RESTAURANT FINANCE MONITOR®

Volume 33, Number 12 • Restaurant Finance Monitor, 2808 Anthony Lane South, Minneapolis, MN 55418 • ISSN #1061-382X

December 16, 2022

New Paradigm of Restaurant Cooperation

By Dennis Monroe

The one thing that has evolved in the restaurant industry is "Restaurant Darwinism," or better known as survival of the fittest. What defines "the fittest" can be a restaurant's unique food, the best location, coolest atmosphere or whatever separates it from the pack. The pandemic changed all that, particularly with independent operators. A new paradigm we see developing in the industry in cities like Chicago, Denver and Minneapolis and others, starts with cooperation among restaurant owners. This collaboration can range from joint ventures for existing restaurants to co-developing new restaurant concepts.

Here are some thoughts about this whole approach, which I hope becomes a natural selection for restaurant owners.

Every restaurant company has unique qualities. Sometimes it's effective financial engineering or culinary, HR, operations, marketing. The point is very few, unless you are a large company or large franchisee, have all these resources. To compensate, there are different models of cooperation that can be used:

1.) Management resources: The first model is a "pooled management company," where two or more restaurant companies pool their overstore management resources to provide services to the joint-venture partner restaurants. This taps into the pool of talent for the benefit of all the restaurants in the group, rather than a single restaurant. The management company should contain the best of class from each restaurant.

The overall costs of shared management people are determined and then a percentage of sales is charged to each of the operating entities.

2.) New concept development: In this model, two separate restaurant companies put together a new concept playing off all their strengths. One group may have a stronger culinary side, but need operations help along with site development and creative marketing. All of these skills are pooled together to develop the concept and open a restaurant for expansion. The key is to fully define roles, budget and ownership of the concept and of future stores.

3.) Marketing-centric joint venture: Companies with a limited number of restaurants have a hard time attracting the kind of in-house resources needed to develop viable marketing programs, particularly social media. If several restaurant companies band together, they can either employ key talent or hire an agency to get economies of scale. This won't work as well for competing restaurants, but in most cases this common marketing approach can be effective. The goal is to create a "halo effect" where customers who like one of the restaurants in the group are encouraged to try the others. In addition, gift cards could be used at all the restaurants, as well as a joint loyalty program.

4.) Outsourcing concept expansion: This works well when a company has a proven growth concept either for corporate store development or a franchise, but has limited experience rolling out a concept. An effective solution is to structure a joint venture (new entity) with an experienced growth partner. The concept originator can either transfer or license the intellectual property to the joint venture partner. For this to work, however, it's paramount the partner has the expertise to grow concepts.

5.) Real estate active joint venture: There are two types of real estate joint ventures. The first is a joint venture with the real estate owner, where there is a sharing of ownership in the restaurant venture. This can take many forms, but the most common is rent payments based on performance with a profit-sharing component. Also, as the operating partner, see if you can negotiate an interest in the upside on the real estate. In some cases, the real estate owner may get a minimal rent, but most of the rental income is performance based.

In another version, the restaurant leases a site and then shares it for joint operations of the two concepts, sharing components such as the kitchen, take out, point-of -sale systems and delivery. In the franchise world this is sometimes refereed to as fractional franchising.

The restaurant industry has never been easy, but to ensure you're one of the surviving species in these evolutionary times, partnering with like-minded operators can be a fitting and efficient model.

Dennis Monroe is chair of Monroe Moxness Berg, a law firm which focuses on M&A, taxation and other business matters for multi-unit restaurant business. You can reach him at dmonroe@mmblawfirm.com, or at 952-885-5962.