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How to Manage the Life Cycle of Your Restaurant

by Chris Tripoli and Pat Morris

When first planning to open your restaurant, your goal is to get open, your strategy is to get open and all support tactics involve getting open. On one hand you can't wait to hear the register start ringing. On the other, you just know that you're going to forget something.

All in all, it's hard to think past opening day — until after opening day. Then your goal is to do a better job tomorrow. Your strategy is to learn from your opening-day mistakes. But there is not time to plan any support tactics. You close the front door at 11 p.m., get home around 1 a.m., open the back door tomorrow at 8 a.m., often sleep-deprived.

Welcome to the reactive life of a restaurateur, constantly caught up in managing the business for today. No time to figure out how to get ahead of the learning curve. You tell yourself that the proverbial baptism of fire is just the nature of the business, a mandatory rite of passage.

Forget all of those metaphors. There is a way to be a proactive restaurateur. Like any other product, your restaurant concept also has a life cycle. In this article we will help you understand your restaurant's life cycle dynamics and prepare you for managing each phase as you move your concept along in the marketplace.

Let's review the general phases of a concept's life cycle, as it emerges and develops in the marketplace. Once the general dynamics of a concept's development are understood, you can adjust the formula to allow for any specific factors concerning your concept or unique market conditions.

Birth and Infancy — Preopening and Year One:

The Realization, Organization, and Prioritization Phase

In this phase you must transform that idea about a restaurant you have had bouncing around in your head into a tangible and viable plan to get open and start operating. The process includes realizing, organizing and then prioritizing every step of how your restaurant is going to operate.

Realize. This step involves a divergent thought process in which you think "outwardly" about every conceivable factor (both internal and external) that will affect how you will do business. You must include any and every factor that could come into play regarding your concept. Even if a factor seems remote, you include it. You can always delete it in a later stage when you begin to

organize and prioritize.

The challenge here is not to leave out any variable that could affect the business and surprise you. By the way, when you first open a restaurant, most surprises are not good. So it is best to keep them to a minimum.

This is the time to brainstorm. Gather together anyone who will be involved in the business. If you know who will manage the restaurant, make sure they are present. You will want your manager and key staff to have authorship in the restaurant's operating plan. If you have a confidant in the industry, enlist their input. This is also a good time to enlist the help of a restaurant consultant. Most consultants have checklists developed to ensure all the major factors leading to a successful concept introduction are considered.

(A 300-point "start-up checklist" is available online to members of RestaurantOwner.com.)

Organize. This step involves reconsidering all the factors accumulated in the previous step. Now is the time for the convergent thought process in which all variables are converged into the main areas of the business. Categories would include, but might not be limited to:

- Concept development.
- Operations.
- Marketing.
- Menu planning.
- Accounting.
- Purveyors.
- Management.
- Staffing.
- Information technology.

Prioritize. Now prioritize all of the variables listed in each category according to their effect on the business and the urgency to get started. For instance, in marketing, your priorities might look like this:

- Design logo.
- Design menu.
- Design signage.
- Design any collateral material (posters, table tents, etc.).
- Design grand opening ad.
- Determine media to use for the ad.
- Determine charity to support with opening.
- Develop PR campaign.

Additional personnel priorities might look like this:

- Write a profile of the management team, by position.
- Engage a restaurant recruiter for assistance.
- Hire a general manager.
- Hire a kitchen manager.

- Hire other assistant managers, with managers.
- Develop a policy-and-procedures manual.

Preopening and year one is the time frame in which you accumulate the data (research and test), formulate the plan and put in place initial operating systems and procedures based on the most immediate priorities. Due to the complexity of pulling all the different pieces of the business together (investors, financing sources, real estate choices, menu development, décor and design, personnel, etc.), following a preopening checklist and managing the corresponding timeline is critical. You don't want to be paying rent on a location 30 days before you are able to get open; or you open but you are waiting for your sign to be erected, or your menus to arrive, or your liquor license to be processed.

Ideally, your timeline should include a time frame for ample training, team building, and crew practice by arranging VIP meals before the grand opening. Practice makes perfect is an adage that has special meaning in opening a successful restaurant.

Implement. Rich Melman, chairman of Lettuce Entertain You Enterprises (LEYE), a Chicago-based restaurant company and a self-described "champion of the value of concept development" says that "Implementing your concept is like a first taste of a new recipe; it's exciting but may need a little tweaking to get just right." He also says, "The best restaurants open leaving a few bullets in their gun and never put everything out there in the beginning."

Melman says that with the many restaurants LEYE has opened over his more than 30-year career each one had the same goal: To establish the concept during the infancy period in a step-by-step process. He suggests first opening for dinner only, and build on that base of success, by adding a lunch program, private parties, to-go, catering, Sunday brunch, and a late-night program, incrementally as the market indicates.

The Toddler Stage — Years Two and Three:

The Time You Learn to Become More Effective and More Efficient

The goal in this phase of business is to gain **CONSISTENCY** — boldface, all caps and underscored — in how you execute your concept. You made it through year one. On their first visit, most customers are usually understanding about little things not going quite right. And they are forgiving, as long as any discrepancy is handled immediately and politely. But as time passes, so does the forgiving spirit of your customers. Therefore, you must be as consistent as possible, as soon as possible. And that is the key reason that practice is so critical in the preopening phase.

During this phase, training must continue to take place. Some restaurant owners have a mind-set that once you are open there is no more time for training. Actually, if you don't keep training and coaching the staff, there will be plenty of time for training later. That's because without a trained staff consistently executing your concept, business will steadily decline and everyone will have time to train since there are so few customers to serve.

Also during this phase you will experience staff turnover. Some will quit because you're too busy and they don't want to work that hard. Or some who are used to making really good tips will leave if business is too slow. Obviously, your better servers will be the first to leave.

Then some owners quit training because they don't want to invest training dollars in a new crew member who might soon leave. Jim Sullivan, an industry training guru, makes an excellent point regarding this tendency not to train anymore after a few employees defect. "Do you know what is worse than training a crew person and having them leave? Not training them and having them

stay." Talk about setting yourself up for failure.

In addition to ongoing training and personal coaching, putting in place your daily operating systems is critical to supplying your staff with the tools they need to provide a consistent experience for your guests. The more consistent each visit is to your guests, the easier it is for them to clearly understand your concept, and then communicate all of their positive vibes to their friends. Your most influential and reliable form of marketing is word-of-mouth endorsements by your current customer base to new customers. The more consistent the execution of your concept, the easier it will be for your guests to explain why your restaurant experience is so great.

Operations must be focused on consistent product and service. Marketing must convey a clear and consistent image in the marketplace. This phase is all about establishing operating

patterns that assist your staff in delivering the desired experience, and providing your guests with that experience they will want to brag to their friends about.

Adolescence — Years Four Through Six:

Now That You Are Established, Learn to Excel

Just as the previous phase was about maintaining consistency, this phase is about "becoming the best." Period.

By now systems have been in place and all operational processes have been refined to gain better efficiency. The prime costs of food and labor are the key targets of attention. The challenge is to improve these costs without your guests experiencing any negative results of the action (slower service, smaller portions, or reduced perceived quality).

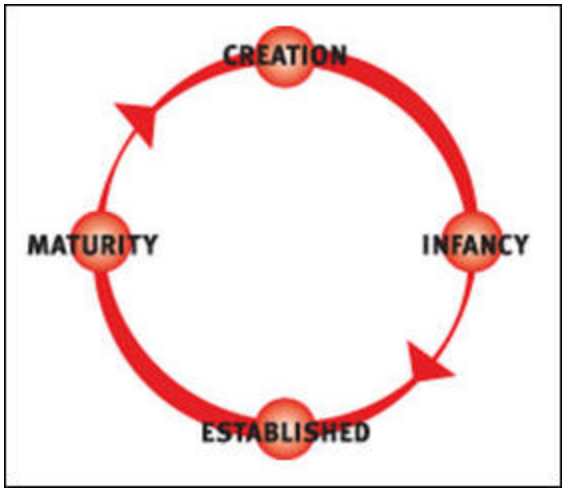
P&L (profit-and-loss statement) reviews by ownership and management should take place each week to review if actual costs are in line with the budget, pinpointing areas needing help and creating programs for improvement. The focus is on improving the flow of sales dollars to the bottom line and the elimination of any debt. Which leads to the area that can have the biggest effect on the bottom line: marketing.

Too many operators find themselves in this phase spending an inordinate amount of time trying to squeeze an extra tenth of 1 percent out of labor or food cost, when they could be attempting to find ways to put an extra dollar on the top line and flowing 40 percent to 50 percent of that dollar to the bottom line. Once your sales are substantial enough to cover all of your fixed costs, any additional sales dollars are only subject to variable costs (food, some labor and some incidentals like utilities, cleaning, linen).

For example, if your weekly sales are $25,000, that one-tenth of 1 percent equals a $25 savings. If your average check is $10 and your customer count is 2,500 per week and you put in place a suggestive selling program for appetizers, drinks and desserts that averaged a per-guest increase of only 50 cents, you'd increase sales $1,250 with a flow-thru of $625. So where is the time and effort better spent?

This doesn't mean that you don't try to constantly improve cost control, but there is only so much time in a day, and if in the previous phase you were able to get costs under control, now is the time to focus on the top line. In-store marketing programs like the aforementioned suggestive selling contest among

servers, a frequent diner card, bounce-back coupons, etc., all can incrementally boost sales. Local store marketing programs to boost trial and community awareness have been featured in previous issues of this magazine. Targeted marketing efforts to a specific database via direct mail, print media zones, fliers, etc., all can be put in place after calculating payback formulas. And of course there is the power of electronic media if you have the savvy and opportunity to take advantage of the power of television and radio. Established concepts that have proven systems, strong management and sales growth may have opportunities for expansion. During this period an owner who has mastered "best practices" in his daily operation may feel he is ready for the next step and will want to develop a growth strategy that fits his concept best. Growing your restaurant business through any expansion plan is a completely different "can of beans" than operating one unit successfully, and requires a different mind-set. Whether your established restaurant should open a second unit, develop a franchise program, go public to finance growth, or sell to a strategic investor, there is one thing for sure … neither choice will work successfully without established support systems in place to maintain consistency in the management of product, people, marketing and profits. One should step slowly, research well, and question regularly when considering expansion possibilities.



Restaurants go thru four distinct phases

Maturity — Year Seven and Beyond:

Re-energize Your Vitality

Now everybody in your trading area knows everything there is to know about your concept and restaurant experience. You have been around now for years. You haven't changed much, but your competition probably has. New concepts with new looks will intrigue your current customer base and lure them away from visiting you. Your guest counts may start to drop little by little. Or a powerful chain with "marketing dollars to burn" may open and cut into your sales by as much as 10 percent to 20 percent.

Those guests you used to see three or four times per month now come in only once a month. They have all the new concept entries into the marketplace that are fresh and exciting to choose from, and you are the same place they've been going to for seven years.

> "… Most restaurant chains look to freshen up the design or decor every five to seven years."

Most restaurant chains look to freshen up the design or décor every five to seven years. The extent of the change depends on the extent competition has improved the experience of the niche you are operating in. If you are an independent casual dining concept and The Cheesecake Factory, P.F. Chang's, Buca de Beppo, and a Sullivan's Steak House opens in your trading area, after a while you may not have the menu variety, food quality or energized experience to which the casual diner has become accustomed.

After all, restaurant customers aren't afraid to "flash their egos" by being seen in places that are "in" and reflect well on their social status. They still like your concept, you're just not as top-of-mind as you used to be. Most likely, the foundation of your business is sound; you just need a makeover. Again, the reference point to the degree of change needed is the competitive set. To what degree has competition changed the "playing field"?

If the new competitors' food and service aren't markedly better, you may just have to repaint, recarpet and repave to keep pace. Maybe freshen up the menu or décor package. If a variety of different ethnic concepts or a Cheesecake Factory enters the market, you may have to re-engineer your menu to provide more variety to complement the physical changes in your restaurant. If you don't, your current customers will get their Italian fix at Buca, Oriental at Chang's, and steak at Sullivan's. How much money is left over to visit you?

Following are some varying degrees of change you may have to adopt to continue to compete in the marketplace:

Concept Reinvention. Reinvent the current concept. In this situation the core concept is still sound and your reputation hasn't eroded. You just need to re-energize your restaurant experience.

Remembering that today's price value equation is not just "food for the money," but rather the value of the entire experience (menu, décor, and service), you need to evaluate each factor and then adjust accordingly. When brothers Raul, Roberto and Rick Molina were taking the reins of their 40-year, three-unit Mexican restaurant company after the retirement of their father, they decided to look within their company to find the needs of their concept. After discussions with key staff and an extensive customer market survey they learned what the "guest perceptions" were of their concept, how the buying habits within their marketplace had changed, and were better able to plan their re-energizing strategy. They decided that a combination of facility enhancements (design and décor), new furnishings, menu and in-house marketing modifications were in order. One year later they are enjoying the fruits of their labor and are pleased with the same-store sales increases.

Another mature restaurant concept took a slightly different route to get to the same place. Brenner's, a family-owned steakhouse with a 40-year history was bought by a large restaurant chain. The national chain went about its research to confirm market conditions and customer perception and then set in motion a well-planned, meticulous facility improvement program meant to retain the established charm and tradition while adding capacity and much-needed operational improvements.

They kept the well-accepted steak and seafood menu while adding improvements to the wine list and service. These steps combined to create a re-invented mature restaurant that has been well-received by its patrons and looks ahead to many, many more years of success.

Concept Re-Creation. In this case the concept has become "tired" and uninteresting to today's consumers. Even if you have a good reputation for the experience you offer, if that experience doesn't have the power to attract the masses, tweaking it will never pay off. If the location is still viable and you and your management team have a good reputation in the market, you need to create a new concept that appeals to the changing consumer trends in dining out.

When Rich Melman decided it was time to close "Bones" in suburban Chicago, he knew of its risks. The 25-year-old concept had a loyal following, but marketplace changes and two years of sales slippage helped to confirm his thoughts that the time was right and the location was ready for a concept change.

But "re-concepting" (is that a word?) isn't always a guaranteed home run. Melman says he followed the same steps of concept development, research, testing and planning as if it were a brand-new "first time" restaurant. And, as we all know, opening new restaurants isn't easy.

"One of three things will happen, and two are not good," Melman says. "The new restaurant will

either be wildly successful, because it is so well-received, barely successful because it may have missed the mark and will require more work, or fail." Bones turned into "L. Woods" and although there may be a few who miss their habit of visiting Bones, there are many new customers and increased spending to make this concept change a success. Rich reminds us that the best way to manage mature restaurants is to continually ask yourself, "What's next?" The answer may be a small tweak, additional day part, menu item, marketing tip or uniform change, or you may find it is a market shift that requires something new and different but one thing is for sure: There is always something next.

-- Restaurant Startup & Growth

Life Cycle Management According to Harvard:
A Pre-eminent Business School Offers Methodology to This Madness

Does all of this information about restaurant life cycles have you scratching your head and wondering if there is any way possible to get all of these factors arranged so you can put together a "plan of attack"?

Well, there is. The key is to adopt a philosophy that helps you prioritize just how you will "strategically manage" all of this change. Sometimes the answer comes from the unlikely sources. In this case, our "roll up our sleeves and get it done" style of business gets assistance from the Harvard Business School. Its definition of strategic management fits right in with our "hands on" style of business. It is simply this: Strategic management should refer to some special kind of management process or system that links strategic planning and decision making with the day-to-day operations of the business.

Harvard's strategic planning model involves four phases, which align with the phases of your business we just described. A McKinsey (McKinsey & Company, a renowned management consulting firm) research study showed that businesses eventually evolve through similar phases of development with widely varying degrees of progress:

Phase 1. This is the financial focused planning time frame (getting set up and running in year one). Basically, you put together a budget and watch it closely. Your goal is to meet the budget (realize, organize and prioritize).

Phase 2. This forecast-based planning tends to evolve naturally from the previous phase as time horizons now extend past the annual budgeting cycle. Your goal is to predict the future (so you train because you know what to prepare for).

Phase 3. The third phase is called "external oriented planning," since many of the improvements are derived from a more thorough and creative analysis of market trends, customers and competition. Your goal is to think strategically and find ways to influence the factors that influence your business, such as marketing.

Phase 4. This is the phase of true strategic management (and takes a while to get to, based on the expertise of the management team). It is a systematic approach to applying all the knowledge gained in the previous phase to a plan for continuing improvement. Your goal is to create the future with a well-defined strategic framework (i.e., re-energize or re-create).

So there really is a methodology to assist you in managing the future madness of operating a restaurant. The Harvard Business School's four phases of management provide you with the mind-set, which can serve as a sounding board for your ongoing day-to-day decision making.

This mind-set will keep you focused on how to prepare for the future. And this should prevent you from becoming inundated with the day-to-day minutiae that can drown you and your management team in moment-to-moment frustration. (For more information, see "How to Turn a Good Restaurant Into a Great Business," RS&G Archives.)

Using the four phases of strategic management, follow the life cycle guidelines presented in the opening of this article. Gather your staff and confidants. Then begin to "plug" the specific variables of your concept and your marketplace into the life cycle of your restaurant.

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