

A New Type of Marriage: Restaurants and Retail

By Dennis Monroe

It's not uncommon for restaurants to have a retail component. Normally these retail endeavors offer products related to the restaurant, such as sauces or frozen pizzas, or items leveraging the restaurant's name. A more recent trend I've seen is for a restaurant to be part of a broader retail environment. Ralph Lauren has had high-end restaurants in Polo stores for years. Major department stores have restaurants, more for convenience and sometimes, in the case of Ralph Lauren, to carry on the cachet of the brand. Even local restaurants are hooking up with retail brands in order to attract customers.

Restoration Hardware has its own restaurant with several very distinct and almost over-the-top design features. Their first major restaurant was in Chicago, and more recently, they opened a flagship store in Minneapolis. They've created a beautiful and large facility which would seem appropriate in a downtown area, but actually resides on the pad site of a suburban mall. The restaurant is a rooftop dining experience that is aesthetically one of the coolest restaurants I've seen.

Their thesis is this: The overall Restoration Hardware experience should be carried from shopping to eating, and if you look at their retail brand, a lot of it revolves around entertaining. Their furniture is entertainment-related and they offer chic décor for your house, which obviously includes the kitchen. Locating the restaurant on the top floor invites customers to go through the entire store, climb up the wide stairway to the rooftop and have a sensory shopping experience all the way to the restaurant.

I've noticed that in major cities retail is moving from downtown to the areas that are considered restaurant-rich. So it works both ways. Retail can attract people to the restaurants as well as the restaurants attracting people to retail. Consumers want the convenience of on-demand dining, so they can stop, park, shop and eat.

The Lululemon store in the Lincoln Park neighborhood of Chicago is another example. It measures more than 20,000 square feet and has yoga, high-intensity training and meditation, but it also houses a restaurant called Fuel. Located on the second level, Fuel serves \$12 power bowls, \$10 smoothies and other high-profitability items. Also in Chicago, The Table at Crate, located in the Crate & Barrel,

is a full-service restaurant run by James Beard nominee Bill Kim. It occupies two levels and seats 75. An extreme example is Blue Box Café at Tiffany's in New York. It is small but very high end, and provides tea time and other fairly expensive experiences.

The one I thought was most interesting and seemingly unlikely is ABC Kitchen, located in ABC Carpet & Home in New York. It's not exactly a place where you would expect to find a restaurant; but the restaurant is a destination in itself, not merely a convenience of the shoppers. Other stores that have restaurants are Barnes & Noble with their coffee program and Bass Pro shops with their casual food lineup. Both allow shoppers to take a break and then continue shopping.

Navin Nagrani, managing partner at Hilco Global, which has been involved with many retail projects, calls the combination of restaurants and retail a sort of business Darwinism. Survival of the fittest in the retail competition depends on using excess space for profitable means, which is why retail establishments start tying in restaurant concepts. He also noted that these concepts are tailored specifically with the store's customers in mind. For example, in Restoration Hardware's case, the restaurants are designed more for millennials than they are for traditional, older customers. The central issue Navin stresses is relevance: A retailer needs to ask why the business exists today and how incorporating a restaurant might make this existence more relevant.

I spoke with Paige Stover, director of research and analytics at Forum Analytics, who did a wonderful presentation at the recent Restaurant Finance & Development Conference. They have developed a tool called ShopoGraphics, which allows them to analyze the pattern of consumer shopping traffic in various retail areas. By mapping out consumer shopping habits and movements within a specific area, they can match this data with a type of retail—and specifically restaurants—that would be the best fit for that area. This then gives the restaurants the ability to have a symbiotic relationship with the retail and attract the kind of customers that would appeal both to the retail and the restaurants. This is a quantum leap forward from merely performing a demographic analysis of the kind of consumers that the

restaurant normally attracts and then trying to match the location with the demographics surrounding the restaurant. ShopoGraphics is much more effective because it analyzes the area that already has consumer traffic. This approach is, in my opinion, state of the art.

What does all this tell us about the state of restaurants and financial viability? It really reveals to me four things:

1. Restaurants need help in driving revenue and one of the ways to effectively do so is to have strong retail, either as part of the restaurant, around the restaurant, or to have the restaurant in a retail spot. All contribute to revenue.
2. You need to satisfy the consumers' need for convenience by combining a shopping experience with the ready availability of food on demand, very much an emerging trend.

3. Labor. Retail areas are staffed by people-oriented employees, which I believe will assist in attracting labor for the restaurant.

4. Occupancy cost. Obviously being able to have a restaurant affiliated, associated or connected with a retail location is going to lower your buildout cost for the concept and your overall occupancy cost. This is definitely a new kind of marriage which is going to continue.

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