. You want 40 to 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 can typically provide these diners are:

- Singles
- Young families
- Retirees
- Affluent empty nesters
- Tourists and conventioneers
- 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 helps insulate a restaurant against the impact a new competitor may have on the whims of the regulars. A regular clientele may suddenly "evaporate" as they all rush to try a new eatery, while the infrequent guest is not as subject to these whims.

1–5 ■ 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? Here are a few of the variables involved in your decision:

Buying the 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 realtor 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.

Sales prices in urban areas are calculated in "dollars per square foot," and in undeveloped areas, "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 downpayment 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, it 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. Square-footage costs in 1996 to build a restaurant without equipment or fixtures were $105 per square foot in Dallas, Texas, and $250 per square foot in New York City.

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.

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, that means 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 a 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 realtor 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.

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 5 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. If the landlord provides a finish-out allowance, the 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, and, frankly, most new restaurants need their cash to sustain them in the first lean months before they see a profit. So try to let the landlord assume finish-out costs.

Or, if you're quite a negotiator, test your skills by offering to do the finish-out in exchange for a much lower rent for the first 6 months to 1 year. We also know of situations in which restaurateurs have done their own finish-out in exchange for *free* rent for the first 3 to 6 months! It all depends on how badly the landlord needs a tenant in the space.

Specifics of Most Restaurant Leases

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

$$5000 \text{ (size in square feet)} \times \$20 \text{ (cost per square foot)} = \$100{,}000$$

The monthly rent would be

$$\$100{,}000 \text{ (annual rent)} \div 12 \text{ (months)} = \$8333.33$$

On average, total rent costs should be about 7.3 percent of yearly gross sales. In many lease agreements, there is also a ***percentage factor*** 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:

$$\$100{,}000 \text{ (monthly rent)} \times 1.08 \text{ (rent plus 8\%)} = \$108{,}000.00$$

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 it carefully with you before you sign anything.

The reason percentage factors are controversial is simply that they ask you to pay an additional price for success. Let's say, after 7 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?

$$\$112{,}000 \text{ (net sales)} - \$108{,}000.00 \text{ (rent base plus the 8\% factor)} = \$4{,}000.00$$

$$\$4{,}000.00 \text{ (additional sales)} \times 0.08 \text{ (8\% factor)} = \$320.00$$

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 5 years, with two more 5-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 5-year term. The increase may be based on the Consumer Price Index (CPI) 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.

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. Your attorney and accountant fees will be well worth the peace of mind to have these important contractual agreements written and reviewed.

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, 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.

The Infamous "Other." There are many unusual or unforeseen circumstances that might hamper your progress, as there are different types of cuisines. 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 realtor, and with 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.

In the following "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.

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.

Begin by creating a mission statement. Why is your restaurant needed, and how will it be different? Then outline specifics: the name of the establishment, menu, pricing, location, design, and decor. 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.

You will need to develop both market and financial feasibility studies for potential investors. A market study analyzes the competition within a 5-mile radius, and looks at the demographics and psychographics (physical and mental characteristics) of potential customers. The financial study projects how much money it will take to start the business, and what kind of profit can be expected.

One of the most important considerations in the future success of your restaurant is site selection. Pay attention to zoning restrictions, access to utilities, proximity to both a customer base and a potential workforce, and previous ownership. Also examine both lease and purchase options for the site.

■ Study Questions ■

1. In your own words, define the term "concept." Give examples of restaurant concepts you have visited in your own city.
2. Using examples from your own dining-out experiences, list and briefly discuss four components of a restaurant's concept.
3. When doing market research, what's the difference between demographics and psychographics?
4. Let's do some simple figuring. At your own "Chez Restaurant," we 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.

A Conversation with . . .

Larry Forgione

Proprietor/Chef, An American Place
New York, New York

Larry Forgione has made his culinary reputation as a creator and champion of "New American" cuisine. Among his many awards: the Culinary Institute of America's 1989 Chef of the Year, and an inductee into the Fine Dining Hall of Fame. Forgione began his career at London's Connaught Hotel. After winning medals for innovative cooking in both Britain and France, he held several executive-chef positions at New York's El Morocco, Regine's, *and the* River Cafe *in Brooklyn.*

In 1983, at age 30, he opened An American Place *in New York City and, 8 years later, the* Beekman 1766 Tavern *in Rhinebeck, New York. Forgione is also a frequent contributor to* Cooks Magazine, *a culinary adviser to American Airlines, and co-founder of American Spoon Foods, a specialty foods company.*

Q: You graduated from the Culinary Institute of America before you started your career. Do you think it is critical that chefs today go to the CIA or have a so-called "orthodox" educational background in cooking?

A: I'm not sure it's critical that they do. I think it would certainly be a help to anybody who could afford the time and money to get the experience of going to a structured culinary school. You get to see a very broad picture of what the industry is about, what kitchens and cooking and table service is about, and how it all works together. But I certainly don't think you have to go to a culinary school to be a fine chef. You can also work your way through kitchens, learning completely on the job.

Q: You began your career in London and traveled quite a bit, and many other famous American chefs have also worked in Europe. How important is it to have international experience?

A: Again, I don't think it's absolutely necessary. But all experience helps build the foundation for your life's pyramid. I would recommend that anybody who has the opportunity to go to another country to experience the food and culture should certainly do it. I was very happy that I did. I learned a great deal while honing the skills I learned at culinary school.

Q: So much of creating a successful restaurant involves the design details—like where the utilities should be placed, whether to install a pass-through window, or where to put the restrooms. How do you make all these "nonfood" types of decisions?

A: First, you have to decide on the concept of the restaurant. Generally, it's influenced by neighborhood or location. Is it an area with offices where people will be coming down for cocktails before going home, or is it in a neighborhood where people are returning home from their offices? All of those little factors come into play determining your concept.

You mentioned the pass-through window. I prefer it, because whenever you can create less traffic, it's better. Here at An American Place, you have to come into the kitchen to pick up the food, but we have all the food fed to one spot on the pickup line instead of five or six places so people are not running into each other all the time, and also to ensure that the chef and expediter see everything that's coming out of the kitchen.

Deciding where to put utilities or equipment is all part of the process of being actively involved in laying out your kitchen. You need to speak with engineers who know how to lay it out, how much power you need, and what's the proper flow. I never had formal training in utilities, but it would have come in handy. It behooves you to figure out how to fix a salamander on your own without waiting for the repair person to get there, or at least figure out a way to work with it until it can be fixed! It's helpful to know as much as possible about the tools of your trade.

Q: If those classes had been available to you in school, would you have bothered to take them? Do you think it's necessary to have formal training in these areas?

A: It depends on whether you have designs or plans to open your own restaurant. I mean, there are certainly engineers you can work with in kitchen design who have all that information and can take care of all that for you. You need to understand it, certainly, but not necessarily be the expert.

Q: You are sometimes called the "Godfather of American Cuisine." How did you come up with the concept for An American Place?

A: An American Place promotes the use of American products and highlights the bounty of America, and that was the concept—to create a restaurant and a style of food based on American ingredients and some sound American culinary concepts. This idea has been my life's work for the past 20 years. It came from a sense I got growing up on my grandmother's farm, being familiar with farmland and the wonderful, farm-fresh foods. Traveling abroad, I noticed there was so much more emphasis on that than in the United States. I felt it was wrong that there wasn't more emphasis put on the growing and the love of food, so I decided that was something I wanted to do when I came back [to the United States].

Q: You've had a successful long-term partnership with your investors. How do you handle disagreements, and what do you need to watch out for when you go into business with somebody?

A: When people go into partnerships and take on investors, the deal has to be sensible for everybody. If it's not sensible or is unreasonable in the beginning, it's never going to become reasonable. Barring unforeseen problems which arise naturally through life, good partnerships from the beginning usually remain good. The best way to formulate a business partnership is to base it on sound business principles. I'd add that sometimes when you get involved with family or friends, the decision-making process becomes too personal. Business decisions should always be based on business.

Q: What do you need to know to negotiate a lease?

A: You have to have a fairly good business plan and keep within a budget concept. Not all leases work. If rent is set at 6 to 8 percent of your gross sales and it turns into 12 to 15 percent of your gross sales, you're going to have a problem with your bottom line.

Q: Are there any design or aesthetic elements that you think are particularly important in foodservice?

A: There are design elements I personally think are important, but I can't imagine anyone believing that if certain things exist, there's a sort of guaranteed success. I really like dining rooms to be open, airy, or spacious, with clean-looking lines. For me that means high ceilings, nice sculptured columns, and polished wood finishes.

Q: How do you keep the energy and love of cooking alive when you have to do it to such a degree that it might become drudgery?

A: You just keep changing and creating, doing different menus. There is a part of cooking in a restaurant that is focused on getting the food out on time, and making sure that things are the way you want them, and you have to learn an excitement from that to make it fun. When the restaurant is busy and the kitchen and dining room are clicking, the energy that rises in you becomes a stimulus rather than a burden. You're in the wrong profession if you don't get excited by that energy—the energy and controlled chaos of being busy, pans everywhere, people picking up and ordering. All the things that would be overwhelming to an outsider are the things that make it exciting to a person who is part of it.