Restaurant Myths

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So often we hear about the keys to success in the restaurant business and we tend to take them for granted because they seem so logical. But what seems so logical just doesn't hold up to be true. I have been selling restaurants for almost 35 years and I have had a chance to learn first- hand exactly why restaurants fail and what I have learned may surprise you. It's not what you have been told. Here are some of the most frequently sited principles for success that are simply myths when examined over decades.

1. More capital is better than less capital. One of the biggest reason's restaurants fail is because they are undercapitalized. This is not true. What you need is **just enough** capital. Too much capital leads to waste and inattention to details. I've seen many restaurants fail because they spent money foolishly because they had so much of it. The restaurant business is a "nickel and dime" business. You must be afraid all the time and watch all the details to make sure your business is as efficient as possible. Having too much capital is a hindrance not a help. As a landlord faced with two prospective tenants – one with a great financial statement but little experience and one with great experience and just barely enough capital, I would pick the one with great experience because that is the one that has the best chance of success.

2. There are 5 essential elements to a successful restaurant, and you must have all 5 to be successful.
Here are the 5 essential elements to a successful restaurant:
Food
Service
Atmosphere
Price
Location
If you have all 5 of these essential elements, you will go broke. Best to only have 3-4 of them. Imagine the best food, most wonderful service, greatest most expensive atmosphere, best prices and best most expensive location… you would go broke because you can't deliver all these wonderful things with the best prices. I would always include food and service, but you can mix and match the other ones. Number 2 ties into number 1 above because if you have enough money to have all 5 of these elements, you will eventually get tired of losing money and will go out of business.

3. It's all about Location… Location… Location. Not true. It's all about Management… Management… Management. That's not to say location is not important, it's just not as important as some people think. When people first start their search for a restaurant, they focus on the location. Some fixate and obsess about the location because they think without a great location, they won't make it. And if they fail, they might blame it on the location. Rarely do restaurants go out of business because of the location. Think about it, how many times have you seen a location fail only to have someone succeed in the same location. It's not the location, it's the management!

4. It takes a great concept to be successful in the restaurant business. Not true. It takes great execution of that concept to be successful. What you do is not as important as how you do it. If it were that easy, there would be 25 In N Out Burger type restaurants serving a very limited burger only menu. But there is only one In N Out Burger. It's not that In N Out Burger isn't a great concept, it is. It's because what makes In N Out Burger great is their execution. And trends change. Yogurt shops were all the rage once. Great concept but too many people got into that business and didn't execute well and there was a shake out. Same thing happened to the buffet business. Great concept but too many people got into the business and didn't execute well. When was the last time you saw a Fresh Choice or Hometown Buffet? Rotisserie chicken was a great concept once, until Rotisserie chicken became available in every supermarket at a lower price. When was the last time you saw a Kenny Rodgers or a Boston Market? Yogurt Shops, Buffet Restaurants, Rotisserie restaurants- great concepts that are no longer great. Don't focus on the concept. Focus on the execution of the concept.

5 From a financial standpoint, when buying or building a restaurant, the most important measurement is return on investment (ROI)

This is a commonly held belief but it's a myth. If you are making money and keep your restaurant for many years, that's fine. But it's best to focus on your break even point and to consider what would your restaurant be worth if you must sell it. When people build a restaurant or buy and remodel it, they are optimistic and thinking of keeping it for many years. But life happens and sometimes you are forced to sell. How much will your restaurant be worth compared to your investment if you must sell? Many people are shocked to find out that their restaurant is only worth a fraction of what they have invested. So many times, I have seen people make large investments in remodeling to insure a great looking facility only to find out that they have invested way too much to recover their investment if they must sell their restaurant. This happens all the time with failing or marginal restaurants. They are rarely worth what it cost to build them. Keep in mind that, **generally speaking,** if a restaurant is profitable, it might sell for 2 times the adjusted cash flow. And if it is not profitable, it will sell as an "Asset Sale". That can often be a far cry from the investment. When making an investment in a restaurant, focus on the downside not the upside. The upside will take care of itself.