

Making the Grade with Non-Traditional Restaurant Sites: Airports, Colleges and Pop-ups/Kiosks

By Dennis Monroe

Editor's note: This is the first in a series of articles by the author addressing the business and economic reasons behind the new proliferation of nontraditional restaurant sites.

There has been a great deal written about nontraditional restaurant sites (NTS), but not about their economic viability. While traditional restaurant sites are defined as stand-alone, inline or first floors of hotels and office buildings, the definition for NTS is very fluid—"traditional restaurant sites" are about the only thing excluded from its definition.

The shortage of real estate is driving the proliferation of NTS, which are now becoming the norm. I have seen locations defined as NTS that include sports facilities, skyways, state fairs, big-box retailers, kiosks, food trucks, college campuses, airports, pop-ups and food courts.

In this month's column I'll address airports, colleges and a fairly new phenom, "pop-ups," which are limited-time and space restaurant sites. This article was greatly assisted by three experts: Dennis Lombardi, a long-time industry veteran, observer, consultant and president of Restaurant Advisory Services; Gary Shamis, a veteran of the restaurant industry and national strategy & growth advisor of the Restaurant Group at BDO International accounting firm; and Andrea Christenson, vice president of Cushman & Wakefield and the Realtor to the Restaurants in the Twin Cities and beyond.

All three had positive general comments about NTS, but questioned their use. In particular, Lombardi advised asking: "What are you trying to accomplish with an NTS? Is the goal to get customer exposure? Is this a billboard or a moneymaker? Is this something that is going to be done corporately or through a franchisee?" These questions should form the framework of a discussion about NTS.

Airports

Airports are still coveted locations. Gary Shamis pointed out that the old adage, "location, location, location," may be even more important at airports than for traditional real estate. A restaurant in a slow terminal or at the end of a hallway where there is not a lot of traffic or a location hindered by security operations, would qualify as a poor site.

Many airports use master concessionaires (such as HSM Host, Aramark or Compass) to handle the food locations. Further, many airports insist on the inclusion of local concepts and minority-owned businesses among their restaurant offerings.

Airports provide two different approaches: (1) restaurants owned and operated by the concept owner/franchisee, where the workers are employees of the restaurant (which is like a traditional restaurant); or (2) restaurants that have a licensing agreement to use the name of the concept with some oversight rights by the licensor.

Percentage rents are high, averaging 12% and above. Leasehold allowances for the build-out are negotiated, but in many cases airports are unionized (I've heard of the cost being as much as \$600 per square foot for a build-out). The volumes can be high, but that assumes the site is in a high-traffic area and is open during the peak times for airline customers.

As it relates to revenue, I read an article by Anna Roth on restaurant locations and liked her quote: "The captive audience markups are becoming a thing of the past." The consumer may pay slightly more, but the high premium for airport food is gone. There is more competition so prices are more inline with non-airport sites.

Lombardi and Shamis agreed airport locations are often used as billboards. If a local concept wants to grow, the airport may be a great way to get exposure. Also, national concepts that try new types of products or "to-go" concepts may find airports a great way to generate interest. But they cautioned that a poorly run location could reflect negatively on a brand, as well.

Obviously labor costs are high because employees are asked to park offsite, go through security, put in a longer day than usual and, at times, walk significant distances to get to their sites. Compensation needs to be commensurate. Some airports require union employees, which in many cases increases the cost of labor for the restaurant. Additionally, there seems to be an above-market turnover of employees in airport restaurants because of the hassle factor.

The food costs should be comparable to other locations, but there may be extra costs for transportation, security and other aspects that may require the food purveyor to increase the price. And yet, with all that said, airport sites can be lucrative.

Colleges

Colleges are a growing source of expansion for restaurant companies. Erbert & Gerbert's based in Eau Claire, WI, has a defined expansion strategy for colleges, and one of its franchisees is using college campuses as its major expansion plan.

In most cases, restaurants going into colleges are part of the students' overall food program. The bonus is students develop a loyalty to a concept during the two to four-plus years they're in college. This loyalty in eating habits can play an important part in a restaurant's future.

Successful college restaurants are what you would expect of today's student's tastes — fast food, fast casual, pizza, burgers and mainstream ethnic, such as Mexican. Some colleges want more healthy choices, which in most cases the restaurant operator accommodates.

In the future, colleges will allow students to spend more of their food dollars in the non-cafeteria, college-owned food facilities. They will be looking at some of the national major brands. Unlike airports, not a lot of local concepts are going into colleges.

The profitability of college restaurant sites is dependent upon the share of the meal plan the concept can get from the student pool. If they can get a market price for their product, then it can be profitable because the food cost will be the same as other sites. Additionally, the labor cost should be lower because they have captive labor (as we all know, college students like, or need, to work). Colleges can be one of those profitable captive businesses, but it's important to have a successful negotiation on the revenue side. Considerations should include what students are going to pay and what the restaurant is going to be reimbursed for from the college.

Pop-Ups

A number of Shamis' clients have made significant profits from pop-ups. Pop-ups are what I like to call seasonal or event-specific restaurants. They can be kiosk-type sites, a closed restaurant space or an underutilized space.

Kono Pizza (pizza rolled into a cone which is a handheld food popular in Europe) is an example of a chain that has been successful with this strategy. The company, which now has locations throughout the country, has made pop-ups and kiosks its key to growth.

Some of the better-known pop-ups are coffee kiosks and snack and confectioner pop-ups. In addition to the more quick-serve type of pop-ups, there are a number of upscale restaurant companies that have either done pop-ups or facilitated pop-ups. For instance, the Chicago-based multi-unit restaurant company, Lettuce Entertain You, has experimented with what can clearly be called "pop-ups," where a guest chef holds residency for a period of time and prepares his/her cuisine, attracting customers during the period he or she is at the restaurant. The chefs create their own environments, and this approach can be profitable for both the site owner and the guest chefs.

Lombardi thinks the strategy for pop-ups is strictly opportunistic; it is not something for which you can really plan. You have to look at the various open sites and judge whether they have the type of infrastructure that can be utilized for a short period of time. Certainly state fairs offer opportunity for pop-up restaurants. Again the goal is to get your concept out there and attract new customers.

Pop-ups, particularly ones that are kiosks, can be lucrative. Most are operated by one or two employees; and the rent is normally fairly low, as these are spaces that are under-utilized. If there is a restaurant site that has extra space, a pop-up may be a way to use this excess space. I saw one case where the restaurant was doing quite well, but had a little extra space; so they created a pop-up for guest chefs. If you look at profitability for the amount of revenue generated, these pop-ups can be extremely profitable because of the lower labor and occupancy costs. Plus, it creates a sense of urgency and romance on the guests' part since pop-ups are limited-time offerings.

Christenson said not all potential pop-ups should be pursued. The right site requires good consumer traffic for the demographic that matches the pop-up. Offering food to go is probably another must-have, because seating is generally quite limited for QSR and fast-casual pop-ups.

Despite all the caveats, NTSs can be great expansion opportunities and can create excellent profitability.

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