

What Makes A Successful Chef-Driven Restaurant?

By Dennis Monroe

I must be asked once a week by a chef or someone looking to invest with them: “What makes a successful chef-driven restaurant?”

The reason is we’ve become a country of foodies. Chefs dream of their own restaurants, and people think it would be fun to invest in them. I’ll never forget the line from a fairly well-known chef who had some ups and downs: “If it was only about food, every chef would be a millionaire.” And, that’s pretty much true. I once asked a prominent private equity investor who was fond of investing in restaurants why he invested in them. He said: “First, because it’s a cash-flow investment. Second, it could be leveraged to lower the overall cash investment. Third, because it’s fun!”

That being said, let’s set the stage. I believe there are five things a chef should look at before opening his or her own restaurant. And there are five things an investor should consider when looking to invest in that chef. All five I’ve gleaned from representing chefs and investors, completing workouts with these concepts, and being a personal investor myself.

As for the chef, the first thing is to not be enamored with a specific concept. If the chef is good and has a following, they should do what they’re known for. If they are known to be a high-end chef, then stick with high-end cuisine. If they are known for comfort food, stick with comfort food. Innovative and novel? Keep innovating. Do not try to create something just because it would be fun; stick with your strengths.

Second, look at the consumers in the area where you want to open your restaurant. If they fall within a middle-class demographic, create a concept tailored to that group, with a nod to your culinary abilities and strengths. If the consumers are budget conscious, make sure your menu is in that price range. Also, find the gaps in the area. Is there an Italian restaurant; a fish restaurant? What would get some traction? Recently, I watched three Italian restaurants within close proximity to each other in a high-end area open and close within a year, not because they were ill-conceived concepts, but because there weren’t enough consumers to fill all those seats, and candidly, there wasn’t much to distinguish one from the other.

Third is the location, which need to be in tune with the restaurant’s attributes. If the restaurant is high volume, there needs to be plenty of parking. If it’s highly unique, there needs to be visibility and a way to easily market the

location. If it’s fast casual, a way to get in and out quickly is paramount. And if the restaurant is trendy, it needs to be in a trendy neighborhood.

Fourth, is a good return on investment. Don’t expect high volumes; expect reasonable to lower-revenue numbers, and have a low break even. Ensure your capital investment will carry you through the start-up with adequate working capital. Do not build a Taj Mahal. Find existing restaurant space for a moderate investment. The more reasonable the cost to open your concept, the higher chance of success, and, most importantly, the greatest chance at raising money.

Fifth, make sure you have a team of servers and back-of-the-house folks—sous chefs and bartenders—who can carry out your concept. Do not expect to be successful if you have staff that doesn’t fit the concept. If it’s a high-end steakhouse, make sure your front-of-the-house staff looks like they belong in a New York steakhouse. If it’s a fast-casual salad concept, you should have a lot of young, healthy-looking people.

As a chef, you must make sure these five points are in place. There are obviously a lot of other smaller, but significant, things to consider. But if you embrace these five ideas, build reasonable capital needs around them, and you have reasonable pro formas that show a profit and a return to investors, then along with the inherent value of the chef’s name, this will work.

For the investor, ask: Is the chef a good business person? Do they know and understand food costs, ROI, labor costs, how to deal with slow times, and how to make money in a restaurant? If they’ve only spent time in a kitchen and don’t have experience running the P&Ls or haven’t had accountability for labor and food costs, then shy away from investing with that chef. Allow them to cut their teeth with someone else, or with their own money.

Second, make sure they are someone who can listen to business people, ideas, investors and to the marketplace if things aren’t going well. Can they bob and weave? If there’s a road closure in front of their restaurant for a period of time, can the chef react and make changes as necessary?

Next, see if the concept has the ability to have multiple profit centers. Besides sit-down, does it have takeout? Does it have a product line? Does it offer private dining or serve multi-meal parts? Look at all potential revenue sources and make sure the chef understands those, and is able to capitalize on them.

Further, make sure the chef is more than just a chef. He should be a general manager. People who are just chefs and understand food are great, but as I mentioned before, if it’s only about food every chef would be a millionaire. So ensure

the chef has broad experience, including working with people in the front and back of the house, and is a good restaurant manager.

Lastly, make sure the capital needed to open the restaurant, including adequate working capital is realistic, and you can get that all-important return on investment. Is it reasonable to use bank debt? If so, ensure the chef is willing to guarantee the loan. In general, see that it is a reasonable financial structure, it makes sense, and the chef's following will bring in the revenues necessary to get those kind of returns.

One of the exciting parts of the restaurant industry is that it's entrepreneurial and people-driven. And it's fun. It can be

a wonderful experience. But, as we all know, everyone has a restaurant horror story. If you look to the points above and follow them, you'll minimize your chances of producing your own horror story, and actually enjoy being an owner.

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