

# TOP TEN REASONS RESTAURANTS FAIL

By Ramy Abu-Yousef

Many people are reluctant to enter the restaurant business, and for good reason--the numbers are daunting. According to the most recent figures, 60% of restaurants fail within their first three years of operation. And, other statistics indicate that the figure may be as high as 90%\*.

Those are unsettling odds by any standard, but are they just odds? Is the success or failure of a restaurant just a matter of pure chance and luck or is there some skill involved?

The answers might surprise you. Through extensive market research and by speaking with both accomplished and struggling restaurateurs, we have come up with the top ten reasons why restaurants fail and you can decide for yourself if there is a formula for success as a restaurant owner.

## 10. LACK OF CREATIVITY

This is a major problem. Every restaurant will inevitably encounter problems that seem to have no solutions. The ability to come up with creative solutions to these problems must be a routine part of running a restaurant.

No matter what the situation is, when something goes wrong, there is always a solution. Finding that solution requires imagination, communication and persistence.

One of the most untapped resources for innovative ideas is a restaurant's employees. Don't be afraid to build up a rapport with your employees. They can be a wealth of information and new perspectives.

Whether solving problems or coming up with fresh ideas, restaurant owners should constantly challenge themselves by asking the question at the beginning of each day: "In order to improve my business, what am I going to do today that I haven't tried before?"

## 9. INSUFFICIENT MARKET ANALYSIS

When was the last time you have researched market trends in your area or did a comprehensive market study and write-up for your restaurant? Have you ever? If not, you are not alone.

Failure to establish that there is a market for your restaurant and the failure to stay abreast of market trends, are two of the most tragic mistakes a restaurant owner can make, especially because these mistakes can easily be avoided.

Even something as simple as a stop and greet survey on the street can establish consumer likes and dislikes, perceptions, needs and demands.

Before opening their restaurant's doors, restaurant owners should establish a demand for their cuisine or service, and an ability to capture a market share. Once those doors have opened, restaurant owners should analyze the direction of consumer demand and make changes and adjustments accordingly. Without a fact-based knowledge of the market, an informed decision is not possible.

## 8. LACK OF ATTENTION TO DETAIL

Individual details of the operations of a restaurant may appear insignificant, but collectively, these details can have a major impact on the functionality and ultimately the success of a restaurant.

Considered individually, clean floors and bathrooms, polished cutlery, glasses and plates, starched napkins, a wiped down bar, may seem insignificant/unimportant, but taken as a whole these details determine customer perception of a restaurant's cleanliness.

Intensity of lighting, selection and volume of music, choice of silverware, and consistency of uniforms are all individually important, but together, these details establish the general ambience of a restaurant.

Promptness of greeting customers upon entry, availability of menus, knowledge of menu and beverage selection, immediate placement of orders and well-stocked and full condiment bottles are all crucial to customer impression of a restaurant's service.

Food temperature, timing and presentation determine customer outlook on kitchen preparedness and the dining experience.

An occasional free meal or drink to yourself, family, friends, friends of friends and staff may seem trivial, but can have a major impact on the bottom line of the restaurant and can mean the difference between turning a profit and losing money. That being said, free items can be used as a marketing investment, but only if you can realistically see a potential return from it.

In a restaurant setting, nothing should be left to chance. Absolutely *everything* should be organized and planned ahead of time to ensure that things run smoothly.

Things have a tendency to fall apart very quickly in a restaurant environment. Adequate planning and organization of every detail can prevent this from happening.

## 7. UNDERCAPITALIZATION

Not having the requisite funding for the first 6-12 months of a restaurant's operations, is a sure fire way to ensure failure.

Most restaurants will go through an initial phase with higher costs and losses than normal while everything gets put into place.

Unexpected costs will always arise, so you must plan for it. You must expect that actual costs will be significantly higher than initially budgeted and allocated costs. Always have a cushion, so that unexpected costs will not bankrupt the restaurant.

A restaurant that runs out of working capital before it can start running at optimal efficiency and make a profit, will have to shut down. Once that happens, there is no way to make that money back.

Make sure you have allocated more than enough money to keep the restaurant afloat for at least 12 months while it gets itself established.

## 6. POOR INVENTORY MANAGEMENT

Food costs are one of the top three expenses a restaurant will incur. The ability to manage food costs is one of the most important elements of running a successful restaurant.

Food costs can rise because of:

- wastage (spills, accidents, poor handling, food spoilage, etc.)
- improper storage
- inconsistent portion sizes
- high ordering costs (over ordering, under ordering)
- failure to monitor deliveries for accuracy and quality
- theft

It is better to err on the side of caution and occasionally run out of items on the menu than to have too much food stored away. This is a hard concept for many new restaurant owners to grasp. While food storage can be managed by accurately calculating food costs and predicting food wastage, running out of items can actually be beneficial to the restaurant. If a customer orders an item that is sold out, the customer will usually gladly order something else

and perceive that the sold out item is popular and of high quality, and will be encouraged to visit your restaurant again in hopes of trying that item.

The most critical reason to monitor food costs is to determine a proper pricing scheme. What is the restaurant down the street charging for the same steak or burger? Do you keep your price lower than theirs and try to drive them out of business? Do you make prices higher in order to attract higher spending customers? How do you determine what pricing scheme to use at your establishment? How can you set a price and make it profitable?

The answers to these questions are not random, but formulaic. Successful restaurant owners set the price of a product as a direct relationship to the cost of making that product. Very successful restaurant owners can effectively increase or decrease that cost in order to choose the price for the product.

Keeping track of how inventory is ordered and minimizing costs so that all food that is purchased ends up on a customer's plate, can drastically improve the bottom line and provide valuable flexibility in determining a pricing scheme.

## 5. LACK OF DEDICATION AND TIME COMMITMENT

The only way to maintain familiarity with a restaurant's operations, is to spend a significant amount of time there, both physically and mentally.

No matter how good a team of staff is, they will often try to push the boundaries of their duties. They may want to do things differently or their own way. It is important to maintain control of your staff, and to immediately address any problems that arise in order to ensure that problems do not snowball out of control.

If an owner or other authoritative figure with a vested interest in the success of the business is not physically in the restaurant, structure will break down quickly, and small incidents may escalate and jeopardize the financial viability of the restaurant.

However, don't confuse physical presence with micromanagement. While presence is important, it is essential that it does not negatively impact group morale, or interfere with the staff's ability to carry out their duties.

Work hard and set an example. Restaurant owners who exhibit dedication, passion and commitment to the restaurant will often inspire those around them to share that same commitment.

#### 4. INADEQUATE EMPHASIS ON HIRING AND TRAINING

A restaurant is composed of a team, not of individuals, and everyone on the team must be working towards the goal of running a profitable business. Employees are the representatives of that team and of the restaurant as a whole, and should be treated accordingly.

Put a significant amount of time and effort into the hiring process and don't settle for anything less than extraordinary. It is better not to open the restaurant at all, then to open with a team of poor staff.

A restaurant has a finite amount of good will currency that will quickly get used up by bad staff. The damage that incompetent staff will do to your current and future customer base will far offset any short term gains in sales.

A team of staff may be very well qualified, and the restaurant concept may be great, but if the concept is not properly executed, then the entire framework of the restaurant will break down.

In order to prevent such a breakdown, it is essential to have proper training manuals/protocols, checklists, goals and incentives and to make sure that they are followed.

If you inspire in your employees the confidence to do their jobs well, and train them properly to address any situation that arises, then they will be more enthusiastic and motivated to pursue restaurant goals and adhere to the restaurant concept.

This is particularly important for the management team because managers essentially run the restaurant and set the example for the rest of the staff.

A manager must be able to delegate duties and responsibility, be a personable liaison between the customer and the restaurant, and have a complete understanding of the restaurant's needs as a whole.

Establishing and maintaining a solid management structure for the restaurant team will ensure that there is no confusion and that each team member is prepared and performing according to restaurant protocol.

#### 3. FAILURE TO ESTABLISH AN IDENTITY

Your restaurant's reputation depends on your ability to create a brand and adhere to it. Many first time restaurateurs make the mistake of developing an identity crisis early on, and fail to remain committed and focused on a specific style of service or cuisine.

Successful restaurant owners are able to develop a restaurant theme, cultivate a good reputation, and attract customers accordingly.

It is impossible to bring every customer through the doors, so don't try to do too much. Establish a target market, then create the style of food and environment that is suitable for that market.

Creating an over-reaching menu is one of the most common mistakes a restaurant owner can make. A menu with too much of a selection tries to do a lot while accomplishing very little. This often sacrifices overall food quality, and also creates a tremendous amount of waste.

You should ask yourself: "What experience am I selling?" and promote that experience.

## 2. LACK OF CONSISTENCY

Once you have created an identity for your restaurant, it is imperative that you consistently preserve that identity. Every time customers enter your restaurant, they should experience the same food quality and service.

Why is McDonald's the number one restaurant in the world? Why do they perform as successfully in Barcelona, Spain as they do in Cleveland, Ohio? The answer is simple: if you order a Big Mac at either of those two places, you will get the exact same product.

Managing a customer's expectations is an essential part of running a restaurant and consistently providing the same quality product ultimately can determine the success or failure of your restaurant. This does not mean that it has to be a great product, just that it has to be the same product every time.

It should not matter which chef or server is working on any given day. Customer experience should be the same each time they come in.

Great dining experiences can be easily cancelled out by one bad experience and one bad experience will cause a customer serious hesitation when deciding whether or not to return to an establishment. Customers should not have to spin the food/service roulette wheel each time they visit a restaurant.

Consistency is the key to establishing regular clientele, and regular clients are the most important customers to have. Maintaining regular clientele is a critical factor in establishing a solid reputation that will attract newcomers.

## 1. INEFFECTIVE MARKETING AND ADVERTISING CAMPAIGN

Developing and maintaining consumer interest in your product is, after all, the whole point of running any business. Without customers, you have an empty restaurant, and an empty restaurant is a failed restaurant.

No matter what other problems your restaurant faces, if you can consistently get enough people in the door, those problems ultimately will not matter. High traffic will always lead to high profit.

A solid marketing and advertising scheme will create steady customer flow, but keep in mind that it is up to the restaurant team to ensure that the customers come back again. Top quality food and service are the key to fostering positive word of mouth and turning first time customers into repeat customers.

Most restaurants try the shotgun approach when it comes to advertising, throwing money at radio stations and newspapers without purpose in the hopes of attracting a customer or two. This approach will never succeed without a well thought out marketing strategy.

There is an endless supply of inexpensive, and even free opportunities to promote yourself and your restaurant. The average restaurant spends 3-6% of its revenues on advertising. But without a marketing plan, a restaurant will not maximize the value spent on advertising.

It is crucial to establish the goals of the advertising campaign, pinpoint your target audience and develop alternative ways to better reach your audience. It is also incredibly important and helpful to be able to track the source of your business.

Marketing and advertising is the first item on this list because the rewards of effective marketing and advertising will work wonders for a well-run restaurant and can even offset some of the effects of a poorly-run restaurant.

Note:

We have conspicuously omitted from this list one traditional item – location. Contrary to popular belief, our research has strongly suggested that location, while an important factor, is not a major factor that will determine the success or failure of a restaurant.

Several of us have traveled through alleyways in some of the worst neighborhoods in the city to dine at some of the best quality dining establishments. We have seen restaurants in prime dining spots fail, while we have seen others thrive in less than ideal locations and even create their own premier location through the power of their reputation alone.

The bottom line is that prime location comes at a hefty price. The rent, lease or purchase price paid for such a location is directly proportional to the extra walk-in traffic you are likely to

generate as a result of being in that location. This cost will most often offset any profit you will be able to make from the extra traffic. But at the end of the day, if you fail to run your restaurant successfully, it will not make a difference where your restaurant is located.

If your restaurant faces one or two of the problems listed above, don't panic just yet. Some establishments encounter a few of the above problems, but still enjoy great success. Why? Because a great marketing scheme, consistent product, and solid identity can ensure that a restaurant stays afloat. But, could these restaurants operate more successfully, and generate significantly more profit by addressing and remedying all problems? Of course.

If you look at the above list and find that your restaurant faces several of these problems, it is time to take immediate action and begin to remedy those problems because ignoring them can spell disaster for the success of your restaurant.

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\*In the restaurant industry, it is common to quote a 90% failure rate, but a widely cited recent study by H.G. Parsa, associate professor of hospitality management at Ohio State University, indicates that this statistic may be as low as 60% over 3 years.

[http://www.usatoday.com/money/smallbusiness/columnist/abrams/2004-05-06-success\\_x.htm](http://www.usatoday.com/money/smallbusiness/columnist/abrams/2004-05-06-success_x.htm)

<http://www.restaurantowner.com/public/302.cfm>

[http://www.businessweek.com/smallbiz/content/apr2007/sb20070416\\_296932.htm](http://www.businessweek.com/smallbiz/content/apr2007/sb20070416_296932.htm)

<http://researchnews.osu.edu/archive/restfail.htm>