

Six Things That Will Destroy Your Restaurant

Before you hastily put together a restaurant business plan, build a menu with all of your family's famous recipes, empty your savings account and sign a ten year lease, take a few deep breaths and read through this industry white paper.

Opening a restaurant is hard work, and maintaining a restaurant is even harder. The harsh reality is 60 percent of new, independent restaurants close within the first three years of operation.

Restaurant failure rates are due to a variety of factors — the majority of which can be avoided by understanding the industry and what it takes to succeed.

So what can you do to mitigate risks and set your restaurant up for success? Learn from the failure of other restaurants and be cautious of these six issues that could be your restaurant's demise.

1. INEXPERIENCE

In the restaurant industry, inexperience can be fatal for your business. Before you open a restaurant, first arm yourself with restaurant experience. Spend time inside of restaurants — not just as the customer, but also as the worker.

After all, if you aren't well adept in the behind-the-scenes operations of what it takes to run a restaurant, how will you hire the right talent? And, how will you know how to run a business you are not yet proficient in?

The solution is simple. Spend a year or more working in restaurants. Learn on someone else's dime about the do's and don'ts of ownership. You'll get paid, and you'll gain invaluable experience about how restaurants function— from the front of the house to the back of the house to management — you'll learn about the responsibilities and expectations for each specific role.

2. SLOPPY MONEY MANAGEMENT

"Be your money's master, not its slave." -Publilius Syrus

The average restaurant owner spends more than \$100,000 in opening costs alone, and this price doesn't factor in recurring expenses such as inventory, as well as labor and fixed costs, like rent and utilities.

New businesses are especially vulnerable to unexpected circumstances and expenses, so to avoid digging a hole for your restaurant from the beginning, budget your money carefully and be prepared for setbacks. An unexpected expense such as a broken oven range can set you back thousands of dollars, and if you don't work incidentals into your budget, you may find yourself swimming against the current.

Once you begin earning revenue, maintain controlled spending and continue to budget carefully. Cost every item on your menu, and run weekly cost to sales analysis reports. If ingredient prices change, be prepared to change the prices associated with any items impacted. Never price your food off of what other restaurants are pricing similar items at, because you don't know what their wholesale costs are. Generally speaking, a healthy food cost for a full-service restaurant should be under 35 percent.

Pay attention to trends in your sales reports, and use them to help you make informed business decisions. For example, if you notice a particular dessert is underperforming week after week, you can choose to remove it from your menu.

3. NO MARKET DIFFERENTIATOR

Imagine: you open the first poke bowl restaurant in your area. From day one, your venue is flooded with poke bowl groupies eager to try this Hawaiian cuisine. After a few months, a bunch of new restaurants open up near you and they also offer poke, but at a lower price. Soon, your restaurant's profits begin to plummet and you ask yourself where you went wrong. Without having a solid understanding of your market and target consumers (who they are, what they want), you will drown among the competition.

There are more than a million restaurants in the United States alone, and that number grows every day. The restaurant market is heavily saturated with countless options for consumers, and that's why it's so important for you to know your market and have a specific niche carved out.

Ask yourself, "Why should customers choose my venue over my competition?" If your answer is, "My restaurant has the best food," you're going to need to re-think your selling point. After all, most restaurants do claim to have good food, and unless they are run by a famous chef or Michelin rated, good food isn't enough of a unique selling point.

What else do you offer customers beyond food and service? How can you appeal to their emotions and get them to develop a connection to not just your menu, but also to your brand?

For example, Chipotle's slogan is "Food with Integrity" and it is famous among consumers for not just serving quick, delicious food, but also food without harmful additives such as GMOs. Chipotle is catering to a growing market of consumers who want fast food without consuming potent chemicals.

Your restaurant needs to sell something beyond the menu, because people will remember how they felt about eating your food long after they leave your venue. Plus, if you can make a positive emotional connection with your customers, you will build customer loyalty which is a vital aspect in keeping your restaurant alive.

4. BROKEN COMMUNICATION LINES

A lot of restaurant issues — both external and internal — result from poor communication.

Communication impacts all aspects of your restaurant's functionality, from inventory control, to scheduling, to order taking, to staff relations. If there aren't formalized procedures in place, things will get messy.

Imagine a group of people walk into your pizzeria and are quickly greeted by a smiling server who leads them to a corner table. They are immediately given menus, and after a few minutes, order a round of beers and three large truffle mushroom pizzas to share. After more than 20 minutes of waiting, they wave their server down and ask how much longer their food will take. The server runs to the kitchen to check on their pizzas only to find the brick oven empty.

“Where are the three truffle mushroom pizzas I ordered 20 minutes ago?!” The server questions in a panic.

“We are all out of truffle oil and mushrooms for the pizzas, so ask them if they want something else,” the chef replies.

Stunned and embarrassed, the server now has to go back to the table and tell the group their pizzas aren't coming. Unfortunately, communication mishaps like this happen frequently in the restaurant industry. Without effective communication procedures in place, your venue runs the risk of making mistakes and creating issues that negatively impact the overall guest experience and decreases staff morale.

In order to avoid scenarios like the one described above, hold daily pre-shift meetings. Instruct the head chef and bartender to update staff members on what items are currently out of stock, running low, and any daily specials available. Also, make sure to give your staff a heads up about any big parties or reservations they should prepare for in advance.

5. HIGH EMPLOYEE TURNOVER

Hospitality turnover rates are among the highest of any industry. When employees quit, your restaurant's bottom line takes a direct hit. After all, turnover means your team has to spend more time and resources recruiting and training new people.

But, high rates of turnover can be avoided and productivity can be increased if your employees are happy and enjoy coming to work. A Harvard Business Review analysis found employees who are happy sell 37 percent more than those who are not. And it makes sense because if your staff enjoy coming to work, they are going to do their jobs with a positive attitude — even during stressful times — and deliver consistently pleasant experiences for your guests.

With stats like that, you can't afford to have unhappy employees. So take the necessary steps to keep your employees engaged, productive and happy.

6. LACK OF CONSISTENCY

In order to develop regulars and positive brand recognition, your venue needs to be able to deliver the same experience time and time again. Consistency applies to your restaurant's food, service, and overall vibe.

Consistency is the reason massive chain vendors such as Subway and McDonald's have been able to experience such rapid growth because customers know they can go to one of these fast food restaurants anywhere in the world and have the same experience that they're used to.

Consider this: if you have a group of regulars who come in every Saturday and Sunday for your Eggs Benedict dish, but you hire a new chef who scrambles the eggs instead of poaching them, these regulars are likely to be unhappy and you could lose their loyalty all together.

Train all of your staff the same way, keep your menu the same unless otherwise noted (for example, if you are a seasonal-focused venue), maintain your key employees and keep the ambiance the same. This kind of consistency will build trust with your customers, create regulars, and increase your bottom line.

Running a successful restaurant takes a lot of time, money and dedication. But if you notice the warning signs and act on them, you will tip the odds in your favor.