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Casual Dining – The Financial Fix

By Dennis Monroe

Obviously, the casual dining world has its ups and downs. Right now we are in a down period, with some major players struggling the last few years. There seems to be a light at the end of the tunnel, as reflected in Applebee's recent performance—nothing stellar, but a slight uptick. But there really is no easy long-term fix.

For those of you who read my column, you know I steer clear of solutions that have to do with food or marketing. Central as they are to turning around concepts, those areas are above my pay grade. I can, however, address financial solutions. What follows is a 10-part approach for franchisors and franchisees to create a financially viable system:

1. What is the Operator's Return on Investment? When I talk about investment, I mean every necessary investment in the restaurant, from furniture, fixtures and equipment to capitalized leases, intangibles, to start-up expenses. I look at this investment on an undepreciated/amortized basis, because that allows me to see true return, not any kind of tax benefit. If the return is below, say, 20%, then I think there's a problem to be addressed. Given such a sub-standard return, the franchisor or operator shouldn't make capital improvements, except those necessary to maintain existing stores until the franchisor or operator have figured out how to make a reasonable return on the existing investment.

2. Driving Revenue Through Reasonable Capital Investment. There are many ways you can make minimal capital improvements which should generate sales or, at least, make it more convenient for the customers that are coming in to use the restaurant more frequently. They may include adding new drive-thrus that are easier to sell products, using a pared down drive-thru menu, carryout counters, or striping the parking lot differently so parking is more convenient. Cosmetic improvements such as painting and enhancing or illuminating signage can be done with minimal capital investment, yet still generate sales or increase convenience.

3. Don't Forget the Food-on-Demand Side of It. If you've got reasonable marketing in place, consider the value of delivery or of shipping non-perishable products. Look at ways to extend your brand name into other products. In general, embrace food on demand and ensure your loyal customers have every opportunity to experience your concept.

4. Envision Your Concept in Non-Traditional Places. Consider places such as colleges, airports and convenience stores to bring your product to consumers away from the traditional restaurant site. Not unlike food on demand, this approach may provide ways to get your name out there.

5. Food Cost. Make sure that you, as a restaurant operator, are in continual dialogue with your broad line vendors and your specialty suppliers to take as much cost out of the supply chain as possible. Get the best deals—key suppliers don't want to see the whole casual dining sector decline significantly, so they need to be participants. To ensure each product is costed out effectively, use full-absorption accounting, which allocates labor, credit card fees and royalty fees into the actual cost. Understand which products are profitable and look at ways to maximize the return on that product mix.

6. Employee Cost. Take a more incentive-driven approach to employee pay. Don't try to cut their pay, hours or labor. Keep the current pay base but implement incentives. Consider using rights to appreciation in the value of the business. Give them a share in the profits. Offer tuition reimbursement. Consider some of the ideas Outback implemented when they originally started. Those are still relevant ways to incentivize, particularly for the key managers of stores. These programs should be implemented from the top management all the way down to the part-time crew. Right incentives encourage employees to produce and provide better customer service, probably the one thing that can change the whole dynamic of the restaurant.

7. Consider Joint Ventures with Compatible Restaurant Companies or Retailers. Do joint promotions. Use low-cost guerilla marketing approaches, tailoring them for each location. Franchisors need help with this, but franchisees and restaurant operators need to be able to do that themselves.

8. Make Sure Each Restaurant Is Treated as a Unique Business. Tailor-make your restaurant to fit your customers. Don't just follow the rules. Franchisors need to be flexible and adapt their units on the corporate and franchisee level to meet the needs of their intended customer group.

9. Encourage Group Dining. A big part of the success of high-end, polished casual or white tablecloth is the ability to offer private dining. There is no reason that casual dining can't take a lesson from this approach.

10. True Valuable Capital Investment. Many casual dining concepts need significant reinvestment through remodels and upgrades. That's always inevitable when concepts have been around for a long time, particularly ones that have experienced downturns. Still, let's be judicious with what those expenditures are, and ensure the return they generate meets the return-on-asset threshold I discussed before. Also key is to provide appropriate timing and to not force franchisees into massive remodel projects. Make sure these projects receive effective financing that allows franchisees to pay for the assets over a reasonable period of time. The franchisor would probably need to provide some kind of enhancement to make this financing available, because most casual dining operators have long-term debt, and they need to be able to layer on this financing for improvements.

Despite challenges, there is hope for the casual dining sector as long as the remedies arise from some serious thinking about marketing and revenue. In many cases, finding strong, sensible financial solutions is a good start.

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