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Restaurant Economics

Foodservice News launches new column on restaurant economics by seasoned business veteran



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Monroe**

WE ALL KNOW THE OLD adage that eight out of 10 restaurants fail. I'm not sure that's true, but I do know a lot of restaurants struggle to break even or make just a little money for the owners or the chef—even ones that have been around for a long time. Accomplished chef Stewart Woodman, who's been associated with a lot of great restaurants in the Twin Cities, including Heidi's and most recently, The Workshop, gave me a great quote that I repeat often: "If it was just about food, every chef would be a millionaire."

Having invested in a number of restaurants myself over the years, including a three-year hiatus from my law firm to be the CEO of Parasole Restaurants, I've always been interested in the economics of a restaurant. While other reviewers are more focused on the plating or the dessert menu, I like to look at the number of seats, the table turns, the wine list—and yes, there's a bit of a selfish motive in including the economics of wine by the glass or the bottle in my research. But I also want to discover the business' strengths. What they're doing to ensure they will be in business five or 10 years from now. Is the restaurant run like a business or like a backyard barbecue?



Is the chef serving food people want to eat or satisfying his or her own ego?

To that end, I agreed to write an ongoing column for Foodservice News to take a different look at reviewing restaurants. We are not underplaying the importance of cravable food, the quality of service or the overall appeal. There are a lot of food writers in town that do that extremely well. We're going to look at a restaurant from a truly business standpoint. What are some of the things that will make a restaurant successful? What are some of the markers that a restaurant owner or consumer can use to determine the potential success of a restaurant?

Because no chef will be opening his or her books to me, I'm making some of my assumptions based on experience representing business

owners in the restaurant space for 35 years. I'll also be asking experienced consultants and restaurant owners for their take.

In order to look at any business, you have to have some criteria (called "matrix"). I've outlined a few different ways to look at restaurants, which we will use to critique our chosen restaurant every month. Next month we'll take the matrix and apply it to a newly opened restaurant in Minneapolis.

- Space: How many seats are in the restaurant and in the bar? Are there private dining/banquet facilities?
- Table turns: How quickly can a table turn given the menu and other constraints? Since we are

not looking at fast-food restaurants, table turns will be one measure of how much revenue can be generated.

- Menu and menu pricing: Are the prices in line with what's on the plate and with what Minnesotans are willing to pay? Is the menu designed to enable a higher check average? Does the menu include enough variety to keep people coming back? And does it contain enough of a blend of the expected with the unexpected.
- Décor: Is the restaurant inviting so consumers will want to spend more money? Does the décor fit the food? Has too much money been spent on the décor so the return on investment will make it difficult to pay back loans?
- Location: Is the site easy to get to? Is there adequate parking? Are the demographics right for the type of restaurant?
- Labor Costs: Is the restaurant

overstaffed, understaffed or have the right number of employees to provide good (and memorable) service?

- Food Costs: Does the menu include expensive ingredients for dishes you can't charge enough for to cover the food costs? Is the wine list reasonable and strong so guests will buy wine? Do you include local beers? Is there a good mix of cocktails priced to take advantage of the low cost of alcohol?
- Overhead: Is the overhead under control? Are the managers and general managers worker bees or do they sit in the office? Does someone have his or her eye on the bottom line at all times?

These are questions we want to have some idea about for each restaurant we review. Then we will come out with a score in each category. The above questions lead to an evaluation of the following six elements:

1. Experience of the management: Have they succeeded elsewhere?

2. How do the décor and investment influence the physical side?
3. Unit Economics—number of seats
4. Menu and Pricing
5. Service
6. Overall business proposition.

Each of these areas will be rated from one to four, with four being the most likely to succeed. Next month, we look at Spoon and Stable, the hot new restaurant in Minneapolis' North Loop. [FSN](#)

Dennis L. Monroe is a shareholder and Chairman of Monroe Moxness Berg PA, a Minneapolis-based law firm specializing in multi-unit franchise finance, mergers and acquisitions, and taxation. In addition to this column, he writes a monthly column for the Restaurant Finance Monitor and is often quoted in industry publications. He was CEO of Parasole Restaurant Holdings from 2009 to 2011. You can reach him at dmonroe@mmlawfirm.com.