RESTAURANT DESIGN: CONCEPT TO CUSTOMER (THIBODEAUX)



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William R. Thibodeaux

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Detailed Licensing

Licensing

*A detailed breakdown of this resource's licensing can be found in **Back Matter/Detailed Licensing**.*

Preface

Assume that ‘would be’ restauranteurs intend to build a quaint intimate sixty seat bistro in a large community on a highly travelled, big box restaurant laden boulevard where young couples and daters could spend $15.00 to $20.00 per person. It would have a fireplace, mood lighting, and wine by the glass, not to mention great desserts. Young couples can sit and talk for hours, and enjoy the atmosphere. Although this concept sounds like a nice idea and possibly workable in the right setting, it would be a failure before it gets off the ground.

If it were a nice idea, ‘why would it fail’ is a fair question to ask. The reasons are obvious to a knowledgeable lender or hospitality professional. The ‘numbers’ simply do not work. The cost of the land and building, or lease, signage, parking, utilities, and space allocation would bring the concept fruition costs to nearly two million dollars. A sixty-seat facility utilizing at least 16 square feet of space for customers would need 960 square feet of dining area and over 300 square feet of kitchen space alone. What about the other elements storage, dishwashing, and so forth? You would also be paying prime rates just to house those other elements. In the end, the dining area will not support the fixed and variable costs the operation will incur – that is why you see so many ‘big box’ restaurants in this location. This location requires high volume traffic. If you move ahead and adjust the concept to seat five times the number of people to deal with the cost structure of the location, maybe you have a chance at success - but not really. Including more people in the dining area would require a larger kitchen and so on, and the ambience you intend to create would not exist. You would also not be able it increase pricing if necessary because your target market cannot afford to pay those higher prices on a weekly or monthly basis. This is how good ideas lead to failure in our industry – it is all in the ‘numbers’ – location, space, customer selection, menu and pricing, and the culmination of these elements and more into value.

This text does not cover every conceivable technical detail of developing a foodservice concept – no text does that. What it does provide is a comprehensive and understandable view of this activity as well as how to think effectively about the necessary considerations leading to successful concept development and profitability. Although the primary focus of the text is to provide the foundation of hospitality restaurant or pastry design, its structure also serves as a comprehensive ‘reference guide’ to the concept development functions within the hospitality industry. This structure is particularly evident in the logical sequence of the chapters in the order concept development would proceed. Each chapter includes example of effective use of the material presentations.

Generally, individuals with entrepreneurial dreams and industry knowledge venture forth to create and establish their own restaurant vision. Most have good experience in either front or back of the house, and many of these would be restauranteurs work their way up the ladder in one or another of these operational areas. They secure an investor or lender. However, the failure rate for new restaurants has historically been north of ninety percent in ‘five years’ time. While this may sound puzzling, there are specific reasons for such a high failure rate, which do not relate to the overall strength of the foodservice industry. As the preceding example illustrates, you have to develop the right concept for the right people in the right city and location, all of the ‘numbers’ have to work, and appropriate analyses must be in place to make necessary adjustments to the operation as the need arises. In sum, you need to provide customers with what they want, at a price that indicates value to them and a profit for you – oh, plus quite a few other details. To do this you need a build a strong business model – this book will help you do just that by walking you through the necessary elements you need to explore, consider, and present for success. To help focus your thoughts, an example model of each topic as a place to begin ends each chapter.

Lenders often ask ’why do you want to be here?’ or, ‘why do you feel this city is a good fit for your business?’ These are good questions - it is very important for you to know ‘why’ you want to be there. These questions typically receive little consideration. ‘It is my home town’, ‘I enjoy living here’ are not good reasons that lead to success although one, or the other response is normal. Thinking about where you want to locate your restaurant is the single most important initial decision you will have to make. Follow the thought progression here. Your source of revenue will come from your customers. Knowing ‘where’ and ‘how’ they make ‘their’ money is vital to ‘your’ revenue. If the revenue of your customers is not stable, how stable will your operation be? It is amazing how often new and up-and-coming restauranteurs ignore this.

This book moves the reader through eleven chapters, which provide a logical path from developing the concept to success operation of a new restaurant. Part one: evaluating the marketplace comprises chapter one through six concerning the city, who lives there, what competitive forces exist, the market segments that would enjoy a particular concept, and how one positions themselves in a marketplace. *Chapter 1* strongly considers cities from the perspective of ‘marketplace’ for new restaurant endeavors. It provides insight on how cities are shaped, and provides specific ways to evaluate a city before entry. The chapter also

takes a look ‘smart growth’ coming into fruition in many communities and suburbia, once only the cities’ ‘bedroom’ but now so much more. Thinking about a place is the first step to success for the restauranteur.

Chapter 2 provides a way of thinking about the ‘customer’ and discusses how one goes about learning just ‘who’ they may be. To give customers what they want, one must know ‘who’ they are potentially, and how they choose to live their lives – their behavioral characteristics. This chapter discusses the use of ‘demographic’ information and offers various ways to obtain this information. It also provides discussion on the ‘psychographic’ element of the consumer – information demographics do not provide. Further, it delves into generational differences that exist among the potential customer base a city may offer. Finally, the chapter provides a scheme to help the new restauranteur define who their customers should be.

Chapter 3 intends to help the new entrepreneur think about, and evaluate, the competitive nature of a marketplace. It begins with a discussion of the ‘living’ aspects of a restaurant, moving to gaining an understanding of your competitors, and provides a process and criteria to evaluate the competitive forces you will encounter when entering a new city environment. Finally, the chapter provides a competitive analysis summary – a plan to study your competition prior to entering the marketplace.

Chapter 4 discusses the customer selection process by segmenting the marketplace into potential groups of individuals who may enjoy the products and services you intend to offer. The chapter explains ’segmentation‘, and provides an historical overview of the process. Additionally, it delves deeply into the segmentation process, segment demand, a segmentation strategy, and helpful criteria to help you decide on the appropriate market segments to select for your operation. Finally, the chapter provides broad market segmentation strategies for consideration.

Chapter 5 begins the marketing discussion with ‘positioning’ the product and service mix the new restaurant intends to off to consumers. It presents the topic of ‘marketing mix’ from both the traditional and current hospitality perspectives, and where marketing data is available broadly, or at the community level. This chapter will help the new restauranteur arrive at the ideal marketing mix and strategy to best promote their concept by focusing on customer wants and needs. Further, the chapter moves on to discuss the marketing environment from an economic, social, political, and legal perspective leading to – a ‘marketing plan’ discussion in the next chapter.

Chapter 6 centers on the marketing plan for the concept. The chapter discussion begins with a clear distinction of ‘selling’ versus marketing’ and what you should include in your marketing plan. There is a discussion on various ‘competitive methods’ which usually receive little consideration but are, nonetheless vital to your successful operation. Finally, this chapter provides different types of sales promotions and techniques.

Part 2: From Concept to Marketplace comprises chapters seven through eleven. Once the marketplace itself, potential consumers, and competitive force evaluations occur, the operation focuses on defining market segments and positioning strategy, and developing a marketing plan that speaks to customers who best fit their business model. *Chapter 7* centers on the design of a ‘facility’ that best fits the need of the consumer and restaurant operator. This chapter discusses the importance of bringing together the market, the facility, and money. The chapter provides a discussion on poor locations, how to consider a location, how to perform a detailed analysis of a location, and integrating the concept with the location.

Chapter 8 delves into one of the most important decision restauranteurs have to make – the type of ownership they will choose. This chapter explains the advantages and disadvantages of different form of ownership. The chapter discussion includes sole proprietorship, and various forms of partnerships and corporate structures. Each have personal advantages as well as taxing implications for the business.

Chapter 9 takes an important in-depth look at menu engineering to understand what is selling, when it is selling, how much sales the item garners in relations to all other items for sale, and how each item contributes to your profitability. The income statement is the gauge of operational profitability. It conveys the operation’s revenue, expense of operation, and the profit or loss result of your actions. The balance sheet is the important statement of worth crucial to beginning a new business.

Chapter 10 gives an in depth discussion on constructing the restaurant menu from menu layout, the different types of copy, the use of illustrations and graphics, typeface choices, paper, cover, and color. The chapter also presents menu-writing strategies involving location and sequence, descriptive terminology and accuracy. These elements come together into the physical components of the menu.

Chapter 11 focuses of arriving at the correct menu pricing to match the needs of the target market and create value in the mind of the consumer. While the menu is what brings patrons to your operation, you can never lose sight of its other primary function. It is generally the sole source of revenue to cover operational costs and produce a reasonable profit. This chapter discusses the factors that affect pricing decisions, consumer reaction to price, a thoughtful look at understanding the consumer environment, price as the perception of value and varies ways to price and market the restaurant's products and services. These elements come together in the development of a restaurant pricing strategy appropriate to a particular market.

Chapter 12 centers on the different forms and functions of restaurant analysis, a major factor in profitability and consistency. This chapter discusses 'menu engineering', how to determine the operation's breakeven point, adjusting menu costing or re-design on the basis of market need, and the different classes of ratio analysis vital to the restaurant operation's success.

This book discusses its contents in the logical order one must follow to develop a successful business model. An outline of the business model conceptual flow chart follows. It allows a progression of information and as such, the critical decision considerations are raise at the appropriate times. A writing perceptual model follows to help you 'think through' the various important elements of the design process.

The appendix contains a structural outline to guide you through the writing process, as well as licensing information, and websites for product information.

CHAPTER OVERVIEW

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1.1: Shaping City Development

Chapter 1 Learning Objectives

- To gain an historical understanding of how cities come together.
- To understand how public and private entities come together to allow cities to function.
- To understand how the public can be a guiding force in a cities direction.
- Understanding the importance of public approval in city decisions.
- How to evaluate a city from a 'market condition' perspective.
- Understanding popular control systems of cities
- Understanding current city design with emphasis on sustainability.
- Understand the role of suburbia and its commercial contributions.
- How to think about a place from a 'value and worth' perspective.

The Beginning of the Urban Transformation

Source: Charles Robinson's The Improvement of Towns and Cities; the Practical Basis of Civil Aesthetics (1901).

The transformation from village to city was initiated by the old components of the village carried along and incorporated in the new urban unit; but through the action of new factors, they were recomposed in a more complex an unstable pattern than that of the village – yet in a fashion that promoted further transformations and development. The human composition of the new unit likewise became more complex: in addition to the hunter, the peasant, and the shepherd, other primitives entered the city and made their contribution to the existence: the miner, the woodman, the fisherman, each bringing with him the tools and skills and habits of life formed under other pressures. The engineer, the boatman, the sailor arise from this more generalized primitive background, at one point or another. The city created a higher unity out of this complexity.

This new urban mixture resulted an enormous expansion of human capabilities in every direction. The city effected a mobilization of workers, a command over long distance transportation, an intensification of communication over long distances in space and time, an outburst of invention along with a large-scale development of civil engineering, and not least, it promoted a tremendous further rise in agricultural productivity.

The archaic village culture yielded to urban "civilization" that peculiar combination of creativity and control, of expression and repression, of tension and release, whose outward manifestation has been the historic city. From its origins onward, indeed, the city may be described as a 'structure' specially equipped to store and transmit the good of civilization; sufficiently condensed to afford the maximum amount of facilities in a minimum space. It is also capable of structural enlargement to enable it to find a place for the changing needs and the more complex forms of a growing society and its cumulative social heritage. The invention of such forms as the written record, the library, the archive, the school, and the university is one of the earliest and most characteristic achievements of the city. The transformation of the urban environment, seen from the vantage point of our own age, seems to indicate something like same general shift that occurred with our own industrial revolution, with the same sort of emphasis on economic activities. This obscures rather than clarifies what actually occurred. The rise of the city, so far from wiping out earlier elements in the culture, actually brought them together and increased their efficacy and scope. Even the fostering of non-agricultural occupations heightened the demand for food and probably caused villages to multiply, and still more land to undergo cultivation. Within the city, there were very little of the old order exclusions: agriculture in the summer, for example, was a continuing practice on a large scale by those who lived permanently within the new walled towns.

What happened rather with the rise of cities was that many functions that had before been scattered and unorganized came together within a limited area, keeping the components of the community in a state of dynamic tension and interaction. In this union, made almost compulsory by the strict enclosure of the city wall, the already well-established parts of the new city – shrine, spring, village, market, and stronghold – participated in the general enlargement and concentration of numbers, and underwent a structural differentiation that gave those forms recognition in every subsequent phase of urban culture. The city furthered not merely a means of expressing in concrete terms the magnification of sacred and secular power, but in a manner that went far beyond any conscious intention, it also enlarged all the dimensions of life. The city became the symbol of what was possible.

There is nevertheless one outstanding difference between the first urban epoch and our own. Ours is an age of multitude of socially undirected technical advances, divorced from any other ends than the advancement of science and technology. We live in fact in an exploding universe of mechanical and electronic invention, whose parts are moving at a rapid pace ever further and further away from their human center, and from any rational, autonomous human purposes. This technological explosion has produced a similar explosion of the city itself: the city has burst open and scattered its complex organizations over the entire landscape. In short, our civilization is running out of control, overwhelmed, but driven by its own resources and opportunities.

Shaping City Development

What the people want

Often the most effective way of making city officials legitimize their actions is using "popular control" - the citizens of a community become deeply involved with the actions of their leaders. Development projects end when they lack a compelling public rationale and generate significant community opposition. Is popular participation a "loose cannon" that can only have a negative influence and lead to veto groups? The consensus answer to that question is 'not entirely.' Most of the experts feel that popular opinion can also be a strong resource for local leaders. Thus strong citizenry input can certainly hinder projects the public deems bad for the community in general, however, a united populous can play a large role in moving worthwhile projects forward.

If popular control is to be effective, a number of conditions must be satisfied. To begin with, public approval is a direct connection to the capital investment process. This is not easy to accomplish because investment decisions often fall outside local government. The use of non-profit corporations, whose boards are appointed and whose revenue sources are independent, insulates development from public accountability. Nevertheless, even public benefit corporations must hold hearings, entertain popular motions, and justify their actions. Quite often issues spill over their ordinary boundaries and into public arenas. When this occurs, elected officials gain bargaining advantages by putting together coalitions that can play a vital role in the urban development game.

Next, public authorities must have the managerial and organizational capability to muster political support for business. Credible bargaining requires a stable and active constituency, whose collaboration can extend to business in a 'quid pro quo' process. In the United States and Canada, non-profit organizations have filled the gap between public and private sectors and have served as a vehicle for low- and moderate-income housing. Great Britain, Austria, France, and Nordic countries rely on forms of corporatism to bring about negotiated settlements, and 'mixed corporations' carry out certain kinds of developments.

Last, sufficient 'social capital' should occur to bolster popular participation. As scholars have recognized, democratic institutions require an attitude of cooperation and trust among the citizenry. For democracy to work, citizens must share similar values and pursue common objectives. This depends upon the social culture of an area. The culture of a city expresses values and norms that underlie development priorities. Some distressed cities are characterized by persistent racial or class polarization, and this deeply affects the development agenda. Here, the popular call is for jobs and housing. Other, more affluent cities may embrace a more political culture. Here, an active citizenry puts a great deal of attention on environmental issues and collective benefit.

Public approval and involvement

Cities vary in their capacity to organize public approval. Some cities work through neighborhood councils that exercise discretion over land use. Other cities give expression to popular opinion through programmatic political parties. Still others, offer few outlets for popular participation and actually design institutions so that local democracy is discouraged with cohesive political party systems.

Some Western European cities combine neighborhood government with cohesive party systems. This combination stimulates popular expression, furnishes bargaining advantage, and influences development. In Paris for example, political control over major development rests on a system of neighborhood city halls and an organized party system stretches into central government. The result is a city filled with public amenities, collective benefits, and massive housing subsidies. Amsterdam tells much the same story. A system of neighborhood councils and disciplined political parties assures a strong popular voice. As a result, the city enforces stringent rent controls and establishes historic preservation districts.

In London, a system of borough governance connects to disciplined, highly competitive political parties. Given the political significance of development issues for British parties, it is difficult for non-party interests to offer inducements that split politicians away from their partisan agendas. Further, when it comes to negotiating with business interests, programmatic political parties are capable of providing a powerful, and united, bargaining resource to elected governmental authorities. The key is a stable base of

political power that affords significant bargaining advantages in dealing with business organizations and shaping development priorities.

This previous discussion gives a basic synopsis of who participates in city development which sets the premise for Savitch and Kantor's (2002) discussion of the essentials of city bargaining. These authors define city bargaining as the ability of a city to garner resources in order to maximize its choices and ultimately realize its objectives in the capital investment process. Further, bargaining over city development turns on specific kinds of resources that have a cumulative impact on city choices and include *market conditions, governmental support, popular control systems, and local culture.*

Market conditions

Market conditions consist of the circumstances or forces that make cities more or less appealing to private capital. Such elements include:

- Geographic characteristics (Singapore as a gateway to Asia);
- Political reasons (Brussels as the seat of the European Union);
- A by-product of business circumstance (New York as a financial capital),
- Vital strategic roles (Houston as an oil center or Denver for its financial investments),
- Cultural reasons (New Orleans as a food city),
- Religious reasons (Jerusalem as a sacrosanct city).

Whatever the reasons, **'market conditions'** make a city highly valued and constitute an inherent advantage for attracting investment and continuing attention.
As one might expect, favorable market conditions put a city in a stronger bargaining position and give it greater control over capital investment and development. Diversified cities with a varied employment base are usually in a better position to control capital investment.

By contrast, single-industry towns have difficulty turning down any kind of capital investment. This weak position is particularly acute in cities with resource depletions or circumvention of their particular geographic advantages. The flight of investment from cities as Detroit and older industrial cities have left them desolate and they are desperate to give away property or garner private investment at virtually any cost.

Market conditions are a composite of many different circumstances. They reflect larger economic fluctuations that put city investment at a premium (rejuvenating downtowns) or put city investment efforts at risk (the recent economic meltdown). The indicators of market conditions are dependent upon the state of a national or regional economy as well as how a city fares in a global market. Most cities can measure their market condition by the creation of a modern employment base, the increase or decrease in available jobs, the value of office space, and a willingness to invest in property within a jurisdiction. Interestingly, population growth or decline may or may not be associated with a city's market condition.

Governmental support

This form of support refers to practices used in conjunction with city, regional, or national authorities to intervene in the marketplace. Support mechanisms come into play in order to strengthen public control over development. They include planning, land-use controls, fiscal support, differential tax policies, and infrastructure or housing construction. These supports often carry out on a 'metropolitan' or 'regional' basis and usually involve the integration of functions or fiscal capacity between governments.

Governmental integration may be vertical and take place between higher and lower levels of authority such as city to state to national government. For example, a city may entice an out of state industry to move to their city by heightening the interest of the business by collaborating with the state to secure tax incentives as well. Integration can also be lateral and include cooperation among equal levels of government over a wider region. In either vertical or lateral integration, localities can 'borrow' bargaining resources or transfer negotiations with business into more-favorable arenas. Integration can also include more encompassing and irregular processes of governance that unite officials at all levels and incorporate public private partnerships. Professional sports franchises fit under this form of integration. Often state and regional efforts are required to secure business that garners national recognition and broad revenue. Governmental systems that are well integrated are better able to channel economic development

and shape the marketplace. Poorly integrated or diffuse systems have less capacity, though such systems may hold other advantages and be better at economic stimulation.

A combination of qualitative assessments and quantitative indicators are useful to analyze governmental support. These include descriptions of governmental institutions and their impact, accounts of governmental cooperation on planning and development, explanations of housing policies, assessment of housing subsidies, and analyses of intergovernmental aid.

Popular control systems

Popular control systems refers to the means by which citizens express their preferences and make leaders accountable. Popular control also encompasses a larger process through which city development become legitimate This process may vary along several dimensions, including the scope of public participation, the extent to which participation is organized, and the effectiveness of electoral mechanisms in ensuring accountability in the process of legitimization. Cities may organize popular control around formal neighborhood governments or civic groups, they may work through mass-member or programmatic political parties, they may use voting to encourage widespread awareness and involvements, or they may organize legislative councils around small wards. Generally, electoral districts based on representation by neighborhood wards are more sensitive to popular expression than at-large representation.

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1.2: Evaluating a City

Cities with strong popular control systems exercise greater influence over capital investment by business and influence the course of economic development decisions. ‘Popular control’ may work to enhance development and provide projects with legitimacy, or popular control may serve as a focal point of opposition. Popularly elected councils are more open to welcoming new business and give endorsement to the construction of office buildings. They have also opposed highways and airport construction.

It is not easy to measure popular control because of cross-cultural differences. Voting and political party participation may mean one thing in Naples, Florida, and quite another in Houston, Texas. Nevertheless, we can gauge popular control by investigating local institutions, by examining citizen access to decision-making, and by looking at the prevalence of citizen groups. Competition for elected positions is also assessable as well as the role political parties play in transmitting citizen demands into community actions.

Thus, the concept of 'local culture' is applicable in a particular way. This phrase refers to the norms and values that create a disposition toward the development agenda. Cities bear a history, an experience with conflict and cooperation as well as a social structure that go into the making of local culture. That culture ultimately helps determine what kind of development popular opinion most values. Is it job and construction or is it green space and historic preservation?

There is a connection between what leaders negotiate for their constituents and the values of those constituents. Cities with a high 'materialist' (pro-business) culture will generally opt for jobs, income, and tangible benefits that are easily divisible. Cities with a strong degree of 'post-materialist' (social, for the people) culture are more concerned with preservation of the built or natural environment, and those benefits are generally indivisible. These preferences often mean that cities with materialist cultures are more likely to agree with business objectives than cities with post-materialist cultures. Bargaining and city development will then take different courses.

We can draw upon measures of local culture by examining data on a city's social composition. This data will tell us whether a particular city is predominantly blue collar or white collar. We can also rely on household size to determine whether cities are disposed toward a 'materialist' or 'post-materialist culture. Finally, one can look at attitudes toward development and assess popular priorities.

Generally, local governments compete for private capital in the international marketplace and they adopt policy strategies to influence the terms of their participation. City governments draw upon a variety of bargaining advantages or resources in support of these strategies. The more bargaining advantages held by a city, the greater its ability to shape city development. Variation in outcomes is a product of four specific kinds of resource variables by which one can evaluate cities: **market conditions, governmental support, popular control,** and **local culture**.

When these variables work cumulatively toward a strong public position, public actors are able to shift the risks and costs of development onto the private sector. An advantageous ‘**bargaining position**’ means that cities will pursue a development policy that Savitch and Kantor call "**social centered**." A social-centered development policy puts priority on strong public direction, activist planning, and preservationist policies. It also emphasizes collective benefits or public amenities. Social -centered development means that cities will make demands upon business and pursue 'linkage policies' - compensation to support a collective benefit in exchange for the right to develop. These include charging environmental impact fees, requiring contributions for moderate-income housing or mass transit, exacting public amenities, and imposing stringent architectural standards. In many European cities, social-centered development is part of a comprehensive planning process that establishes the location, placement, and design of construction.

However, when these variables work cumulatively toward a weaker public position, the public sector tends to absorb risks and costs. Often a disadvantaged bargaining position means that cities rely more heavily on an economic logic and pursue development that bears the label of "**market-centered**." This kind of development policy emphasizes fee development. Minimalist planning (little thought regarding the surrounding area or the effect on a city's citizenry), and strong economic growth. It accomplishes this by offering inducements to business such as tax abatements, providing public aid for capital projects, making land contributions, relaxing architectural standards, and doing away with zoning regulations. Cities that adopt such policy are essentially embracing a 'build as you may' policy toward business.

It is important to note that the difference between a ‘social-centered’ and a ‘market-centered’ orientation concerns the manner in which a city conceives its development strategy, controls its resources, and conducts its strategy. Do not confuse this with a lack of competitiveness or unwillingness to compete. Some cities legitimately see social-centered development in their long-term interests and as enhancing their competitive edge. Cities may see careful planning and an abundance of public amenities as a genuine attraction for investors, particularly for company headquarters or high-tech industry. To be social centered has more to do with how a city conceives and manages its development than with whether it competes in the international market. Historically, social-centered have become more competitive, but they also have retained their taste for collective benefits and demands of businesses that want to locate there. Naturally, market-centered cities are more consistently competitive both internally and externally. Their own development strategies center on competition and are undertaken because they appear to be the best way to perform in the international marketplace.

Figures 2.1 and 2.2 portray these propositions and list major attributes of each variable. The alternatives center on 'ideal types'.

Figure 2.1 Social - Centered Development	
Driving Variables (structure)	**Market Condition** (favorable) Evidenced by: high investment; job growth; successful economic conversion; sunk investments; high office rents and low vacancy rates; economic diversity; well established; market niches.
Steering Variables (agency)	**Popular Control** (active) Evidenced by: decentralized decision-making (neighborhood governments); numerous civic organizations; ward based voting; program-oriented involvement; policies favoring competition.
Governmental Support (integrated)	Evidenced by: vertical government integration; lateral regional integration; strong fiscal support; coordinated planning and development; and publicly supported borrowing.
Local Culture (advanced)	Evidenced by: white collar base; abundant managerial and professional employment; small sized households; values favor indivisible benefits.
Process	**Bargaining Positions** (public advantage) Evidenced by: demands on business; development fees; development linkages; stiff architectural requirements; location and design directives; restrictive zoning
Outcome	**Development** (social centered) Evidenced by: *strong public direction; Emphasis on public amenities and social redistribution; regulated development through intensive planning; historic preservation; green space and environmental protection; disfavor toward subsidized housing and mass transit.

Source: Savitch and Kantor. 2002. *Cities in an International Marketplace.*

Figure 2.2 Market - Centered Development	
Driving Variables (structure)	**Market Condition** (unfavorable) Evidenced by: low investment; declining or stagnant employment figures; unsuccessful or struggling economic conversion; mobile capital; low office rents - high vacancy; non-diversified economy; poor market niches
Steering Variables (agency)	**Popular Control** (passive) Evidenced by: centralized decision-making (neighborhood governments); weak civic organizations; at large voting; non-competitive policies.
Governmental Support (diffuse)	Evidenced by: Low or non-existent integration; lateral regional integration; low fiscal support; Non-existent or uncoordinated planning; private borrowing
Local Culture (worker orientation)	Evidenced by: Blue collar base; stagnant managerial and professional employment; large sized households; values favor divisible benefits
Process	**Bargaining Positions** (public disadvantage) Evidenced by: Inducements to business Tax abatement; No linkages; non-existent or few architectural and design controls; lax or non-existent zoning; low cost or free land and clearance
Outcome	**Development** (market centered) Evidenced by: Weak public direction; emphasis on income, growth and jobs; free development and limited to no planning; pursuit of higher property tax and base; disfavor toward private housing and automobile routes.

Source: Savitch and Kantor. 2002. *Cities in an International Marketplace*

The figures link each of the four variables to a bargaining and development process. Note that two of the variables - market conditions and governmental support - are designated as **driving variables** while the other two - popular control systems and local culture - are designated as steering variables. Driving and **steering variables** derive from the metaphor of an automobile, whereby the drive train furnishes power to propel the vehicle, while manipulation of the steering mechanism puts the vehicle on itsactual route. In this sense, driving variables confer economic power to cities and grant public leaders leverage as they bargain with business. By comparison, **steering variables** have more.

Although these resources do not usually change rapidly, they are more likely to reflect local habits and institutional developments. For example, steering resources can change in response to electoral reforms, immigration of new social groups into the community, voter registration drives, or even the rise of civic leaders with new ideas about politics.

The distinction between steering and driving forces is significant because it allows us to examine the play of structure versus agency in city building. One of the central questions has to do with the actual choices (agency discretion) that citizens have in coping with global restructuring. Do local political efforts and resources matter or, are cities driven to accommodate forces of global magnitude? The **driving** concept helps to identify variables closely connected to structural circumstances. The **steering** notion points to things over which there is more agency. By examining their interplay, you are able to highlight what, if anything, cities can do to alter their trajectories of development. This also enables the comparison of constraints on policy choices in different cities. Additionally, it helps to explain why particular cities take different policy roads.

The variable labels in each figure are within their respective development patterns. Market conditions categories are favorable or unfavorable, and the attributes follow. The governmental support centers on ‘integrated’ or ‘diffuse’ and a list of attributes. The popular control classification is either active or passive. **Local political culture** centers on ‘materialist’ or ‘post materialist’. Each attribute of either type of culture appears in the list. The process explanation extends from two bargaining positions - **public**

advantage or **public disadvantage**. The outcome classification is either **social-centered** or **market-centered** development. It is important to note that these models are not purposeful in defining causal theory but rather to indicate policy directions and alternatives, or the lack of alternatives that might exist in a city.

Of course, any variation of market- or social-centered development is possible, even likely. City development has more to do with nuance than with a simple set of choices about whether or not to develop. Many studies on the politics of development use the phrase "pro-growth" or "anti-growth." These perspectives may oversimplify the issue because the norm for most cities, most of the time, is to undertake some kind of development. That development may be market-centered and produce jobs, or it may be social-centered and create museums. Both kinds of development are different, but both are also meaningful.

In a parallel manner, some scholars make distinctions between policies that promote "development" versus those that promote "consumption." Presumable, building infrastructure for an industrial park is "development while constructing a museum is "consumption." In reality, those distinctions are difficult to make because the line between development and consumption is quite porous. Access roads for industrial development can also be useful to private motorists on a consumer vacation. Museums and city attractions visited by consuming local residents can also attract tourists and stimulate a recreational industry. Whether a policy is developmental or consumptive can be subject to rapid and incessant shifts in usage. Public amenities (a form of social-centered development) are useful to enhance job development in some cities.

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1.3: Smart growth – Emphasis on Sustainability

Smart Growth is an urban planning and transportation theory that concentrates growth in compact walkable urban centers to avoid sprawl. It also advocates compact, transit-oriented, walkable, bicycle-friendly land use, including neighborhood schools, complete streets, and mixed-use development with a range of housing choices. The term 'smart growth' is particularly useful in North America. In Europe and particularly the UK, the terms 'Compact City' or 'urban intensification' have often been used to describe similar concepts, which have influenced government planning policies in the UK, the Netherlands and several other European countries.

Smart growth values long-range, regional considerations of 'sustainability' over a short-term focus. Its sustainable development goals are to achieve a unique sense of community and place; expand the range of transportation, employment, and housing choices; equitably distribute the costs and benefits of development; preserve and enhance natural and cultural resources; and promote public health.

The concept of "smart growth" emerged in 1992 from the United Nation's adoption of Agenda 21 at the United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro, Brazil. Driven by "new guard" urban planners, architects, developers, community activists, and historic preservationists, it accepts that growth and development will continue to occur, and so seeks to direct that growth in an intentional, comprehensive way.

Smart growth principles focus on developing sustainable communities that are good places to live, to do business, to work, and to raise families. Some of the fundamental aims for the benefits of residents and the communities are increasing family income and wealth, improving access to quality education, fostering livable, safe and healthy places, stimulating economic activity (both locally and regionally), and developing, preserving and investing in physical resources.

Principles and practices

There is a need to distinguish between smart growth "principles" and smart growth "regulations". The former are concepts and the latter their implementation, that is, how federal, state, and municipal governments choose to fulfill smart growth principles. One of the earliest efforts to establish smart growth forward as a regulatory framework were put forth by the American Planning Association (APA). In 1997, the APA introduced a project called Growing Smart and published "Growing Smart Legislative Guidebook: Model Statutes for Planning and the Management of Change." The U.S. Environmental Protection Agency defines smart growth as “development that serves the economy, the community, and the environment. It changes the terms of the development debate away from the traditional growth/no growth question to how and where should new development be accommodated” Smart growth is related to, or may be used in combination with the following concepts.

There are 10 accepted principles that define smart growth:

- Mix land uses
- Take advantage of compact building design
- Create a range of housing opportunities and choices
- Create walkable neighborhoods
- Foster distinctive, attractive communities with a strong sense of place
- Preserve open space, farmland, natural beauty, and critical environmental areas
- Strengthen and direct development towards existing communities
- Provide a variety of transportation choices
- Make development decisions predictable, fair, and cost effective
- Encourage community and stakeholder collaboration in development decisions

The smart growth approach to development is multifaceted and can encompass a variety of techniques. For example, in the state of Massachusetts smart growth came to fruition by a combination of techniques including increasing housing density along transit nodes, conserving farmland, and mixing residential and commercial use areas. Perhaps the most descriptive term to characterize this concept is 'Traditional Neighbor Development', which recognizes that smart growth and related concepts are not necessarily new, but are a response to car culture and sprawl. Many favor the term 'New Urbanism', which invokes a new, but traditional way of looking at urban planning. There are ranges of best practices associated with smart growth that include:

- Supporting existing communities

- Supporting existing communities
- Redeveloping underutilized sites
- Enhancing economic competitiveness
- Providing more transportation choices
- Developing livability measures and tools
- Promoting equitable and affordable housing
- Providing a vision for sustainable growth
- Enhancing integrated planning and investment
- Aligning; coordinating; and leveraging government policies
- Redefining housing affordability
- Making the development process transparent

Related but somewhat different, are the overarching goals of smart growth, and they include:

- Making the community more competitive for new businesses
- Providing alternative places to shop, work, and play
- Creating a better "Sense of Place"
- Providing jobs for residents
- Increasing property values
- Improving quality of life, expanding the tax base
- Preserving open space and controlling growth
- Improving safety

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1.4: Suburbia

For many, the word suburb conjures up an image of post-World War II single-family-tract homes, produces of the age of automobiles and superhighways. Yet one basic fact of American suburbia is that it has existed virtually as long as the nation itself. It is not the offspring of the car or, postwar federal mortgage insurance and freeway programs. Suburbia was a creation over the past two centuries by millions of Americans who wanted to pursue an economic endeavor or lifestyle incompatible with the policies or development patterns of central cities. The American suburb is a prime example of the nation's tradition of expansive freedom and mobility. Taking advantage of the abundance of peripheral land, entrepreneurs and home seekers in both the nineteenth and twentieth centuries' pursued their own particular aspirations in outlying communities. They laid out sprawling factories, estates, residential subdivisions, and shopping malls, creating a way of life not possible within the confines of the central city. Moreover, state lawmakers maximized the opportunity for local self-rule, allowing Americans in all types of outlying communities, whether densely or sparsely populated, industrial or residential, to fashion their destiny exempt from the dictation of central city rulers. Suburbia reflects the desire of Americans over the decades to do it their own way, to create alternative communities in pursuit of a profit or a dream (Teaford, 2008: 1).

Any discussion of suburbia would be remiss without the seminal thoughts on that subject by Jon Teaford, author of *The American Suburbs* that depicts the United States as truly a suburban nation. Majorities of Americans live in the suburbs, and a large share work, shop, and spend their leisure time there as well. Rural cities accounts for a dwindling proportion of the nation's population and business, as do the once preeminent central cities of our country. For example, the cities of Atlanta and Boston are home to only about ten percent of the people in their respective metropolitan areas, and the figures for other major cities is not much higher. New Orleans is another example of the loss of centripetal pull facing once dominant cities. Post Katrina New Orleans is now virtually surrounded by cities, as a collective, with populations a minimum of twice the populations of the former central city itself. In general, central cities are no longer central to the lives of most metropolitan Americans; the amorphous mass beyond the core city limits is the workplace, playground, marketplace, and bedroom of America.

For our country, the notion of city limits has been vital to the concept of suburbia. Unlike in Britain, where the term suburb refers to a peripheral area whether inside or beyond a major city's boundaries, in the United States the federal census bureau and most commentators have defined suburbia as that zone within metropolitan areas but beyond central city limits (Jackson, 1985). Because of the strong tradition of local self-rule in the United States, this political distinction between suburb and central city has been vital to discussions of suburban development, lifestyle, and policy. American suburbs are not simply peripheral areas with larger laws and more trees than districts nearer the historic hub. They are governmentally independent political units that can employ the powers of the state to distinguish them-selves from the city. With cities in control over land use planning and independent taxing and regulatory powers, they can individually mold their residential and business development. With separate school governments' they can fashion an educational system suitable to the class aspirations of their residents. Any discussion of American suburbs must confront the rivalry and tension between the central cities and outlying jurisdictions. The American suburb is not just a neighborhood; it is a distinct governmental entity with all the coercive power necessary to fashion its own destiny.

Given suburban success in overshadowing the core cities, the term suburb has become problematic for contemporary America. In the twenty-first century, American suburbia is no longer 'sub' to the 'urb'. In fact, many scholars and informed observers regard Americans as living in a - world where the concept of suburb is perhaps obsolete. Other alternative terms have begun to arise such as edge city, techno-burb, or urban realm, but the term 'suburb' survives in the American language and seems destined to remain part of the nation's vocabulary. Complicating the problem with nomenclature is the reality that the suburbs are a diverse collection of communities, embracing markedly different patterns of settlement. Some or older industrial communities; others are depicted by sleek, glass-encased office towers and glitzy shopping malls; still others are low-density, semi-rural retreats; and a large number are aging residential towns with single-family, detached houses on small lots. Thus, the communities we call suburbs are neither subordinate to the historic hub nor outwardly similar to one another in appearance, economic base, or social composition.

Despite their increasing independence and manifold diversity, the suburbs do share a common characteristic that distinguished them from the central cities and enables one to consider them as a distinct class. From their founding and throughout the history of their development, central cities have perceived themselves as regional centers - hubs that dominate their edges and extremities and compete with other great cities in the nation and the world. This view of their role was basic to the development of the urban empires of New York, Chicago, and San Francisco in the nineteenth and early twentieth centuries'. In addition, it underlay efforts to

bolster the centripetal pull of older hubs during the urban renewal era. Even in the twenty-first century, it has been evident in the central cities' initiatives to maintain an emotional grip on a large extremity populace by securing or retaining professional sports teams and building the facilities for these symbols of big-league status. The ‘core city development’ focus is the notion of their centrality to the olives of a regional population.

The suburbs, however, are those unique communities where the driver for development was not the need or desire to be the city, the dominant hub of a region, or one of the great centers of the nation. They acquired the bulk of the nation's offices, retailing, and manufacturing space and the accompanying jobs, and some populous, rapidly expanding communities labeled boom-burbs grew to be as large as or larger than some of the older, better-known central cities. The suburbs welcomed the resulting tax revenues and did not necessarily discourage population growth or commercial development. Moreover, they grew relatively independent of the older core city, their residents having little concern for or interest in its welfare or problems. The underlying rationale in their development was not a desire to become one of the nation's great cities. Their leaders were fashioning principalities, not empires. Whether industrial suburbs, upper-middle-class residential havens, boom-burbs, or other types of communities, they did not aspire to be central cities, the focus of all metropolitan endeavors, or the rival of London, Paris, New York, or Chicago.

The suburbs are the product of a different mentality from that underlying the central cities, and that mentality survives to this day. Suburbia's multitudinous communities have rendered the older notion of the city largely obsolete and have created the amorphous metropolitan regions of today where there is no dominant single focus for the lives of residents throughout the area. They are not subordinate to the ‘urb’; but they are subversive to the whole concept of the ‘urb’, the commercial and cultural focus of an extensively populated edge extremity and thus perhaps are deserving of the title suburb after all. Their gain marks the victory of the amorphous metropolitan mass over the focused metropolis of the past. They have supplanted the concept of the city as a center with the now prevailing notion of the city as a fragment.

In the United States, then, the ‘suburbs’, are not peripheral complements to the city; instead, they have largely superseded the city, creating a new center-less world where the old, clear-cut boundaries between urban and rural commuters traveling in every direction have dissolved and the long-standing centripetal pull of downtown has diminished to a faint tug. Americans have liberated themselves from the city and fashioned a post-urban nation with population spread over vast regions and commuters traveling in every direction. The diverse communities beyond the central city limits may have little in common, but together they have reconstituted the settlement patterns and lifestyle of the nation, subverting traditional notions of the city.

This subversion has elicited choruses of complaints and few concepts have been so roundly damned or assumed such pejorative connotations as that of the suburb. For years, the literate classes of the city with a discouraging lack of perception or imagination smeared the area beyond the central city as a bland, homogeneous zone producing dull drones in look-alike houses whose culinary tastes tended toward a Big Mac and who deemed a chrome plated car high art. Consuming miles of virgin countryside, draining wetlands, leveling forests, displacing endangered flora and fauna, portraying suburbanites as shallow hoards wreaking havoc with civilization and nature. Critics identified ‘suburban sprawl’ as a major national problem, a blight threatening the environment and the general welfare of American society. Recognizing the subversive nature of the suburban trend, central city mayors repeatedly blamed their problems on uncaring residents beyond the municipal limits, and generally, stereotyping suburbanites as selfish, materialistic, exclusive, and indifferent to the problems of the nation and the world (Teaford, 2008).

In truth, the suburbs include some of the most densely populated communities as well as areas zoned to accommodate more horses than humans. Suburbia reflects the ethnic diversity of America more accurately than the central cities, providing homes for a variety of races. It comprises slums as well as schools as well as mansions, main streets as well as malls, skyscrapers as well as schools. Some suburbs are particularly gay-friendly; others are planned for senior citizens. Some suburbs are synonymous with fine schools; others are examples of educational failure. Traveling though the suburbs one sees a full range of experience, a diversity of lifestyles, a rich variety of built forms and environments. Comprising a majority of Americans, suburbia is not a homogenized haven that is undifferentiated from other communities. It is a vivid mosaic composed of all the varied fragments of life and society.

Some suburbanites who spend their entire lives in the suburbs seem to believe some of the conventional stereotypes that clash with the reality around them. Moreover, these stereotypes influence the nation's public policy debates. Central city officials continue to exploit traditional conceptions of an essential hub surrounded by bedroom communities, claiming that their core jurisdictions require the bulk of public aid and concern. Many suburbanites continue to view their turf as refuges, decrying the traffic, commerce, and influx of diverse people who seem to shatter this long-standing and beloved image. Suburbanites cling to a stereotypical suburban-ness long after the stereotypical community of single-family homes with happy families comprising two heterosexual

parents and two amiable children has disappeared. Similarly, leaders of the historic hobs attempt to perpetuate a sense of their communities' centrality decades after the department stores have moved to suburban malls and downtown movie palaces have yielded to outlying multi-screen venues. Metropolitan Americans in both the central city and suburbs clutch at dreams that are increasingly incompatible with the changing reality.

Economic development in the great metropolitan regions of America as well as governance of those regions now centered in suburbia. American business has moved to the suburbs, and the suburban response to commercial development is a significant factor in the nation's recent economic history. The willingness of suburbanites to welcome additional business has markedly influenced commercial decentralization. Suburban business incentives and tax policies can prove a boon to certain businesses deemed desirable where as other commercial concerns might struggle to find a suburban site. The complex maze of suburban government reveals adaptations of the government structure to suburban needs and desires. Characterized by a strong belief in grassroots rule and government tailored to the citizenry, American suburbia has developed a public sector baffling to many but satisfactory to millions of residents and taxpayers. Suburban government may be difficult to comprehend but it has worked for many decades and continues to do so (Teaford, 2008).

Other significant issues are housing and the barriers to equal access to the suburbs. Though the suburbs house a broad range of people, including both the rich and the impoverished, a major concern of the early twenty-first century is housing ‘affordability’ and whether the American dream of a single-family home may prove beyond the reach of a growing share of the citizenry. Often criticized for their exclusionary policies, which effectively bar moderate and low-income citizens, many residential suburbs in the twenty-first century may well increasingly become the domain of the fortunate few or they may become the home of the unfortunate many who have heavily mortgaged their futures in a desperate bid to secure a suburban home no matter the cost. From the traffic jam of morning commuters to the tranquility of suburban evenings, the nature of metropolitan life will depend on the planning of suburbia, decisions about ‘what’ and ‘how much’ land neighborhoods should consume, and how it may be developed. Thus, knowledge of the evolution, development, policies, and plans for small communities is essential to understanding the region.

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1.5: Commercial Suburbia

Basic to the American suburbs is the fact that suburbia is the preeminent zone for business in the United States. As far back as the late nineteenth and early twentieth centuries', industries were already moving to the suburbs and during the thirty years following World War II retailing migrated outward, creating the landscape of parking lots and malls familiar to all. Finally, during the last quarter of the twentieth century, a mass migration of office space confirmed the commercial supremacy of the suburbs. By the dawn of the twenty-first century, the heart of American business was in the suburbs. The suburbs contained the majority of American manufacturing, retailing, and office space. In the suburbs and smaller outlying bedroom communities surrounding large cities was where most individuals earned and spent most of their cash.

During the first decade of the twenty-first century, there have been no signs of a shift away from this preeminence. Scholars and journalists argue about the exact pattern of suburban business, retailers and developers attempt to discover and satisfy the shopping and spending desires of suburban consumers, and local government officials seek to maximize their tax revenues from the abundance of commercial activity. All of them recognize that the business future of the nation is in the suburbs. That is where the money is (Degross, 2003).

Changes in shopping patterns

One could argue that there is no sector of American business possessing a stronger identification with suburbia than retailing. With the declines of the great downtown department stores during the second half of the twentieth century, suburbia has emerged as the preeminent place to shop. It is the mother lode of modern consumerism, the destination of shoppers seeking to satisfy their passion for spending.

Power center

During the last decades of the twentieth Century, the inescapable symbol of suburban shopping was the mall. Yet the opening of the Mall of America with over 520 units in 1992 did not mark the beginning of a new golden mall age. The Mall of America actually marked the ‘end’ of the nation's love affair with the enclosed suburban shopping center to some extent as the hands of the category killers, the big box stores such as Walmart and Target.

Thus, the 'power center' emerged as the next generation shopping location. The International Council of Shopping Centers defines a power center as " a center dominated by several large anchors, including discount department stores, off-price stores, warehouse clubs, or category killers. With "only a minimum amount of small specialty tenants" (ICSC, 2006). These stores built to attract bargain hunters are among the most formidable rivals for the enclosed mall. At a power center, the shopper can find more for less, taking advantage of the prices and inventory offered by the hulking giants of twenty-first-century retailing.

Lifestyle center

Further undermining the enclosed mall is the "lifestyle center." During the first decade of the twenty-first century, these open-air centers of upscale chain specialty stores with an ample supply of restaurants and entertainment venues became the latest rage in retailing and a new feature of the nation's suburbs.

Basic to the lifestyle concept is the creation of a pleasurable ambience of well-designed and tastefully landscaped outdoor plazas and walkways. The centers are intended to be reminiscent of the small town main streets of yesterday, but with such upscale retailers as ‘Ann Taylor’, ‘Banana Republic’, and ‘Pottery Barn’ never found in those small towns. Additionally, they have plenty of parking thus correcting a flaw that destroyed main street retailing in years past. The concept is a modernized version of the traditional marketplace. It is a return to the character and the ambience of small towns with enhanced offerings that include ‘in-demand retailers’, ‘restaurants’, ‘entertainment’, and services for a ‘complete shopping experience’.

Town center

A variant of the lifestyle center is the town center. Like their lifestyle cousins, town centers are open air with attractive public spaces and a main street ambience. They are mix-use centers including not only retailing and entertainment, but also office, housing, and public facilities such as libraries. Their intention is to be 24-hour venues, places where people live, work, and play that will recreate the liveliest urban streets. The mix-use town center brings together everything people want in one attractive place,

often generating two or three times the draw of a traditional shopping center. Many people are hungry for homes in a true town center that allows them to walk to stores, restaurants, entertainment, even work (Lockwood, 2003).

In any case, suburban retailing is continually reinventing itself. It is not dependent on the fortunes of the traditional enclosed mall. Instead, suburbs throughout the nation are breeding grounds for the shopping options of tomorrow (Field, 2006). Further, suburban governments welcome this form of financial growth. Local officials have repeatedly expressed their preference for commerce over residential developments. Commercial developments tend to produce jobs, revenue for the city, and all of this occurs with minimal impact regarding community services need to generate revenue.

It is with a certain amount of irony that peripheral areas originally conceived as residential retreats of wholesome family life have developed into the domain of American commerce. They have sprouted edge cities, diffused into edgeless cities, and spawned a succession of enclosed malls, power centers, and lifestyle venues. By the early twenty-first century, many of these former bastions of the American family and home wanted nothing more than to be rid of child-producing families and housing subdivisions sucking cash from local treasuries. Changing patterns of work, shopping, and leisure, as well as the fiscal realities of American local government, have made a mockery suburban stereotypes. American suburbia of the early twenty-first century is not a haven or retreat. It is where Americans earn and spend as well as sleep. It is the primary focus on the majorities' way of life.

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1.6: Thinking about a Place

Places have a certain preciousness for their users that is not part of the conventional concept of things that one considers useful or valuable. A crucial initial difference is that place is indispensable; all human activity must occur somewhere. Individuals cannot do without place by substituting another product. People can, of course do with less place and less desirable place, but they cannot do without place altogether (Logan and Molotch, 2007: 17).

Use value

Even when compared to other indispensable commodities such as food, - a place is still particular in its essence. The use of a particular place creates and sustains access to additional use values. One's home in a particular place, as an example, provides access to school, friends, work placed, and shops. Changing homes disrupts connections to these other places and their related values as well. Place is thus not a discrete element, like a toy or even food; the precise conditions of its use determine how other elements, including other commodities, will be used. Cox (1981: 433) speaks of "home' as a vested interest "spilling out of the individual household and its dwelling and projecting itself onto neighbors, streets, local businesses, schools, and other institutions." Any individual residential location connects people to a range of complementary persons, organizations, and physical resources.

The stakes involved in the relationship to place can be high, reflecting all manner of material, spiritual, and psychological connections to land and buildings. Places represent "the focusing of experiences and intentions, onto particular settings full with meanings, with real objects, and with ongoing activities" (Relph, 1976: 141). Numerous scholars from Anderson (1976) to Whyte (1943) have shown that given places achieve significance beyond the more casual relations people have to other commodities. Although the connection to place can vary in intensity for different class, age, gender, and ethnic groups, individual relationships to place are often characterized by intense feelings and commitments appropriate to long-term and multifaceted social and material attachments.

Location value

These social and material attachments create an asymmetrical market relation between buyers and sellers. People pay what property owners demand, not because the real estate unit is worth it, but because the property is held to have peculiar or idiosyncratic location value and benefits. Access to resources like friends, jobs, and schools is so important that residents (as continuous consumers-buyers) are willing to resort to all sorts of 'extra-market' mechanisms to fight for their right to keep location relations intact. They organize, protest, use violence, and seek political regulation. They strive not just for tenure in a given location but for stability in the surrounding neighborhood as well (Logan and Molotch, 2007:18).

Neighborhoods

According to Castells (1983) location establishes a special collective interest among individuals. People who have bought into the same neighborhood share a quality of public services (garbage pickup, police behavior, and so forth); through these forms of 'collective consumption' residents have a common stake in the area's future. Residents also share the same fate when natural disasters such as floods and hurricanes threaten and when institutions alter the local landscape by creating highways, parks, or elements that disfigure a location. Individuals are not mutually dependent on what goes on inside a neighborhood including the composition of an area. They also feel the effects of what goes on outside it as well. The standing of a neighborhood in relation to other neighborhoods creates conditions that its residents experience in common. Each place has a particular political or economic standing in relation to other places that affects the quality of life and opportunities available to those who live within its boundaries. A neighborhood with a critical voting block for example, may generate high levels of public services or large numbers of patronage jobs for its working-class residents, thereby aiding their well-being. A rich neighborhood can protect its residents' life styles from external threats in a way that transcends personal resources, even those typically associated with the affluent (Dear, 1981).

Neighborhoods organize life chances in the same sense, as do the more familiar dimensions of class. Giddens (1973: 108-110) notes the importance of spatial segregation as a "proximate factor of class structure as an aspect of consumption rather than production which acts to reinforce the separations" produced by unequal market capacity.

Like class and status groupings, and even more than many other associations, places create "communities of fate" (Stinchcombe, 1965: 181). Thus, one must consider the stratification of places along with the stratification of individuals in order to understand

the distribution of life chances or market opportunities. People's sense of such dynamics, perceived as the relative "standing" of their neighborhood, gives them some of their spiritual or sentimental stake in place - thus further distinguishing home from other, less life-significant things or places with some value attached.

Material versus psychological

Although there is much academic debate on the subject, the material use of place does not separate from psychological use; the daily round that makes physical survival possible takes on emotional meanings through that very capacity to fulfill life's crucial goals. The material and psychic rewards thus combine to create a feeling of "community." Much of residents' striving as members of community organizations or just as responsible neighbors represents an effort to preserve and enhance their networks of sustenance. Appreciation of neighborhood resources, so varied and diffusely experienced, gives rise to "sentiment," the sense that a particular place uniquely fulfills a complex set of needs. When residents' speak positively of use values, they imply fulfillment of all these needs material and non-material (Logan and Molotch (2007: 21).

Retailers

Although residents are the foremost examples of people who pursue use values through property, others also pursue use values through property, and these people operate in a manner different from what the market model would imply. Retailers, for example, depend on geographical context and often develop enduring connections to a given location. Proximity to customers can be their most important location resource. Moreover, some of the same factors important to residents affect their prospects: physical amenities, community services, and a social network supporting the makeup of the neighborhood, including the shops. A retailer may depend not only on a substantial number of people nearby but on a certain type of residential enclave. An exclusive restaurant would benefit from a more affluent residential population. Thus, merchants have an ongoing stake in a particular social makeup of place.

Retailers like residents may, or may, not welcome nearby development, which could mean new competitors as well as an expanded market. These necessities cause retailers, as a group, to have mixed interests; they may serve an intermediate social role in conflicts that arise between residents and place entrepreneurs. Their role is not easily predictable, however, since it is contingent on the specific form of retailing, and whether, or not, the present residential population will enhance or inhibit future profit making. Retailers may also own extensive property themselves, further complicating their interests in a neighborhood.

Corporations

Individual corporations typically derive their own use values from a particular location. Whatever the basis for corporate location decisions (commonly referred to as maximizing access to raw materials, markets, and labor), firms do not usually depend on intensification of adjacent land for the success of their own operations. They may benefit from a nearby assortment of business support services that will deliver, together, a collective economy for the area but there is no inherent need for land-use intensification in general. Of course, such firms can also simultaneously own land and buildings; and this ownership may eventually override other considerations. Corporations principally involved in productive enterprise may later find their real estate holdings their greatest asset, At that point their interest shifts from the use values of a place to its exchange value, once again blurring the neatness of connecting a place to its use or exchange value (Logan and Molotch, 2007).

Business attachment to place

There are three important general observations about business attachments to place. First, compared to those of residents, the satisfaction that owners and operators derive from place is less diffuse. Their paramount interest is the profitability of their operations; concerns with place turn heavily on how well land, buildings and locations in general serve that overarching goal. Second, businesses, as compared to residents, have a greater opportunity to move to another place should conditions in one place cease to be appropriate. Free of at least some of the constraints holding residents, such as sentimental ties to family and access to schools and jobs, businesses can exit more easily. Firms that have not committed major facilities to a given location (sunk costs) are particularly mobile. Finally, a firms' use of place is less fragile than that of residents. Capital can adapt to changes such as noise, odor, and ethnic succession, whereas the effect of such change on residents is immediate and more serious. Of course, some forms of capital do have specific location needs, but these location needs will adjust only by extreme changes such as traffic issues such as road construction, or poor communications (Pred, 1977, 1980).

The lack of entrenchment and firm connection felt by businesses presents tends to reduce government control over such entities. Although residents vary in their attachment to a neighborhood, businesses' attachment to place is much weaker overall. This adds to the difficulties of those, like government officials or neighborhood leaders, who might try to control them. At the other extreme are residents like the elderly poor who are permanent to the place they use. The most vulnerable participants in place markets are those with the fewest alternatives (Janowitz, 1951).

Place as monopoly

The ownership of land is inherently monopolistic providing owners with complete control over the total supply. There can be no additional entrepreneurs or any new product. The individual owner also has a monopoly over a subsection of the marketplace. Every parcel of land is unique in the access it provides to other parcels and uses, and this quality underscores the specialness of land and buildings as commodities. Thus, owners control access to it as well as its given set of spatial relations.

Construction Effects on Price

New construction has less bearing on market dynamics than one might think. New units on the same land can never duplicate previous products. Each product, old or new, is different and unique, and each therefore reinforces the monopoly character of property and the resulting price system. For example, building space on the top floor of a skyscraper is more desirable than the same square footage just one floor lower. Conversely, you cannot duplicate the advantages of street-level retail space on a floor above. These additional types of relationships also give places their monopolistic character (Markusen, 1979).

Another curious aspect of real estate is its essentially "second-hand" nature (Turner, 1977: 39). Buildings and land are continuously ‘sold, resold, or rented and re-rented’. In a typical area, no more than 3 percent of the product for sale or rent consists of new construction. Not only land, even the structures on any piece of land can have infinite lives; neither utility nor market price need decrease through continuous use. In truth, successive investments can often build upon rather than devalue a location (Harvey, 1983). Since the amount of new property on the market at any given moment is ordinarily only a small part of the total that is for sale, entrepreneurs' decisions to add to this supply by building additional structures will have a much more limited impact on price than would the same decisions with other type of commodities (Markusen, 1979). Each unit is typically prices in relation to the surrounding units.

In contrast, areas where building construction is more rapid have higher rather than lower costs, even when demand factors are statistically controlled. This makes sense when one considers price a function of comparison to other surrounding structures. With new and old forms of construction, there is a pricing balance while new construction alone produces new and generally, higher priced ‘comparable pricing’ based on construction costs.

Similarly, relatively high vacancy rates are not associated with lower rent levels that suggests that new construction leads local markets to a new, higher pricing structure rather than equilibrating a previous one. Given the fixed supply of land and the existence of relational advantage of one building over another, more money entering an area's real estate market not only results in more structures being built but also increases the price of land and quite plausibly, the rents on previously existing "comparable" buildings. Thus, higher investment levels can push the entire price structure upward (Appelbaum and Gilderbloom, 1983).

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1.7: Classroom Preparation Assignments

City Summary Exercise 1.7.1

- Introductory paragraph
- City/suburban appeal
- City industrial/service sector appeal
- Discuss why the city is a ‘good fit’ for your business
- Provide example where applicable

Discussion Questions 1.7.2

1. What is the most effective way to make city officials take legitimate actions when making city decisions?
2. How can popular opinion be a strong resource for community leaders?
3. Market conditions consist of circumstances that make cities more or less appealing to private capital. List three of the major elements and explain how they might affect leasing costs.
4. What do pro-business cities value from private capital?
5. What do ‘social’ cities value from private capital?
6. What are the driving variables in a social-centered city?
7. What are the driving variables in a market-centered city?
8. How do the bargaining positions differ in market versus social cities?
9. List five major factors of smart growth.
10. What are the different type of shopping centers in suburbia?
11. Explain ‘use’ value and ‘location’ value. How do they differ?
12. What is the ‘second-hand’ nature of real estate?
13. What is a suburb?

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1.8: Chapter Glossary and Notes

Glossary

Popular control. The citizens of a community become deeply involved with the actions of their leaders.

Social capital. Democratic institutions require an attitude of cooperation and trust among the citizenry. For democracy to work, citizens must share similar values and pursue common objectives. This depends upon the social culture of an area. The culture of a city expresses values and norms that underlie development priorities.

Public approval and involvement. Some cities work through neighborhood councils that exercise discretion over land use. Other cities give expression to popular opinion through programmatic political parties. Still others, offer few outlets for popular participation and actually design institutions so that local democracy is discouraged with cohesive political party systems.

Market conditions. Market conditions consist of the circumstances or forces that make cities more or less appealing to private capital. Such elements include geographic characteristics, political reasons a by-product of business circumstance, vital strategic roles, cultural reasons, and religious reasons.

Governmental support. Refers to practices used in conjunction with city, regional, or national authorities to intervene in the marketplace.

Popular control systems. Refers to the means by which citizens express their preferences and make leaders accountable. Popular control also encompasses a larger process through which city development become legitimate This process may vary along several dimensions, including the scope of public participation, the extent to which participation is organized, and the effectiveness of electoral mechanisms in ensuring accountability in the process of legitimization.

Local culture. This phrase refers to the norms and values that create a disposition toward the city's development agenda. Cities with high 'materialist' cultures will generally opt for jobs, income, and tangible benefits that are easily divisible. Cities with a strong degree of 'post-materialist' or 'social' cultures are more concerned with preservation of the built or natural environment, and those benefits are generally indivisible. These preferences often mean that cities with materialist cultures are more likely to agree with business objectives than cities with post-materialist cultures.

Social centered. A social-centered development policy puts priority on strong public direction, activist planning, and preservationist policies. It also emphasizes collective benefits or public amenities.

Market-centered. Minimalist planning (little thought regarding the surrounding area or the effect on a city's citizenry), and strong economic growth. It accomplishes this by offering inducements to business such as tax abatements, providing public aid for capital projects, making land contributions, relaxing architectural standards, and doing away with zoning regulations. Cities that adopt such policy are essentially embracing a 'build as you may' policy toward business.

Driving variables. Refers to market conditions and governmental support. Driving variables confer economic power to cities and grant public leaders leverage as they bargain with business.

Steering variables. Steering variables have more to do with choices about the strategic direction of development. Because steering variables focus on local preferences, they can be used by public leaders to garner indigenous support for a given policy preference.

Smart growth. An urban planning and transportation theory that concentrates growth in compact walkable urban centers to avoid sprawl. It also advocates compact, transit-oriented,walkable, bicycle-friendly land use, including neighborhood schools, complete streets, and mixed-use development with a range of housing choices.

Suburbs. Those unique communities where the driver for development was not the need or desire to be the city, the dominant hub of a region, or one of the great centers of the nation. They acquired the bulk of the nation's offices, retailing, and manufacturing space and the accompanying jobs, and people. In the suburbs and smaller outlying bedroom-communities' surrounding large cities are where most individuals earn and spent most of their cash.

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CHAPTER OVERVIEW

2: The Customer

2.1: Demographics - Numerical Data
2.2: Psychographics - Attitude, Interests, and Opinions
2.3: Generations - Differences
2.4: Customer Decision Cycle
2.5: The Psychographic Nature of the Guest
2.6: Defining Customers – Where to Begin
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2.1: Demographics - Numerical Data

Chapter 2 Learning bjectives

- Understand demographics and the usefulness and limitation of numerical data.
- Comprehend the psychographic nature of customer attitudes, interests, and opinions.
- Understand the importance of customer behavioral characteristics.
- Understand the importance of generational differences.
- Apply the customer decision cycle for making purchases.
- Gain the ability to define your customers.
- How to gauge your customers across various considerations.
- Understand how customers equate price and assign value to products.

> *"The key is to set realistic customer expectations, and then not to just meet them, but to exceed them — preferably in unexpected and helpful ways."*
>
> *Richard Branson*
>
> *"There is only one boss. The customer. He can fire everybody in the company from the chairperson on down, simply by spending his money somewhere else. "*
>
> *Sam Walton*
>
> *"The aim of marketing is to know and understand the customer so well the product or service fits him and sells itself."*
>
> *Peter Drucker*

Customers

Every restaurateur understands that customers are the life's blood of the operation. But having said that, many foodservice operations fail to accurately identify just who their customer is, or engage in the analysis of a marketplace to determine if enough of the desired customers exist in numbers large enough to consistently support the operation continually. The importance of knowing one's customer is not a proverb. Construct menus around the wants and need of a clientele. The facility itself should be attractive and entice the desired customer the operation wishes to attract and retain. Customers will not know what an operation is about or the types of food served until the restaurant informs them but marketing is difficult when you have not defined whom it is that you want to attract. Thus in order to define a specific target market, or market segment, defining the "market" (city, neighborhood, location and so forth) clearly is an important first step, preferable before you refine your concept and consider an actual location.

Concept to Market

There are generally one of two ways is used to enter a marketplace. First, an operation can develop a restaurant concept, theme, menu, facility design, align suppliers, and so on, and bring the entire package to a marketplace - the method utilized by established chain operations, as in Figure 1. This method assumes well thought out components and systems that have undergone testing in other markets. Any weaknesses will have come to the surface by this time. The one unknown is 'how' the marketplace will respond to the concept. Adjustments to an existing concept can be difficult. This can be a weakness in a competitive market long standing.

Concept Tailored to Market

Second, the location can be determined and the concept, menu, facility, and suppliers can be 'tailored' to fulfill the needs and wants of the target market that resides in that trading area. If there are several target markets in a trading area, it is vital that that the operation determine which ones best match the strengths of restaurant - especially in the areas of food and service.

If a particular market segment were not a good match for the menu and service you intend to offer, it would be fruitless and expensive to develop a marketing strategy that attempts to attract those guests. It would be much better to select and match the best possible segments with the abilities of the operation. In this way, your marketing strategy is more likely to yield positive results.

Consider all segment possibilities afforded by trading area. Your restaurant's offerings may be attractive to numerous segments of that market. Additionally, you do not want to unnecessarily or unknowingly ignore a target market that may seem marginal today but proves to be a substantial profit contributor with a little shaping and your restaurant's positioning. For example, what about the 'delivery' of your products? You may not initially consider take-out business important in your full-service restaurant. You should consider it, though, if you are located near state government offices, medical offices and hospitals, colleges, or an industrial complex. Guests introduced to your restaurant through a take-out experience may become regular in-house diners someday. If they do not become in- house diners you have developed a clientele that does not pressure your dining room which allows you to continue to market for in-house guests. In any case, most of your important decisions begin with the clear understand of exact who your customer is. The purpose of this chapter is to present ways to make those determinations.

Demographics – Numerical Data

Now this form of data is readily available on Web sites and in census reports (see, www.censusscope.org). This form of data is also easy to obtain from private companies that specialize in nation or geographical data customized to your needs. Finding demographic information is no way near as difficult as in the past (see Figure 1.1).

Table: 1.1 Resources for Demographic Information

Where to Ask	*What to Ask For*
Department of Economic Development, Chamber of Commerce, City Planning Office	Maps, employment statistics (average income, unemployment rates, plans for upcoming commercial and residential developments, data about retail, food, and beverage sales, shopping habits and patterns, major employers, and industries
Building Department, Planning and Zoning Department, Commercial Realtors	Area master plans, residential occupancy and housing statistics, property values, urban renewal projects, zoning information - property laws, about parking, signage, building height, permits, and any other construction-related restrictions.
Local Publications (newspaper, magazines)	Dining guides, advertising rates, restaurant reviews, some business demographic data
Transportation Department	Proposed road improvements, types and routes of public transportation, traffic count data by roadway.
Department of Revenue and Taxation	Property taxes by address (for neighborhood averages), breakdowns of real estate taxes, Income and sales tax figures.
Utility Company	Past patterns of gas or electric bills at an address, information about typical rates, seasonal usage, conservation discounts.
Convention and Visitors Bureau	Tourist information - data on numbers, spending habits, annual events, and average attendance, dates and sizes of upcoming conventions and meetings.

Demographics are the statistical characteristics of human populations in a specific geographical area. Demographics are useful to identify the study of quantifiable subsets within a given population, which characterize that population at a specific point in time. Themes such as the number of people (adults, children, other), ages, mobility, or lack of mobility, gender, income levels, education, ethnicity, employment status, and housing are related to the eating-out and drinking-out behavior of consumers. While demographics essentially reflect numerical data, such data can reveal characteristics of interest to a restaurant operation. For example, a large number of two-income households in the treading area would indicate the potential for considerable dinner take-out business. Why take out? While two individuals working in a household would appear to drive sit-down business, and often this

is the case, the key aspect is that both individuals are working. At the end of the day both are more apt to be tired and only interested in picking up a meal on the way home. This drives another important point. Income alone is not adequate to determine how consumers will spend their disposable income. A new neighborhood with nicely appointed homes and a late model car in the driveway can be an indication of an affluent neighborhood, or you could in fact be observing families who are financially overextended and are truly candidates for continual support for your operation - research situations thoroughly. If the trading area contains a large number of retiree population, there is probably a strong potential for the effective use of 'early-bird' specials. Age is an important demographic variable. For example, baby boomers typically reflect a market segment that dines out a lot and is interested in trying new foods and beverages.

A demographic or demographic profile is a marketing term used to describe a demographic grouping or a market segment. This will typically include 'age bands' (such as teenagers who do not wish to purchase the same products that appeal to an older population). 'Social class bands' (as the rich may want different products than middle and lower classes and may be willing to pay more), and gender (partially because different physical attributes require different hygiene, eating, and clothing products, and partially because of the male/female mindsets).

A demographic profile is also useful to determine the ‘when’ and ‘where’ of advertising placement to achieve maximum results. In all such cases, it is important that the advertiser get the most results for their money, and so careful research is necessary to match the demographic profile of the target market to the demographic profile of the advertising medium. This, understand the demographic profile of a trading area is vital to operational decisions as well as marketing decision.

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2.2: Psychographics - Attitude, Interests, and Opinions

Psychographics is the study of personality, values, opinions, attitudes, interests, and lifestyles. Because this area of research focuses on attitudes, interests, and opinions, (or AIO psychographic factors). Psychographic studies of individuals or communities can be valuable ‘marketing strategy’ in conjunction with demographics, opinion research, and social research in general. They can be contrasted with demographic variables (such as age and gender), behavioral variables (such as usage rate or loyalty), and organizational demographics variables (sometimes called firmographic variables), such as industry, number of employees, and functional area.

Consumer Characteristics

Psychographic consumer characteristics center on peoples' lifestyles. They include things such as their personalities, where they live, habits, leisure activities, ideologies, values, beliefs, and attitudes. Attitudes are especially important to any retailer, and they include things such as propensity to save, work ethic, acceptance of alternative lifestyles and cultures, willingness to accept risk, brand loyalty, and adaptation to cutting-edge technology.

Table: 1.2 Foodservice Psychographic Life Cycle

Cycle Stage	Age	Consumer Characteristics
Childhood		
Early	5 or under	Need toys and child portions. May require a baby-sitter in a hotel environment.
Late	6 - 12	Important influence on choice of place to eat out. Recreation programs' for pre-teens help sway decisions of this group.
Teenagers		
Younger	13 - 15	Becoming independent consumers but most typically without 'significant' income. Major influence on dining out. Recreation facilities used independently.
Older	16 - 19	Independent consumers' often employed part-time with a high need for social activity.
Young Adults		
Young Singles	20 - 24	In the labor force/or post-secondary education full time. Adequate income for small-scale use of foodservices, such as dating. Travel with family or on very low budget.
Young Married	25 - 34	Predominately two-income families, but family formation expenditures and investments often reduced available funds for travel. Like lively, informal dining places. High travel interest.
Middle Age		
Younger	35 - 49	Income rises considerably, but children at home or in college require significant continuing support. Highest propensity to eat out, and travel.
Advanced	50 - 64	Income at peak, though sometimes reduced at early retirement. Very high propensity to travel. Eat out less often than young middle-age groups.
Senior Citizens		
Young	65 - 74	Fixed but adequate income. Retirement means an affluent leisure class. Generally healthy and vigorous. Intent to enjoy life. Regular, but less frequent restaurant customers. Some special diet considerations.
Old	75 - 84	More health problems: often widow or widower living alone. Prone to depression. May require nursing home care. Special diet considerations more prevalent. Most

Cycle Stage	Age	Consumer Characteristics
		rapidly growing population segment in North America.
Very Old	85 plus	7 of 10 are women. Frail and elderly, but alert and very prosperous. Require special diets and assistance.

Psychographics provide better insights into marketing behavior than demographics, but they can be difficult to gather. Most people do not like telling strangers about their personal lives. In the twenty-first century, we seldom have to make personal inquiries. Market research firms are aware of which of customers go on cruises, have children under four, live in homes and apartments, are single, and so forth. Market researchers base their customer analysis on things such as credit card history and psychographic profile illustrated in Table 1.2. Using such information allows them to categorize restaurant customers based on lifestyles. A customer could be described as interested in a healthy lifestyle, consumers of fine wines, international travelers, and like to try new things on the menu. This form of information would certainly be more useful than viewing your average customer as married, age 47, and female.

Customer base shifts

It is important to have a good idea of your current customer's profile. Who are your customers? Where do they come from? Why do they like to visit your operation? How much do they like to spend - and how often do they visit the restaurant? If this information is not gathered and compared over time, an operator will not be able to tell if or how their customer base is changing over time. Eventually, all customer bases shift to a lesser or greater extent. A restaurant operator must be able to anticipate and prepare for such changes. Both demographic and psychographic profiles can provide useful insights and indicate future trends. Restaurant operators can learn working the dining room. Getting to know their guests can yield equally valuable information. You can never know too much about your guests.

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2.3: Generations - Differences

Psychographics should not be confused with demographics, for example, historical generations may be defined both by demographics, such as the years in which a particular generation is born or even the fertility rates of that generation's parents, but also by psychographic variables like attitudes, personality formation, and cultural touchstones. For example, the traditional approaches to defining the *Baby Boom Generation*, *Generation X*, or *Generation Y*, also referred to as *Millennials*, and *Generation Z*, the Plurals, have relied on both demographic variables (classifying individuals based on birth years) and psychographic variables (such as beliefs, attitudes, values and behaviors). For example, generations born into technology have a much higher propensity to understand and use technological products at a higher rate than generations less familiar with such developments.

Baby Boomers

Baby boomers are people born during the demographic Post-World War II baby between the years 1946 and 1964. According to the U.S. Census Bureau (2011), the term "baby boomer" is culturally contextual as well. Therefore, it is impossible to achieve broad consensus of a precise date definition, even within a given territory. Different groups, organizations, individuals, and scholars may have widely varying opinions on what constitutes a baby boomer, both technically and culturally. Ascribing universal attributes to a broad generation is difficult, and some observers believe that it is inherently impossible. Nonetheless, many people have attempted to determine the broad cultural similarities and historical impact of the generation, and thus the term has gained widespread popular usage.

Baby boomers are associated with a rejection or redefinition of traditional values; however, many commentators have disputed the extent of that rejection, noting the widespread continuity of values with older and younger generations. In Europe and North America, boomers are widely associated with privilege, as many grew up in a time of widespread government subsidies in post-war housing and education, and increasing affluence (Owram, 1997).

As a group, they were the wealthiest, most active, and most physically fit generation up to that time, and amongst the first to grow up genuinely expecting the world to improve with time (Jones, 1980). They were also the generation that received peak levels of income therefore they could reap the benefits of abundant levels of food, apparel, retirement programs, and sometimes even "midlife crisis" products. The increased consumerism for this generation tends to be excessive (Pinker, 2011).

One feature of the boomers was that they tended to think of themselves as a special generation, very different from those that had come before. In the 1960s, as the relatively large numbers of young people became teenagers and young adults, they, and those around them, created a very specific rhetoric around their cohort, and the change they were bringing about (Owram, 1997). This rhetoric had an important impact in the self-perceptions of the boomers, as well as their tendency to define the world in terms of generations, which was a relatively new phenomenon.

Size and economic impact

Seventy-six million American children were born between 1945 and 1964, representing a cohort that is significant because of its size alone. In 2004, the UK baby boomers held 80% of the UK's wealth and bought 80% of all top-of-the-range cars, 80% of cruises and 50% of skincare products (Howe and Strauss, 1991).

In addition to the size of the group, one thing that sets the baby boomers apart from other generational groups is the fact that "almost from the time they were conceived, Boomers were dissected, analyzed, and pitched to by modern marketers, who reinforced a sense of generational distinctiveness" (Gillon, 2004). There is support from the articles of the late 1940s identifying the increasing number of babies as an economic boom, such as a 1948 *Newsweek* article whose title proclaimed "Babies Mean Business" (*Newsweek*, 1948). In contrast, the 'age wave' theory suggests an economic slowdown when the boomers start retiring during 2007–2009. Projections for the aging U. S. workforce suggest that by 2020, 25% of employees will be at least 55 years old (Chosewood, 2012).

Baby boomers control over 80% of personal financial assets and more than half of all consumer spending. They buy 77% of all prescription drugs, 61% of over-the-counter drugs, and 80% of all leisure travel. A survey found that nearly a third of baby boomers polled in the United States would prefer to pass on their inheritance to charities rather than pass it down to their children (Sullivan, 2007).

Cultural identity

Boomers grew up at a time of dramatic social change. In the United States, that social change marked the generation with a strong cultural cleavage, between the proponents of social change and the more conservative. Some analysts believe this cleavage played out politically since the time of the Vietnam War to the mid-2000s, to some extent defining the political landscape and division in the country (Sullivan, 2007). Starting in the 1980s, the boomers became more conservative, with many regretting the cultural changes they brought in their youth (Bowman, 2011).

Generation X

Generation X, commonly abbreviated to Gen X, is the generation born after the Post World War II baby boom. The 2011 publication "The Generation X Report", based on annual surveys used in the Longitudinal Study of today's adults, finds that Gen Xers in the report are people born between 1961 and 1981, are highly educated, active, balanced, happy, and family oriented. Gen Xers are often called the MTV Generation (Isaksen, 2002). They experienced the emergence of music videos, new wave music, electronic music, glam rock, heavy metal, alternative rock, and hip-hop (Wilson, 2011).

Compared with previous generations, Generation X represents a more apparently heterogeneous generation, openly acknowledging and embracing social diversity in terms of such characteristics as race, class, religion, ethnicity, culture, language, gender identity, and sexual orientation (Isaksen, 2002).

Unlike their parents who challenged leaders with an intent to replace them, Gen Xers are less likely to idolize leaders and are more inclined to work toward long-term institutional and systematic change through economic, media and consumer actions. The U.S. Census Bureau reports that Generation X statistically holds the highest education levels when looking at current age groups (U.S. Census Bureau, 2009).

Entrepreneurship

According to authors Michael Hais and Morley Winograd, "small businesses and the entrepreneurial spirit that Gen Xers embody have become one of the most popular institutions in America. There has been a recent shift in consumer behavior and Gen Xers will join the “idealist generation” in encouraging the celebration of individual effort and business risk-taking. As a result, Xers will spark a renaissance of entrepreneurship in economic life, even as overall confidence in economic institutions declines. Customers, and their needs and wants (including Millennials) will become the North Star for an entire new generation of entrepreneurs" (Winograd and Hais, 2012).

According to Kjetil Olsen of Elance, the company which conducted the study, "the big issue for Generation X (born 1961 and 1981) was the end of a job for life," unlike "today's Generation Y (born 1982 to 1993) who appear to be seriously questioning the nature of having a traditional job at all" (Silvera, 2014). In 2012, the *Corporation for National and Community Service* ranked Generation X volunteer rates in the U.S. at "29.4% per year", the highest compared with other generations. These rankings are the result of a three-year moving average between 2009 and 2011 (U.S. Department of Labor, 2013).

Millennials

Millennial Generation (known as the Millennial or Generation Y) are the demographic cohort following Generation X. There are no precise dates when this generation starts and ends. Researchers and commentators use birth years ranging from the early 1981s to the early 2000s.

Traits and values

Strauss and Howe (2000) believe that each generation has common characteristics that give it a specific character, with four basic generational archetypes, repeating in a cycle. According to their theory, they predicted Millennials would become more like the "civic-minded" G.I. generation with a strong sense of community both local and global.

Strauss and Howe's research has been influential, but it also has critics (Hoover, (2009). Jean Twenge, the author of the 2006 book *Generation Me*, considers Millennials, along with younger members of Generation X, to be part of what she calls "Generation Me" (Twenge, 2006). Twenge attributes Millennials with the traits of confidence and tolerance, but also identifies a sense of entitlement and narcissism based on personality surveys that showed increasing narcissism among Millennials compared to preceding

generations, when they were teens and in their twenties. She questions the predictions of Strauss and Howe that this generation will come out civic-minded (Twenge, 2012).

The Pew Research Center issued a report in March 2014 about how "Millennials in adulthood" are "detached from institutions and networked with friends." (Pew Social Trends, 2014). The report says Millennials are somewhat more upbeat than older adults about America's future are with 49% of Millennials saying the country's best years are ahead though they are the first in the modern era to have higher levels of student loan debt and unemployment.

Both the University of Michigan's *Monitoring the Future* study of high school seniors and the American Freshman Survey, conducted by UCLA's Higher Education Research Institute of new college students showed an increase in the proportion of students who consider wealth to be an important attribute. The percentages by generation include 45% for Baby Boomers (surveyed between 1967 and 1985) to 70% for Gen Xers, and 75% for Millennials. The percentage who said it was important to keep abreast of political affairs fell, from 50% for Baby Boomers to 39% for Gen Xers, and 35% for Millennials. The notion of "developing a meaningful philosophy of life" decreased the most across generations, from 73% for Boomers to 45% for Millennials. The willingness to be involved in an environmental cleanup program dropped from 33% for Baby Boomers to 21% for Millennials (Healy, 2012).

Eric Hoover (2009) posited that much of the commentary on the Millennial Generation might be partially accurate but overly general. He cites that many of the traits they describe apply primarily to white affluent teenagers who accomplish great things as they grow up in the suburbs; who confront anxiety when applying to super-selective colleges; and who multitask with ease as their 'helicopter' parents' hover reassuringly above them. During class discussions, he has listened to black and Hispanic students describe how some or all, of the so-called "core traits" did not apply to them. They often say the "special" trait, in particular, is unrecognizable. Other socio-economic groups often do not display the same attributes commonly attributed to Generation Y. "It's not that many diverse parents don't want to treat their kids as special," he says, "but they often don't have the social and cultural capital, the time and resources, to do that." (Hoover, 2009).

Ron Alsop (2008) called the Millennials "trophy kids," a term that reflects the trend in competitive sports, as well as many other aspects of life, where mere participation is frequently enough for a reward, and an issue see primarily in corporate environments. Some employers are concerned that Millennials expect too much from the workplace. Studies predict that Millennials will switch jobs frequently, holding many more jobs than Generation Xers due to their great expectations (Alsop, 2008). Additionally, educational sociologist Andy Furlong described Millennials (in his book *Youth Studies: An Introduction*) as optimistic, engaged, and team players (Furlong, 2013).

David Burstein, author of *Fast Future* (2013), describes Millennials' approach to social change as "pragmatic idealism," a deep desire to make the world a better place combined with an understanding that doing so requires building new institutions while working inside and outside existing institutions (Burnstein, 2013). Millennial characteristics vary by region, depending on social and economic conditions. There is a marked increase in use and familiarity with communication, media, and digital technologies. In most parts of the world its upbringing was marked by an increase in a 'neoliberal' approach to politics and economics; the effects of this environment are under dispute (Seabrook, 2007).

Demographics

Strauss and Howe (1991) projected in their 1991 book "Generations" that the US Millennial population would be 76 million. Later, Neil Howe revised the number to over 95 million people (in the US). As of 2012, the estimation of approximately 80 million US millennials is widely accepted (Schawbel, 2012).

The economy has also had a dampening effect on Millennials' ability to date and, ultimately, get married. In 2012, the average American couple spent an average of over $27,000 on their wedding. A 2013 joint study by sociologists at the University of Virginia and Harvard University found that the decline and disappearance of stable full-time jobs with health insurance and pensions for people who lack a college degree has had profound effects on working-class Americans, who now are less likely to marry and have children within marriage than those with college degrees. Further, *USA Today* reported that Millennials are "entering the workplace in the face of demographic change and an increasingly multigenerational workplace" (Armor, 2014).

Digital technology

Junco and Mastrodicasa (2007) expanded from China to the United States on the work of Howe and Strauss to include research-based information about the personality profiles of Millennials, especially as it relates to higher education. They conducted a large-sample (7,705) research study of college students. They found that Next Generation college students, born from 1983–1992, were frequently in touch with their parents and used technology at higher rates than people did previously. In their survey, they found that 97% of these students owned a computer, 94% owned a cell phone, and 56% owned an MP3player. They also found that students spoke with their parents an average of 1.5 times a day about a wide range of topics. Other findings in the Junco and Mastrodicasa survey revealed 76% of students used instant messaging, 92% of those reported multitasking while instant messaging, 40% of them used television to get most of their news, and 34% of students surveyed used the Internet as their primary news source (Junco and Mastrodicasa, 2007).

Gen Xers and Millennials were the first to grow up with computers in their homes. In a 1999 speech at the New York Institute of Technology, Microsoft Chairman and CEO Bill Gates encouraged America's teachers to use technology to serve the needs of the first generation of kids to grow up with the Internet. Many Millennials enjoyed a 250+-channel home cable TV universe. In June 2009, Nielsen released the report *How Teens Use Media* that discusses the latest data on media usage by generation. In this report, Nielsen set out to redefine the dialogue around media usage by the youngest of Generation Y, extending through working age Generation Y compared to Generation X and Baby Boomers (Cabral, 2010). One of the more popular forms of media use in Generation Y is social networking. In 2010, research published in the *Elon Journal of Undergraduate Research* claimed that students who used social media and decided to quit showed the same withdrawal symptoms of a drug addict who quit their stimulant (Cabral, 2010). Mark Prensky coined the term 'digital native' to describe Generation Y "K through college" students in 2001, explaining they "represent the first generations to grow up with this new technology (Prensky, 2013)."

Generation Z

Generation Z is one name used for the cohort of people born after the Millennial Generation. There is no agreement on the exact dates of the generation with some sources starting from the mid-2000s to the present day (Poggi, 2013).

Traits and trends

Many members of this generation are highly connected, having had lifelong use of communication and media technology like the World Wide Web, instant messaging, text messaging, MP3 players, and mobile phones, earning them the nickname " digital natives " (Schmidt and Hawkins, 2008).

According to Hais, Winograd, and DeBord, the name "Plurals" reflects that Generation Z are the most diverse of any generation in the United States; estimates state that 55% are Caucasian, 24% are Hispanic, 14% are African-American, 4% are Asian, and 4% are mixed race or other. Hais and Winograd (2012) stated that Plurals exhibit positive feelings about the increasing ethnic diversity in the United States, and they are more likely than older generations to have social circles that include people from different ethnic groups, races and religions. According to DeBord (2012), Plurals are "the least likely to believe that there is such a thing as the American Dream," while Boomers and their Millennial children are "more likely to believe it"(Hais and Winograd, 2012; DeBord, 2012).

Relationship marketing. Plurals, with a more acute knowledge of technology, lend themselves to targeting through relationship marketing, a form of marketing developed from direct response marketing campaigns emphasizing customer retention and satisfaction, rather than a dominant focus on sales transactions. As a practice, relationship marketing differs from other forms of marketing in that it recognizes the long-term value of customer relationships and extends communication beyond intrusive advertising such as robot calling with sales promotional messages.

With the growth of the internet and mobile platforms, relationship marketing has continued to evolve and move forward as technology opens more collaborative and social communication channels. This includes tools for managing relationships with customers that goes beyond simple demographic and customer service data. Relationship marketing extends to include inbound marketing efforts, (a combination of search optimization and strategic content), public relations, social media and application development. Electronic marketing has become, and will continue to be a primary activity for product sense making as new generations become even more reliant on the computer information that has morphed into different modes as laptops, notebooks, IPads, and cellular phone applications.

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2.4: Customer Decision Cycle

When foodservice consumers make decisions concerning the purchase of products and services, a decision step process must take place. A broad variety of variables exists based on wants and needs (behavioral aspects) that influence this decision process in the mind of the consumer. Figure 1.3 shows a collective of theories that show both external and internal influences that come into play as consumers make purchase decisions.

This cycle illustrates the major steps progression in the decision-making process, as well as the role external and internal influences play as individuals make purchase decisions. Understanding this cycle is important because both external and internal influences play key roles in the consumer purchase actions, foodservice owners and operators need to develop awareness of the specific influences that are most important to their particular target market segments in a given trading area.

Figure 1.3: Consumer Decision Model

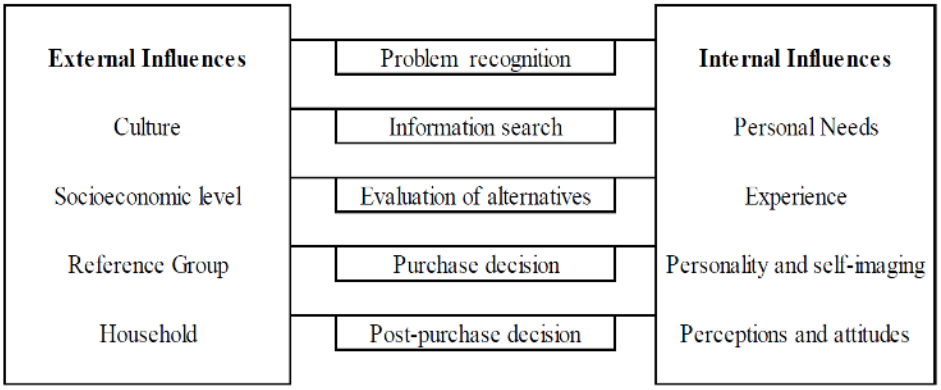


Figure 1.3 indicates five key elements in the decision-making cycle: problem recognition - the foodservice need; the information search to address the need, evaluation of alternatives, the purchase decision, and post-purchase evaluation. The particular trading area and its consumer and market conditions influences each element in the decision-process.

Problem recognition, the need

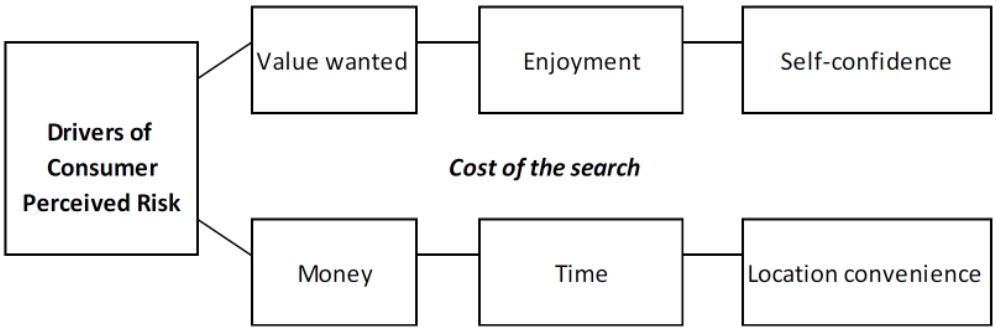
The decision -making process begins with problem recognition, which occurs when a consumer realizes a difference between his or her actual state, the need for a meal or service, and the desired state, that meal or service that fill the need. Thousands of different stimuli can trigger the awareness of a food need - the problem needing a solution. For example, if one feels hungry when while driving down for an interstate highway, this could trigger the need to search for restaurant signage for ways to address one's hunger. From another perspective, the need to feel important and treated with the utmost respect could lead a different potential customer to search for an upscale hotel with a concierge to help with the decision and reservation process. Additionally, the need may not begin within a single individual. If a couple comes home after both have worked all day, and one decides it would be best to go out rather than make an effort to cook, this creates a joint need that only one of the individuals may have felt. At times, to attract one individual in a family is to garner the other as well. The operation must be able to address a constantly changing broad variety of needs that consumers are attempting to satisfy when they fine the need to dine out (Reid and Bojanic, 2006).

Information search

Once the need for food under any condition reaches a conscious level, the cycle holds that consumers seek to gather or retrieve information (see Figure 1.4). This search can involve a variety of information sources, including reference groups and members of the immediate household, as well as the mass media in form of advertising. Typically, consumers will make comparisons from a number of information sources based on the effort required and the credibility of the source.

If the felt need is as basic as the need to eat because of hunger, the information retrieval process is likely to be brief. That is, the restaurant facility selected in this case is likely a likely choice primarily because of convenience, and the number of sources of information consulted is likely to be quite small. In other situations, the number of sources consulted could be much larger. Consider a convention planner who is coordinating the annual meeting for a professional association.

Figure 1.4: Consumer Involvement Based on Perceived Risk



This individual is likely to consult several sources of information before selecting an appropriate city or hotel for this important event. The important thing for the hospitality
owner or operator to remember is that consumers rely to a certain extent on the mass media for information. The amount of information to research and the length of the consumer decision-making process will increase with the consumer's level of involvement. Consumers tend to be more involved when there is a greater perceived risk of making a wrong choice, which is associated normally with high-priced products or services, situations where visibility is high, or when the event in question involves greater complexity.

As illustrated in Figure 1.4, consumers tend to compare the benefits of search such as value, enjoyment, and self-confidence in the selection with the costs including money, time, or convenience to determine the perceived risk. There are also many other situational factors that will affect the amount of information search, such as knowledge of the product, demographics, in particular income and education, and the market environment.

Evaluation of alternatives

Once the consumer has gathered a sufficient amount of information, the third element in the decision-making process is to evaluate possible
alternatives. When customers are asking themselves at which of several possible restaurant should they dine go through a cognitive process in answering that question, whereby they weigh the positives and negative aspects of each alternative. They also examine the benefits of the product-service mix of each restaurant. Consumers consider the relative importance of each benefit of the product-service mix by making trade-offs between the various benefits and their levels. Ultimately, a group of brands will surface of consideration in the final purchase decision. The decision made centers on the perceived risk associated with each alternative.

Marketing managers in other industries have long recognized this mental process and have used it to their advantage in advertising and promoting their products and services. Rather than simply discussing products and services as if they exist in a vacuum, firms make direct comparisons with the competition. This assists the consumer's cognitive process of evaluating alternatives. Of course, every advertiser makes certain that its product or service compares favorably with those of the competition based on the criteria selected for the comparison.

Making Purchase decision

The fourth stage in the consumer decision-making cycle is the purchase decision. It is at this point that the individual actually makes the decision. All external and internal variables come together to produce a decision and the willingness of the individual to take risks. This risk factor offers a tremendous competitive advantage for hospitality operations. When customers step through the from door of a McDonald's, Burger King, Red Lobster, or any other nationally recognized chain, they are taking a much smaller risk than if they entered an independent restaurant about which they knew very little. Customers typically perceive less risk with the chain operation because the product-service mix is better known to the customer - although superiority certainly not always the case. Independent operations must work hard to establish themselves and reduce some of the risk consumers' associate with patronizing a restaurant where the restaurant offerings are not well known.

Post-purchase evaluation

This is an additional moment-of-truth when the consumer considers the dining experience and determines if they will return in the future. Following the product-service mix consumption, the final stage is post-purchase evaluation. How did the actual experience compare with the expectations prior to purchase? Was the product-service mix meet the standards anticipated?

Post-consumption feelings focus on two factors: the expectations of the consumer, and the actual performance by the foodservice operation. For this reason, it is very important for any restaurant operation to deliver the products and services promised in advertising promotion or personal selling. Failure to perform at or above the level anticipated by the customer (remember, good is expected as a minimum requirement) is likely to lead to negative post-consumption appraisals. These negative feelings produce dissatisfaction and reduce the level of repeat patronage with no additional referrals a given.

From a management perspective, it is important to promise ‘less’ and deliver ‘more’. Said differently, under-promise and over-deliver. This is a key concept in producing satisfied customers. Finally, remember there is a time-period between the purchase of restaurant operation services, and consumption. During this period, consumers may have second thoughts or negative feelings about the purchase made that refer to 'cognitive dissonance.' Thus, it is important for foodservice operators to run advertisements that depict ‘satisfied’ customers. Always continue to suggest the positive elements of dining in your operation (Blanchard and Bowles, 1993).

Restaurant strengths can compensate weaknesses

Consumers often use a compensatory strategy to allow a product's strengths in one or more areas to compensate for deficiencies in other areas. Said differently, consumers view products and services as bundles of attributes. The final set of alternatives that a consumer is considering for purchase will contain products or services that have various combinations of thee visible attributes and their level of delivery. This evaluation of numerous attributes approach assumes that consumers are capable of evaluating each of a product's benefits and then arriving at an overall assessment, or scores, for products compared to alternative products. Consumers tend to make these complicated comparisons and trade-offs and then choose the product that achieves the highest score.

In sum, restaurant owners and operators should always remember that while many consumers are willing to overlook certain weaker elements of the operation to enjoy a restaurant's strengths, this is not always the case. Some consumers do not allow product strengths in one area to compensate for deficiencies or weaknesses in other areas. Instead, consumers place more emphasis on individual attributes and in some cases develop minimum thresholds to use in evaluating products and services.

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2.5: The Psychographic Nature of the Guest

In the hospitality setting, there is an additional perspective of the consumer, and potential consumer, that should always be remembered, considered and addressed as part of the service aspect of any concept - that of the guest. Not all customers frequent any restaurant concept on a weekly or monthly basis. As such, they are not ‘known’ to the operation in a personal sense. Every operation tends to pay special attention to those customers that frequent an establishment on a regular basis because that frequency will form the base for predictable regular sales. This is especially true for regular restaurant customers. Without question, they deserve the proper attention. However, an operation should not forget that every guest, even the patron who came to the concept by chance, is a potential regular guest. These individuals are the cultivation of future opportunities and growth. This writing would be remiss without a look at the different categories as well as the psychographic attitudes, interests, and opinions of the frequent customers, and those who customers you can convert to more frequent supporters of the operation or at the very least, verbal champions of your offerings and service.

The frequent guest

Greet regular customers by name - this is a wonderful opportunity for the operation to create a bond with this customer. A friendly 'how are you' that is not too familiar is also appreciated. If a guest now and then makes personal conversation when they arrive or during the meal, it is important to have a short conversation with the guest. If a conversation will cause neglect to other guests at that moment, service the waiting guest and then return for a pleasantry or two. If frequent guests have not been for a while, make it a point to tell them how glad you are to see them. To show your concern for them, it is very important that you remember the preferences of your regular guests - favorite entrees, drinks, or special food they prefer. For example, if the guests like seafood, make sure you call the availability to their attention. In sum, it is important that frequent guests feel they are receiving personal, preferential treatment. That treatment does not always have to be extravagant, - small personal touches that let that guest know they are remembered go a long way in building lasting relations. After all, why would customers who have experienced an enjoyable meal, personal service, and good conversation fail to return?

The occasional guest

While all customers should receive excellent service, the occasional guest will not receive the same treatment as frequent guests simply because they are not know personally. The operation will not know their names or preferences, and trying to gather such information at one seating would most certainly appear intrusive. The only way to show these guests how much you appreciate their patronage is by providing attentive and friendly service, and assistance with the menu offerings. The occasional customer should never have the impression that you are doing less for them or that they must wait longer than the frequent guest would wait. First class food and service is truly the only way to make a regular customer out of an occasional guest. You may not always be successful, but you should always make every effort - this guest might recommend your operation to an acquaintance who eventually will become a frequent guest. Occasional guests can and do serve a 'reference' role.

The tourist

Put yourself in the place of a tourist, and you can imagine how important it is to find friendly cooperation when dining away from home. Help with the menu is in most cases greatly appreciated. Assist with the selection of food and beverages and explain them as well as possible, especially when there is a language barrier. Recommend local delicacies and the proper beverages to enhance them. If a guest orders a beverage that does not compliment the food and insists on it, serve it without further comment. At times, travelers seek familiarity, even at those times when another choice would be more beneficial. When dealing with tourists, always keep in mind that the quality of your service affects the reputation your region enjoys in other parts of the country - and abroad. If you are a proficient ambassador, other tourists will be entering your door.

The handicapped guest

When dealing with physically or mentally handicapped guests, you must sensitively offer as much help as is needed without being patronizing or showing pity. Do not forget that a temporarily handicapped guest needs your help as well. A guest with an arm or a leg in a cast may be very grateful if you cater to their needs a bit. For instance, offer a chair so they can put their leg up; if an arm is

in a cast, ask a guest if they need assistance in cutting the food. Seat guests in wheelchairs where they can easily reach the exit or restroom without having to maneuver between the furniture.

Blind guests, without escorts, should asked if they prefer assistance to a table. When the guest wishes to order, ask if they would like menu suggestions. Always mention the house specialties. Also, ask if they need any special dishes or utensils or if they would like the food prepared in a particular way, such as pre-cut.

You can be of great help to a guest with a speech problem if you take your time and do not interrupt, even when your intention is to help. Mentally handicapped guests usually come with an escort. If you feel they need special attention, ask the escort how you can be of assistance. In general, the best help for handicapped guests is to treat them as normally as possible.

Older guests

Older guests are always grateful when you help them with coats and seating. They typically appreciate seating at a quiet table. Never seat older guests near the air conditioner, or in a draft. When making menu suggestions, recommend lighter dishes and avoid spicy foods.

Small children

It is important to remember that children are consumers in addition to their parents. In many cases, they become key decision-makers in determining where the family will dine. Never take children for granted. Provide small children with a highchair or booster seat if they cannot reach the table. Give them the smallest flatware possible. Do not give knives to children under four. Glasses should be sturdy; replace stemware with tumblers. When taking the order, call the parents' attention to the children's menu. The parents have the final authority over what the children will order, and their wishes overrule those of the children.

Impatient children often become noisy and tend to fidget, which makes their parents nervous and disturbs guests at other tables. To avoid this problem, serve, the children as quickly as possible. A restaurant should always provide children with some in-house activity to keep their attention and make the meal more pleasant for their parents. Again, if the child enjoys the experience, they will be eager to return. In turn, if you satisfy the children, you will satisfy the parents, as well as all the other guests. The extra effort will be worth it.

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2.6: Defining Customers – Where to Begin

A study of the potential customers available in a trading area is actually a study of the location and the potential customers. The primary questions you seek to address include “What is the 'description' of the potential customers available in a market?

Table 1.3 depicts the necessary customer demographic information to gather regarding a trading area. In essence, you are gathering information to help determine the appropriate way to segment groups of individuals.

In essence, you are gathering formation to determine the appropriate way to segment groups of individuals to target. You will use the demographic information you gather to define your 'approach' to the segment(s) you select to target with your restaurant concept. First, you define the potential customer base, and then, you identify the segments within that base that appear to be a good fit for your operational strengths.

Table: 1.3 Customer Study Inclusion

Population Size	For at least a 3-mile radius. This represents a normal trading area for a restaurant.
Age Groups	You may target one segment or multiple segments in a small city. This includes children, teens, young adults, middle-aged adults, and older adults. Each have different characteristics. Include a psychographic definition for an age group
Male/Female	Understand the percentage of each is important as each group has differing dining habits, and lifestyles that a restaurant must accommodate.
Income	Disposable income is an important consideration. Income drives behavior and behavior translates into frequency. The foodservice industry typically functions on a 'nice' to have basis rather than as a 'need' to have. People must be able to afford your concept.
Single, married, household	This figure can affect the distribution of restaurant traffic and how people will arrive at the restaurant - as a couple, a group of four, someone alone, and so forth. It will eventually speak to the table layout in your dining room.
Education	Education speaks to the frequency of dining out. The higher the education, the more meals consumed away from home.
Occupation	Education, income, occupation, tend to influence each other - blue collar and white-collar populations have different lifestyles and eating patterns.
Other relevant information	Consider ethnic origins, regional differences and so forth, as these are other important factors. Customers must have an affinity for the cuisine the restaurant offers.

How can we match customer needs and preferences with a proper menu?” In essence, you are gathering formation to determine the appropriate way to segment groups of individuals. The demographic information you obtain will be useful to define your 'approach' to the segment(s) you select to target with your restaurant concept. First, you define the potential ‘customer base’ you identify the segments within that base that appear to be a good fit for your operational strengths.

You are conducting a feasibility study to predict the potential of a business using demographic, psychographic, marketing (city, state, and so forth), and personal knowledge, your own or others to determine 'who' you will target. The study should include a detailed discussion or summary of what you found concerning the following elements: (1) **size of the population**; (2) **age groups**; (3) **male/female**; (4) **income**; (5) **single, married, household information**; (6) **education**; (7) **occupation**; and (8) **other relevant**

information. Use charts and graphs to condense information into more useable collectives. Also, include the sources for the information you obtain which helps to support the credibility and accuracy of your findings.

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2.7: The Customer across Considerations.

Once the demographic numbers have been crunched, and psychographic faces has been placed on age groups, and generational inputs and differences are considered, the new foodservice operator is still faced with the difficult task of defining customers. Is there such a thing as a 'typical' customer? Is there some commonality among all customers? Research has been done in this area and a few common characteristics have been uncovered that help to illuminate the essence of a restaurant customer.

Personal opinion influences selection

When considering an evening out at a new restaurant, customers tend to rely primarily on information obtained from personal sources. They will ask the opinions of friends, relatives, and acquaintances they consider knowledgeable and trustworthy. If they must rely on strangers, they will seek out people who they think are familiar with the restaurant business such as restaurant critics, or hotel front-desk personnel or the concierge. Restaurants should attempt to affect positively those persons potential customers may contact. Larger cities have concierge associations that operators can host to create productive relationships with association members by letting them experience their restaurants so that accurate advice is available to hotel guests.

Post-purchase decision is key

Customers generally determine that a restaurant's food and service were great the following morning when they wake up and say "what a great meal we had last night." For a restaurant, that is as good as it gets. Restaurants provide experiences that are difficult to judge beforehand. All of a restaurant's first-time customers are taking a chance; they are there on a trial basis. If you give them excellent product and service that exceeds their expectations, chances are they will come back and tell their friends. If you fail to meet customers' expectations, they will generally not return - and they will tell their friends about the disappointing experience.

Price equals quality

Customers often use price as an indication of quality. Customers who enjoy fresh seafood and see a shrimp entree on the menu for $6.75 may assume that it is a low quality, frozen product since fresh domestic shrimp are usually considerably higher in price. When a restaurant attempts to influence customers demand with price, take care to ensure that inaccurate consumer perceptions about the products' quality do not result. If an operation is not careful, it could accidentally give the impression that the restaurant is cheaper, or more expensive, than it really is.

Inform customers and reduce risk

Customers generally feel that they are taking some 'risk' before they purchase a meal in a restaurant. They cannot judge the evening a head of time so it is natural that they are somewhat apprehensive - at least until they get to know your operation and are comfortable with the servers. It is paramount that a new restaurant be sensitive to the ‘customers' initial feelings because so many people eat out in groups, with family, friends, business contacts, clients, and so forth. If a customer wants to impress their associates or business clients, they will generally take them to a favored restaurant they have visited often. If your restaurant is one of these operations, it will enjoy this type of loyalty. This is the strongest type of loyalty a restaurant can achieve. Not only does the customer return, you stand to garner his or her circle of friends and associates which in turn leverages the restaurants sales revenue.

Customers complain

Customers have a tendency to blame themselves when they are dissatisfied with a meal. A person who orders a seafood gumbo for the first time at a new restaurant may be disappointed with the dish but not complain because he blames himself for the poor menu choice. He loves the way his favorite restaurant fixes the dish and thinks he should have known that the new restaurant would be unable to prepare it the same way. When the server asks how everything was, he replied, "okay."

Employees must be sensitive to the fact that many dissatisfied customers may not complain. They should be alert to potential sources of guest dissatisfaction so they can address them quickly. In this particular case, the food server should have noticed that the guest was not eating the meal with pleasure and should indicate that the restaurant would be happy to replace the dish with an alternative that could be prepared and brought out quickly. This is a clear opportunity to impress the guest - always take it. Thus, a negative and be transformed into a positive because most of the time the guest will decline your offer. However, points accrue with the guest, who will appreciate the gesture - and win you another chance for their patronage.

Negatives are opportunities in disguise

I recently brought a business associate to lunch at a restaurant I have enjoyed for years. While it had never happened before, both of our menu selections were inaccurate. Upon placing the plates on the table, the waiter looked carefully, and to his dismay, noticed the problem. To his credit, his reaction was instant - "I 'm sorry, this is not correct." Before I could speak, he had whisked the plates from the table and taken them back to the kitchen. I assume he would return with the proper order. To my surprise, the correct order did return quickly to the table, carried by the restaurant manager - followed by the writer. The manager conveyed his apology and asked if he could do anything to "overcome this inconvenience we created for you?" I thanked him for the quick response and assured him that the problem was resolved. At that moment several things had occurred. First, I never got a change to complain - the waiter did that for me. Second, the attentive waiter acted immediately - on his own. Third, the manager understood the opportunity and acted on it. If things remained unsettled with the new meals, he was personally ready to respond to any dissatisfaction. In the end, the actions of the restaurant created a situation that dispelled the problem entirely. Finally, the restaurant, based on the meal and the actions of the restaurant, gained another customer - my guest was as impressed as I was and could not stop talking about what happened and what the restaurant did to make sure we enjoyed our meal. Customer satisfaction results by attacking problems with opportunistic responses. It is that simple. You could also consider the cost of replacing a meal versus the cost of replacing a customer.

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2.8: Classroom Preparation Assignments

Customer and Competitive Analysis Exercise 2.8.1

1. Introductory paragraph
2. Complete demographic information on the population in the area.
3. Based on this information, an estimate of overall market demand.
4. Direct and indirect competitor information: prices, hours of operation, size, menu type, other characteristics of the competitor.
5. The potential for new entrants in the area.

Example

City and Customer Analysis
Location: Seattle, WA

Introduction- Why this location?

The city of Seattle aspires me to grow and better myself as a chef along with starting my own business up to my moral standards. This city is the ideal location for me to find inspiration for my menu choices because of my love for seafood and farmer's markets. Here is a fun fact from multiple online sources stating, "Seattle is ranked the most literate city in the country, with the highest percentage of residents with a college degree or higher." For the sake of not giving my hopes up and to actually succeed in Seattle, extensive research on being aware of the demographics and their wants is an important step. I will point out facts on my future potential customers.

Demographics

The citizens of Seattle will be my paychecks and future income, so it is necessary to know facts on the people. Many questions should be answered before going into further decisions on the kind of business to attain, such as: population growth and how it compares to employment, average income and how many stable home owners there are, and the age groups and how to market towards them? Below are listed facts and visuals that I have gathered from www.seattle.gov online:

2010 Census estimates for Seattle:

- 2010 population count: 608,660
- Population in households: 583,735
- Number of households: 283,510
- Average household size: 2.06
- Average family size: 2.87
- Population in group quarters: 24,925

Economic Characteristics:

- Population in labor force: 383,688
- Median household income:
- $63,470 Per capita income: $42,369

Housing Characteristics:

- Owner-occupied homes: 135,156
- Median value of homes: $441,000

Jobs: "A positive relationship between government and businesses is important to the well-being of Seattle. By working with financial institutions and the business community, we are able to encourage small business start-ups and their growth. Our Plan recognizes that small businesses such as artists and restaurants make a significant contribution to the culture and character of the city and seeks to ensure that their businesses have the opportunity to thrive."— 2035.seattle.gov

Age: In 2010, nearly three-quarters of Seattle residents were adults between 18 and 64 years of age, with an especially high concentration of young adults (age 25 to 34). The highest rates of population growth between 2000 and 2010 were for children under five and adults age 55 to 64.

From my extensive research on the people of Seattle, I've grown more confident that my kind of business can succeed in this city's community. The data given clearly shows that Seattle is still an upcoming city with educated, thriving, and economically balanced demographics. All of this gained knowledge will allow me to dig deeper into the psychographics that explain the attitudes and interests of Seattle's people. The next step will give my business focus points of hard decisions that shall be made to satisfy the customers.

Psychographics

The general lifestyle of the people in Seattle was what drawn me to choose this city. My older brother moved to Seattle after he graduated with a Ph.D. from med-school and now lives with his boyfriend and his dog in a studio apartment. As my brother and his boyfriend being my personal source to Seattle, I was able to know what specific details I needed to look for in my research. The red rectangle area on the map is the detailed origin of researched psychographics

Examples:

Young Digerati: Wealthy Middle Age Family Mix

- Tech-savvy and live in fashionable neighborhoods on the urban fringe. Affluent and highly educated, Young Digerati communities are typically filled with trendy apartments and condos, fitness clubs and clothing boutiques, casual restaurants and all types of bars, from juice to coffee to microbrew. Many have chosen to start families while remaining in an urban environment

Money & Brains: Upscale Older Mostly w/o Kids

- The residents of Money & Brains seem to have it all - high incomes, advanced degrees, and sophisticated tastes to match their credentials. Many of these city dwellers are married couples with few children who live in fashionable homes on small, manicured lots with expensive cars in the driveway.

Urban Elders: Midscale Middle Age Mostly w/o Kids

- Urban Elders, a segment located in the downtown neighborhoods of such metros as New York, Chicago, Las Vegas, and Miami, are more likely to be renters than other households in their age cohort. They enjoy the cultural options available to them in their communities, frequently attending musical performances and other live events.

The Cosmopolitans: Midscale Middle Age Mostly w/o Kids

- Educated and upscale, The Cosmopolitans are urbane couples in America's fast-growing cities. Concentrated in major metro areas, these households feature older homeowners without children. A vibrant social scene surrounds their older homes and apartments, and residents love the nightlife and enjoy leisure-intensive lifestyles.

Connected Bohemians: Midscale Younger Mostly w/o Kids

- A collection of mobile urbanites, 'Connected Bohemians' represent the nation's most liberal lifestyles. Its residents are a progressive mix of tech-savvy, young singles, couples, and families ranging from students to professionals. In their funky row houses and apartments, Bohemian Mixers are the early adopters who are quick to check out the latest movie, nightclub, laptop, and microbrew.

TOURISM: (Washington State's 4th-largest industry)

Year	Total Overnight Seattle/King Co. Visitors	Total Seattle/King Co. Visitor Expenditures
2014	19.2 Million	
2013	18.69 Million	$6.0 Billion
2012	18 Million	$5.6 Billion

Summary - What is the "description" of the potential market?

The conducted research formed my feasibility study to conclude that I am more confident as ever in my future and career as a chef. Throughout the demographic surveys collected, I admit that I am astonished by how content I am with all the facts that I have discovered. Along with my gain of personal knowledge about the city, Seattle is looking like my next step. This data collection is only the first step to a long process of realization of what business will meet my desires as well as those of the community.

In conclusion, my potential market is best described as **profitable** in my eyes because of their choices in life to keep on improving and the constant look for someone new to enjoy. Since I also share similar lifestyles as those in Seattle, I keep finding more answers on why the city would be great for my own chance to build happiness. It is important to me as a person and a chef to be inspired by local resources for the best chance at success. The information I have gathered on how Seattle grows together in success as a community gives me assurance that this city is the right fit to bring my culinary ambitions and ideas into action.

Works Cited – *List all references – this bolsters your work by indicating you did your research.*

? Discussion Questions 2.8.2

1. What are demographics?
2. What is a demographic profile?
3. Where can you find demographic data?
4. What are psychographic and why are they important to a foodservice operation? How do they differ from demographics?
5. What is the importance in knowing your customer's 'lifestyle'?
6. What are the 'internal influences' affecting consumer decisions?
7. What is the importance of a customer's 'post-purchase' evaluation to a foodservice operation?
8. What are the major elements to consider when conducting a customer study?
9. When considering generational differences, which element is the most important – demographic or psychographic information?

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2.9: Chapter Glossary and Notes

Glossary

Existing development. An operation with an 'in place' restaurant concept, theme, menu, facility design, aligned suppliers, and so on. The entire package enters a marketplace - the method utilized by established chain operations.

Market Design. The location determines the concept, menu, facility, and suppliers, which the restauranteur tailors to fulfill the needs and wants of the target market that resides in that trading area. If there are several target markets in a trading area, it is vital that that the operation determine which ones best match the strengths of restaurant - especially in the areas of food and service.

Demographics. The statistical characteristics of human populations in a specific geographical area. Demographics are useful to identify the study of quantifiable subsets within a given population, which characterize that population at a specific point in time. Themes such as the number of people (adults, children, other), ages, mobility, or lack of mobility, gender, income levels, education, ethnicity, employment status, and housing are related to the eating-out and drinking-out behavior of consumers.

Psychographics. The study of personality, values, opinions, attitudes, interests, and lifestyles. Because this area of research focuses on attitudes, interests, and opinions, (or AIO psychographic factors). They can be contrasted with demographic variables (such as age and gender), behavioral variables (such as usage rate or loyalty), and organizational demographics variables (sometimes called firmographic variables), such as industry, number of employees, and functional area.

Generational differences. Historical generations may be defined both by demographics, such as the years in which a particular generation is born, but also by psychographic variables like attitudes, personality formation, and cultural touchstones.

Consumer decision cycle. This cycle indicates five key elements in the decision-making cycle: problem recognition - the foodservice need; the information search to address the need, evaluation of alternatives, the purchase decision, and post-purchase evaluation. The particular trading area and its consumer and market conditions influences each element in the decision-process.

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CHAPTER OVERVIEW

3: The Competition

3.1: The Living Aspect of Restaurant
3.2: Understand Your Competitors
3.3: Competitors - where to begin and weakness in hospitality
3.4: Evaluate the Competition
3.5: Criteria for a Competitor Analysis
3.6: Other Attributes to Consider
3.7: Competitive Analysis Summary
3.8: Classroom Preparation Assignments
3.9: Chapter Glossary and Notes

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3.1: The Living Aspect of Restaurant

Chapter 3 Learning Objectives

- Understanding a restaurant as a 'living' entity.
- Gain a working knowledge regarding customer evaluation.
- Understanding competitor diversity
- Understand the different types of competitors.
- Understanding the criteria to evaluate a competitor.
- Understand the importance of a competitor's age.
- Understand the different 'types' of competitors.
- Learning to evaluate successful competitors.
- Learning how to evaluate the strength and weakness of a competitive environment.
- Understanding the competition evaluation criteria.
- Learning how to research your competition.

> *"The healthiest competition occurs when average people win by putting above average effort."*
> *Colin Powell*
>
> *"But anybody who steps into the lane beside you is the biggest competition because they made it to the finals."*
> *Usain Bolt*
>
> *"It is nice to have valid competition; it pushes you to do better."*
> *Gianni Versace*

Competition

The most important overarching theme a new entrant competitor needs to comprehend clearly is what it is that you are actually evaluating. First, competitors can disappoint their customers over time with poor or inconsistent food or service, aging facilities that look un-kept, a lack of imagination, or cleanliness, and so forth. In such cases that will, through their inability to provide for their customers, sent business to you.

On the other hand, operations can flourish through excellent food and service, pristine surroundings, an inviting physical environment - and a consistently fresh attitude where their customers are concerned. Such foodservice operations build barriers for their competition. When dealing with a perceptive competitor, you must market and pry customers away from them - because they give their customers no reason to leave or explore other operations. They set the bar high and defy your attempts to lure customers away.

The food and beverage industry is highly competitive both within and across dining segments. Whether the foodservice facility is a corporate or single-owner entity, an inability to constantly observe and negotiate the competitive terrain which quick reaction is most certainly a prelude to failure. Competitive intelligence can make the difference between being a leader in your trading area segment, or a follower. Said differently, proactive operations have higher success chances than operations that react to competitive occurrences in the marketplace.

The Living Aspect of Restaurants

Most restaurants are comparable to the human life cycle in terms of age and attention. They undergo a birth of the concept, a growth pattern, after five to ten years they reach maturity, the onset of senescence, and ultimately demise if the concept does not rejuvenate. Along this same line of thinking, think of human growth from the 'attention needed' perspective. At birth, a child requires virtually most of your attention, less but still an adequate amount of attention as it as it matures, to the point where, in old

age, it requires a significant amount of attention again. Restaurants and concepts parallel this scenario. There is no mystery about the life cycle of restaurants, nor is there any absolute inevitability about a restaurant's senescence. Unlike human beings, restaurants can be ‘revived’ periodically.

Restaurant decline

A major reason restaurants decline over time is the changing demographics of the area in which it is located. Areas rise and fall and the restaurants within them are likely to follow the fate of the trading area. Fashions change, the colors and textures that are popular today fall out of favor as younger up and coming customers search for something new and exciting. Top- management ages, and the aging process influences operational decisions. They can engage in 'superstitious' learning, continuing actions and ways of making decisions that maintain the status quo - they do what worked until it works no longer. When they search for 'problems' to fix - in truth their focus is not the ‘problem’ that ails them. In reality, it is something they did correctly in the past that they continued to embrace for too long. The restaurant concept that excited the public when it first appeared becomes tired after several years, its power faded as newer concepts become available in the same community. Menus that were innovative at one time become no longer appealing.

Restaurant design and buildings that were novel and attractive when new lose their luster when compared with new, larger, more expensive designs. Over time, the cost of entry into a market place has risen, especially for a luxury venue. In the 1960"s a few hundred thousand dollars was enough to produce an imposing restaurant facility which, by the mid 1970's looked fairly uninteresting compared with restaurants with investments of one million dollars or more. The current bar is substantially higher for a large city luxury venue designed to attract an affluent clientele.

Fresh concept development has historically been an important issue in the restaurant industry, but in the twenty-first century, it is more vital than ever as restaurant rows are rising up in almost every community. Restaurant clusters today include family restaurants, luxury restaurants, and a whole variety of casual themes and fast food (QSR) restaurants as well. The old line of thinking was that restaurants compete among their business segment, but when one examines 'who' is located next door, it appears clear that the competition for consumer food dollars spans concepts and the QSR, casual, and fine-dining genres. A soon as a restaurant format begins to become stale, it must rejuvenate. Nearly every major chain operation is constantly undergoing renovation. They add color, changing its seating arrangements, perhaps adding garden tables, hanging plants, private booths, more current equipment based on the new technology of the day. The menu variety expands including more healthy menu options, dining personnel use different uniforms, and the expansion of products that make menu boards difficult to decipher thus moving the ordering of food in a restaurant closer to a form of 'rocket science' that can frustrate customers. After all, the primary goal is to 'counter the competition' which often occurs at the expense of 'considering the customer.'

New concept advice

When coming up with a concept for a new restaurant, do not be afraid to gather ideas from existing concepts in the market place. If you look carefully, you will notice that many similarities exist across concepts. Examine what you consider to be their strong points; look for their weak points; find a format with a successful track- record. Evaluate the entire 'system' of a known concept - then improve on that system.

Generally, there is no such thing as a completely new restaurant concept. There are only modifications and changes, new combinations, changes in design, layout, menu, and service. Consider the prudence of this advice as it relates to custom actions. People patronize what is familiar to them - they are excited about seeing a new perspective on a proven system. The style of service may be drawn from one, the method of food preparation from another, the menu could be a 'fusion' of ideas or cuisines, or, a combination of several successful operations plus one or two items that represent modifications in preparation, presentation, and service. The pricing policy could be similar to other pricing policies - policies well received by the consumers of the trading area.

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3.2: Understand Your Competitors

When analyzing competitors, it is important to determine the total amount of food service dollars' currently spent by customers in your trading area. These data are invaluable and provide an idea of how much money there is available to food service operations as a collective. This analysis will indirectly indicate how hard the operation must fight to protect and increase its portion of the marketplace. These numbers are typically available from various suppliers to your operation such as food or beverage suppliers, local restaurant association, or the place that most restaurant operators would never think to inquire - the local sales tax official. Sales tax information is a matter of public record.

Evaluating your competitors

The most important overarching theme a new entrant competitor needs to comprehend clearly is what it is that you are actually evaluating. First, competitors can disappoint their customers over time with poor or inconsistent food or service, aging facilities that look un-kept, a lack of imagination, or cleanliness, and so forth. In such cases that will, through their inability to provide for their customers, sent business to you.

On the other hand, operations can flourish through excellent food and service, pristine surroundings, an inviting physical environment - and a consistently fresh attitude where their customers are concerned. Such foodservice operations build barriers for their competition. When dealing with a perceptive competitor, you must market and pry customers away from them - because they give their customers no reason to leave or explore other operations. They set the bar high and defy your attempts to lure customers away. Figure 2.2 contains important themes by which potential or existing competitors can compare and contrast to each other, as well as your operation's strengths and weaknesses.

General Evaluation

A good place to start would be the telephone book or Website for the marketplace. This will give you an idea of the number of competitors in each restaurant segment (QSR, casual, fine dining, and so forth). Another good source for competitor information is a city's *Chamber of Commerce*. The Chamber's function is to make known all businesses in the community so do not expect them to provide you with an evaluation of different operations. They will acknowledge the existence of, but not a quality comparison. Observe the restaurant operations that are similar to your concept and gauge their marketing effectiveness and number of clientele during different meal periods. A time effective and efficient method of gathering relevant information is to 'mystery-shop' the competition to determine their strengths and weaknesses and whether or not they pose a threat to your concept. Figure 2.2 contains important themes by which potential or existing competitors compare and contrast to each other and your operation's strengths and weaknesses.

Another effective way to determine the approximate sales of a competitive operation would be to sit in the parking lot and do customer counts during various meal periods over a few days, arrive at an average check amount by bundling say an appetizer, entree and dessert from their menu and simply do the math. This can be time consuming, but prior to opening your operation a new entrant is essentially invisible to potential competition. You can speak with servers in the dining room, sample food, and gather impressions from other customers from conversation. Additionally, one can observe 'who' their customers are in terms of age, financial position, couples, families, and so forth. Observation is powerful and telling if well structured.

Age of the competitor

Understanding how long a competitor has been operating in a marketplace is another important consideration that needs evaluation. Typically, over time, a restaurant will proceed down one of two paths. The first path leads to ongoing success through customer connections with birthdays, anniversaries, meals with loved ones who have passed on - in short, a repository of wonderful memories of times experienced and offerings that have achieved the term 'comfort food.' This occurs over some years or over generations in some cases. Beware of these operations, you are not simply dealing with another restaurant, you are facing an 'institution' in the community, which can be a formidable task that takes a healthy amount of consideration.

Number of restaurants in a Trading Area

This includes the overall number of restaurants in the marketplace as well as the restaurants you compete against on a daily basis. It is important to remember that a trading area has a finite amount of disposable income for food service and the number of

competitors available to customers will dilute the share of that potential revenue to your operation. Markets can over-saturate or, become under-served - you must be aware of which scenario exists.

Diversity of competitors

Think about the different restaurant marketplace groupings. For, example, what about the ethnic breakdown? How many, Chinese, Japanese, Thai, Mexican, Soul, Cuban are available to the public? Is there a void that your concept could fill? What about price diversity? Can you group restaurants by price points? Service is another area of importance. What are the different types and levels of service offered in the marketplace?

Types of Competitors

There are two basic types of competitors - both are important to know. The first type are 'direct' competitors, foodservice operations that are after the same customer, have similar types of menu, level of service, and are within plus or minus 15% of your pricing. The second type are the "indirect' competitors who sell food and beverage but are not usually going after the same type of guest. For example, a fine-dining restaurant is an indirect customer for a quick service restaurant (QSR) like Burger King - and likewise from the perspective of the QSR operation. Remember, the importance of knowing all of your competitors lies in the quantification of disposable income - there is only so much and everyone wants a portion.

Entry barriers to the marketplace

A competitor can place or cause different types of barriers for your operation to overcome as a cost of entry into the marketplace. A physical barrier could be a prime location in an area with limited parking, or well a well-lighted parking area adjacent to the restaurant - the only close lot on the block. Physically, your operation could stall because there is no available location in the exact area you need to service the trading area. Emotional barriers such as generational barriers - habits, memories and good times remembered. A competitor's strong service component could be difficult to replicate in a known trading area. The core competencies and competitive methods of your competitors can come together to present obstacles to your operation. This is another important reason why visiting the competition is a vital to assessing their capabilities. When any new operation enters a marketplace, there will be a reaction to the new competitor. Knowing this, take the time beforehand to evaluate your competitors to understand what capabilities they have to react to your entry into the market in a way that could be hurtful to you.

Another barrier could come in the form of licensing such as a liquor license. How easy or difficult is it to obtain one? Learn in advance. If licenses are scarce and you are lucky enough to have one, you may be able to relax just a bit - but not too much! A potential competitor aware of the issue may request an exemption prior to opening. Licensing is often a moving target - and not to taken for granted as a certainty or uncertainty by any competitor.

Successful competitors

Pay special attention to competitors who are obviously successful. What can you learn from them and implement in your own operation? It is a good idea to 'benchmark' the competition. Benchmarking is the process of determining ‘who is the best’, say, in terms of service level, value, food quality, and variety of menu offerings. Who is setting the standard in the marketplace? What is the standard? Can your operation emulate that standard? If you are aware of where the bar sits prior to opening your operation, you can plan strategies that help you reach or surpass that standard. You should determine how that ‘best’ status came about, and determine what you need to do in your operation to gain that status. If you do not know what the standard is, you cannot measure your operation and thus improve your standing.

Reality should always drive your operational goals. First, the goal is never to be the best. To be the best, you must first learn exactly what it is that you can master. Thus, you can only be the best at things you do extremely well. Extremely well is the most accurate way to state that proposition. Think of it all this way: does a customer ever look forward to a bad meal? No, the minimum expectation is a 'good' meal and as such, the minimum stand acceptable to your operation must be at a higher level than ‘good’. Good only suffices - it never inspires. 'Good' as a standard is what a strong competitor is hoping you see as an everyday requirement from your staff.

Affiliation of competitors

Affiliation can denote strength or weakness - sometimes where you might least expect it to appear. For instance, if there are quite a few chain operators, they can typically hold out a long time in a tough competitive market. Nevertheless, chinks in the armor do in

fact exist. Chain operators are generally financially strong but lack the flexibility to make menu changes or pricing adjustments. Chain operators, then, are the keeper of the status quo. The products offered are the same from one geographical region to another which does not always please all of the customers all of the time. Chain operations are a bit like government. When democrats and republicans argue their respective positions, normally everyone get a little but no one gets everything they either want or need. They are often sitting ducks for an operation with consistently good innovative food and service.

Independents do have strength

The independent restaurateur does not usually have the financial strength of the larger chain operators which leaves them in danger during poor economic times are from threats launched by their larger counterparts. Additionally, their operational strengths are typically lacking in areas such as management, cost structures, menu engineering, and environmental scanning. However, a well-informed independent can overpower a larger operation by playing to strengths that are un-encumbered by corporation ideologies. They can change, re-direct, and produce products tailored to their clientele. New York City is a perfect example of a major city with fewer chain operators than a small community because of the large number of generational small operations that abound and offer eclectic food tailored to their neighborhoods and community. Chains lack the flexibility and discerning quality to compete in that form of arena. Thus, the message is simple, do not fear your competition, but equally, do not fail to assess their strengths and weakness - and the marketplace itself.

Competitor marketing strategies

These strategies focus on the seven basic principles of hospitality marketing. All competitors in one way or another manipulate these principles commonly referred to as the 'marketing mix' of an operation. **Price:** the dollar amount you place on your products. When combined with the other principles, it denotes a certain value that should be consistent with the perceived value the target audience places on your products and services. **Product:** This includes your menu items as well as any other products and services that you buy, prepare, or sell to your clientele. **Promotion:** This is the overall message you relay to your target market, including advertising, sales promotions, personal selling, and public relations efforts. **Place:** This includes the location of your restaurant, the surrounding neighborhood, and its accessibility and visibility. **Process:** This consists of the way in which you deliver your service. Do you have a wait staff? Do you utilize a buffet? Do customers get their own soft drinks? How do you handle take-out orders? Do your servers prepare items such as desserts in the dining room? **Participants:** the people you want to participate in your operation. You choose them. They are your customers, employees, and other stakeholders, such as purveyors and other outside service providers. **Physical evidence:** Your physical facilities create a particular atmosphere. They provide tangible clues to the customer. For instance, the exterior appearance can denote a casual restaurant. It can also send a message regarding who is welcome and who is not. A neat and clean dining room provides the customer with evidence of a well-managed restaurant.

The first four are the traditional principles developed for marketing all tangible products. The other three are unique to restaurants. Managers often think of marketing and advertising as the same thing. However, **advertising is just one form of promotion, which in turn is just one element of the marketing mix**. Depending on the situation, an operation may not even use advertising in their mix. While all of the marketing principles are interrelated, the marketing mix is normally unique to the type of restaurant segment. For example, the mix needed for a successful quick-service restaurant will differ significantly from the one used by an upscale steak or seafood operation.

Differentiation is important, but eventually emulation of your innovations by your competition will occur. Thus, an operation cannot become stagnant in its marketing efforts. The key is to create a ‘differentiation’ strategy that renders you unique. It is impossible to copy uniqueness.

The best way to tell which of your competitors are ‘winners’ is to look at as many competitors as possible. When you can observe the collective marketing schemes of the trading area and identify positive results, you can formulate a productive plan regarding what to do, and of greater importance, what not to do.

Signature items

What are their main moneymakers? Can you match them or do improve on them? If you intend to copy a product made popular by a competitor make sure that it is as good as, or better, that the original product. Consumers will judge your product by the taste profile of the original product - and customers must perceive the new product to be a better value.

Competitors' strengths and weaknesses

Understanding the strengths and weaknesses of your competitors' is almost as vital as understanding your own core competencies and vulnerable areas. Always play to your strengths and always be shoring up your weaknesses. For any operator the first step toward success begins with the ability to honestly assess where you and your operation stand - what do ‘we’ and ‘others’ do really well, and what would make us a better company.

Do not try to go head to head with a competitor who is especially skilled in particular aspects of foodservice operations. Until your company becomes established, avoid competitors who know how to hold up well in a murderous competitive environment. Better to let those types of opportunities go by the wayside. It would be more profitable in the end to stake out a trading area where you can grow unencumbered and establish your concept, your operation, and yourself and partners where applicable. Initially, try to compete against those who are reluctant to challenge you. Build your brand before you clash with established operations.

Market niches - any available?

Are there any market niches vacant in the trading area? This is a way to eliminate head-to-head confrontations with established competitors. Is there a valid reason why no one is offering a certain type of menu - or is this an opportunity waiting to be explored?

Competitor stability

Are foodservice operations constantly opening and closing in the marketplace, or is the area stable? Either way you need to be on the right side of this kind of cycle. An un-stable competitive environment usually indicates there is no compelling reason for guests to visit the local restaurants. If so, evaluate what you might do to avoid this situation. To compete you will have to do something to stand out, something that compels customers to visit you consistently. If possible, try to focus on one or two competitors' life cycles. How did they start? How was the pre-opening marketing, and initial customer contact handled? What significant changes did they make along the way? If they went out of business, was it because of operational difficulties or uncontrollable events such as a major rent increase?

In sum, evaluate the path of the failed operation and avoid their errors. When an operation enters a market place, all customers' know about the company is the image and actions presented to them. All positives equal a positive impression. A problem a customer does not see is not a problem. You will generally not lose clientele because of it. If a difficulty reaches the customer, you must always act immediately to correct the issue because a problem equals reduced value in the mind of the consumer and value is what prompts continuous return customer to your operation.

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3.3: Competitors - where to begin and weakness in hospitality

Competitors – where to begin

Having a clear knowledge of competitor tactics in a trading area, and marketplace in general, along with their strengths, and the opportunities any competitive weaknesses might present to you is one of the most important form of analysis that any new operation should engage in. Choices will have to be made regarding 'who' you intend to compete against and the more you really know about what a competitor does well and where weaknesses lie will help you to position your operation for success.

Weaknesses in Hospitality

Among the general weaknesses that habitually surface in foodservice operation, and as such should be included in the criteria by which you evaluate your trading area competitors, include:

- Location
- Areas served
- Facilities
- Amenities
- Poor price/ value perception
- Poor brand/image
- Poor reputation
- Poor or incorrect positioning
- Weak or lacking human resource talent
- Low financial resources
- Inadequate or dated technological resources
- Little repeat business

Ninety-five percent of all new restaurants cease doing business within two to five years of operation. The following are some of the reasons why they were doomed from the start.

Location and Areas Served

Finding the right location is one of the most important steps to building a successful foodservice operation. Convenience is a key aspect that drives consumer actions. Something as simple as being on the wrong side of the road, the outbound lane for example, when breakfast sales are a point of concentration, the inbound lane when its dinner customers you intend to attract. Consumers travel certain paths to complete the requirements of their day. Is the speed limit slow enough (40 miles per hour or less) to allow them to see your signage and safely into your parking lot? If you are, say, two blocks off a major thoroughfare where consumers go to shop, what will cause them to leave that path to visit your restaurant? In turn, what will you do to cause that change? To effectively market some individuals you would need to know where they reside (could be a different city) and their interests.

Being near one type of customer can leave you distant from another without a strong marketing plan. Consider a casual restaurant located among streets of medical offices and a large hospital. While this may prove to be a wonderful location for breakfast and lunch sales, the situation drastically changes when the neighborhood becomes empty when the offices close in the late afternoon. What will you do to attract dinner sales? A location needs to be viable in the present as well as the future. If the operation intends to attract customers during multiple day parts, the location must be viable for those times of day. A location is more than a building. It is also convenience and accessibility.

When McDonald's began to grow, they clearly defined children as a primary market segment. As such, they build restaurants in neighborhoods with children. Initially, the closeness to families was a major asset but in time things changed. They realized that their strategic location strategy was flawed. In five years, children grew and moved away leaving the company with facilities located in areas with little to none of the market when needed to attract. How do they position their current locations?

Facilities

The facility must be attractive and inviting to the consumer in some way. Elaborate building is typically not the answer. **Quaint, quirky, modern, simple elegance, warmth, and so forth are all themes that attract customers.** One important way to think

about a facility as part of an overall scheme is to view it as a place of 'transition' for the customer. In the morning, the consumer is moving from sleep to activity and typically, the mood needs to be relaxing yet upbeat to transition them into the morning. For lunch, consumers are normally facing time constraints as they transition into the afternoon. In the evening, the customer is winding down from lunch the mood and a more relaxed pace is best for this day part. The service and mood of the restaurant facility in terms of lightings, sounds, and so forth should contribute to a calmer environment as the customers puts the tediousness of the day behind.

Amenities

An amenity is something that enhances the customers' comfort, convenience, or enjoyment. In a restaurant, an amenity could be mood lighting, seating with a wonderful view, free Wi-Fi and Internet service, amusements for children, and so forth. Physically, amenities could also include the attractiveness and value of area surrounding the restaurant or the actual restaurant structure itself. From a more aesthetic and subjective perspective, amenities can exist in a non-physical sense such as pleasant and agreeable service interaction. Attention, courtesy, pleasantry, and politeness are amenities in our field. As such, a memorable service experience is an amenity that all operations would like to offer to their clientele.

Poor Price / Value Perception

Most consumers are aware that 'something for nothing' is closer to be being a myth than a proverb. Thus, sandwich shops seek to be the home of the best 'over-stuffed' sandwich in town and customers arriving at restaurant are thrilled to see other customers leaving with 'to go' boxes, or 'doggie' bags. Excess is always associated with value in the mind of the twenty-first century customer. Of course, good food at a reasonable price is also value. A restaurant that offers fresh, well-prepared products that are grown or harvested from some other locale is also a valuable consideration - even at a higher price if price and value are reconciled.

Typically, restaurants within the same business segment should be relatively close in terms of price unless the reasons for a higher price are visible and believed justifiable to the consumer. If the customer does not perceive a legitimate justification for what they are paying in comparison to what they receive - value immediately becomes the issue that drives thee consumers away from a return visit. A lack of value rarely received a second change from cost conscious consumers. How would you rate your competitors?

Poor Brand / Image

A 'brand' is a name of a product or entity, or even an attribute that makes consumers feel a certain affinity for something or someone. Visual elements usually link to a name and that name is associated with and infers quality, value, youth, elegance, entertainment, and so forth. Another word that associates well with 'brand' or 'image' is reputation.

Sadly, not all foodservice operations establish endearing thoughts when you hear their name or see their facility and logo. However, it is not the fault of the consumer. They gave the restaurant the benefit of the doubt from the start. Every restaurant begins with a positive image. A poor image is something a restaurant acquires based on its actions - they control their image. A poor image is nothing more than the customers' reaction to poor performance by the restaurant.

Poor / Incorrect Positioning

Positioning refers to creating an image that the consumer visualizes when they hear your name, see your facility, or marketing. **What the customer visualizes is your 'position' in terms of value, quality, current relevance, or numerous other attributes that individuals use to group and compare different people and places.** To arrive at a positioning strategy, the restaurant must be able to describe a typical customer. Who are our customers and what do they want or need us to provide? What do they think of us now? Is it what we want them to think? What can we do to change what they think? What did we want to promote about our company? What should our marketing and promotions convey? These are some of the questions a company might address to arrive at, maintain, or repair a market image, or 'position' the consumer to think a certain way about the restaurant.

Weak or lacking human resources

One of the elements that makes a restaurant successful is a qualified labor pool. Typically, the acquisition of qualified workers become an after construction 'taken-for-granted' - a point of concern when needed but seldom considered from the planning stage. Labor positively, or negatively, affects a foodservice operation in four main ways. The obvious first way would include the production of the menu. The menu is useless without the eye-hand coordination and cooking skills necessary to bring it to fruition. Does a skilled labor pool exist within the trading area in question?

Secondly, without the proper personnel, the service aspect of your operation will generally fall short of the mark. Customer interaction is one of the most important roles and personality is only teachable to some extent. Good service staff understand when to approach the table and when to keep space between themselves and the customer. They understand people and situations alike.

The **third** reason for the importance of a qualified labor force is that they are the individuals who interact with the customer. They are both face and communication with the consumers with whom you wish to attract to your operation, and establish lasting relationships. The importance of communication is two-fold. Your employees transfer specifically selected information that you wish to convey to the consumer and equally, they also gather information 'about' the consumer that the operation needs to have on hand to evaluate its customer base, and to personalize the service intended.

The **fourth** way qualified labor aids the restaurant operation is in the form of efficiency. Efficient operation in terms of preparation, waste, the ability to multi-task, and the speed of task accomplishment are vital elements of successful foodservice - an extremely labor-intense industry.

Low financial resources

Financing the operation extends well beyond the facility, equipment, and staffing. The operation must have adequate funds available to be viable until customers become familiar with the operation and sales exceed costs into profitability. This involves an additional expenditure – execution of the marketing plan and advertising the business to acquire the aforementioned customers. One of the most frequent mistakes made by new businesses is undercapitalizing daily operation costs and thus the ability sustain marketing efforts. There is an old adage: “if you build it they will come” in food service this is true if to things are true. First, they have to know you are there. Second, they have to have a reason to try your concept. It takes funding to convey both messages.

Inadequate or dated technological resources

It is important to utilize the most current technology affordable. Technology can be a ‘competitive method’ and an edge in ‘efficiency’ allowing for lower costs and pricing than your competitors. Older competitors generally utilize older technology. As a new business, this can be advantageous to positioning your concept as both ‘value’ and affordability in the eyes of consumers. An additional benefit can come in the form of lower maintenance and replacement costs

Little repeat business

Something is affecting the customer’s decision to return. From the broad perspective, segmentation and positioning needs a critical look. Pricing may be an issue that bears examination. Another factor is the price and value relationship. Service may also be the key to unraveling the dilemma. When customers are not returning everything bears scrutiny. There may be one aspect, or multiple, aspects of the operation that are not passing the customer’s post-purchase examination of the transaction.

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3.4: Evaluate the Competition

Competitor analysis

The simplest way to evaluate a competitor is to use your own judgement about how the operation looks from a distance, the ease of reaching the location, and what it feels like to be a customer. Remember, before you enter a marketplace, you are technically ‘invisible’. You can observe the different day-part menus; and estimate the age and income of the operation and its management. Figure 2.1 lists a variety of important criteria to get a true feel of both the physical customers; or dine in and experience the food, the service, and the attitudes of the employees and similar and psycho-textural aspects of competitors. Do not limit that consideration to only ‘direct’ companies that are to your own concept - extend the analysis to ‘indirect’ operations that could take a bite out of your bottom line.

Personnel

How could workers not be available in a marketplace? Years ago, I took the availability of personnel for granted until I opened a corporate unit in a beach community on Long Island, New York. There was little competition, which was a break from highly competitive markets and a large population who shunned cooking at home. But one of the most exciting aspects of that city, from the standpoint of the customers' ability to support a restaurant operation, ultimately proved to be a nightmare I had not previously faced during the many years I established market units. The city had an average family income of greater than six-hundred thousand dollars. While this sounds good, when the dust cleared, no one of employable age really needed to work. The only workers I could attract were young individuals who needed a job because mom and dad felt they needed experience out in the world. "Could I have Friday night off?" was a horrifying question because money was not the issue or the element that made them stay. I was able to maintain a staff via a competitive reward system, but I learned that a market could always be wonderful in some ways and less so in others. I never approached worker availability as a given again.

While the aforementioned themes are by no means the only ways good workers aid in the success of an operation, it becomes obvious that labor availability in all facets of the operation is never a given. After all, without the lowly dishwasher who takes pride in his or her work and continuously polished the silverware, the restaurant's reputation for cleanliness would go by the wayside. Everyone plays a part - value the pieces in the puzzle that is a restaurant.

As you observe competitors, do they appear to have a sense of value when it comes to their workers? Do workers appear knowledgeable and well trained? Are they smiling when away from the table? Workers seldom conceal their negative feelings when they think the customer is unaware.

Typically, there will be a lot of information to process and digest as you search the trading area for niches and underserved customers. Your study, if done properly, will help to address what you will do, and of the greatest importance - why you will do it. Figure 2.2 provides the appropriate questions to ask and as such, the appropriate and revealing information about competitors that can be vital to your success.

Figure 2.1 COMPETITOR ANALYSIS

Rate each competitor on the following criteria: 5 = excellent and 1 = poor

	Competitor 1	**Competitor 1**	**Competitor 1**
Competitor Name			
Criteria	**Score**	**Score**	**Score**
Name recognition			
Market Share			
QSR, casual, fine dining			
Food quality			
Banquet facilities			
Service quality			
Price/value perception			
Marketing effectiveness			
Sales Staff			
Organizational culture			
Employee skills and attitude			
Employee turnover			
Speed of service			
Cleanliness			
Profitability			
Information technology			
Website - Social Media			
Location			
Accessibility			
Visability - sign, building			
Parking			
Outside lighting			

Figure 2.2: Analysis of Primary Competitors	
Who?	Who are our primary competitors? Who are their customers?
What?	What are their primary and secondary products and services? What are their core strengths and weaknesses? What opportunities exist competitively? What threats do they pose to our operation? What specifically do 'they' do better? What specifically do 'we' do better? What market segments and sub-segments do they attract and why? What competitive advantages do they possess? What distinct competencies do they possess? What are their competitive methods?
Where?	Where do they sell their products and services? Where do they operate?
When?	When are their products and services most in demand (Time of day, week, month, or year)? When do customers see them as their first choice for purchase?
Why?	Why do we compete directly with our competitive set? Why do consumers purchase their products and services? Why do we compete directly with these organizations?

Begin with your potential direct competitors, competitors that you might compete against daily, or those foodservice operations that your customers would consider at the same level with your operation.

Figure 2.3 illustrates some of the primary, or personal, ways a potential new entrant could gather information on the aforementioned points, and others, and secondary information gathered from sources not personally observed to analyze a competitive stance in the marketplace in question. These sources provide a great starting point for your information search.

Figure 2.3 Primary and Secondary Sources of Competitors	
Primary Sources	
Parking lot observations	Daily event or reader boards
Customer surveys	Mystery shoppers
Vendor injuries	Reservation calls
Competitors' employees	Visiting the competition
Secondary Sources	
Business journals	Trade publications
Press releases	News articles
Company brochures	Business journals
Trade Associations	Marketing material
Website data	Website guest reviews
Chamber of commerce	Convention and visitors bureau
Travel associations	Tour operators
Vendor information	Local colleges and universities

Use **Excel charts** and **sector analysis** or **box plots** to get a visual idea of your proposed marketplace. You may not be the only consumer of the information you gather. Keep in mind, if you will be approaching a lender for financing, they will be interested in

knowing how you intend to compete against established foodservice operations. The more awareness and accuracy you display in discussing the competitive environment, the better a lender will feel regarding your chances for success.

Researching Your Competitors

There are many different ways of researching potential competitors. For multi-unit chain foodservice operations with a national geographic focus, other methods might prove more useful than personal observation in creating the 'big picture' of who your competitor really is.

Larger operations may operate across the country or in others and as such, the personal visit may not be the most efficient or helpful way to proceed with information gathering. Thus, if a company is diverse and, or, publicly traded, their information then becomes a matter of public record.

Publications and the Internet are now very effective ways to gather information since larger companies are using these forms of media to communication with consumers. More established foodservice operations have a Website presence with their hours of operation, location, and in many cases a menu. Keep in mind that successful operations practice what they preach. What do the journals and other publications, company marketing material, and the Internet say the company message and the consumer about the competitor, and of great importance, what did you find upon visiting the operation? Is experience the same?

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3.5: Criteria for a Competitor Analysis

The following themes, as well as those I mention in Figure 2.1, should be investigated, and thoroughly presented, as part of the criteria used for the 'direct' competitor portion of any feasibility study.

- Similar attributes in products and services
- Pricing within plus or minus 15 percent
- The proximity of the operation (1 mile? 3 miles?)
- Hours of operation
- Style of service
- Menu pricing
- Beverages offered
- Menu offerings
- Other general attributes

Similar attributes

A direct competitor is normally in the same business segment as your operation. What products and services do these operations offer to the trading area? I s there an over-abundance of one type of product and very little of another? Is the marketplace entirely lacking entirely in a type of product that you are competent to produce? If you can fill a niche in the trading area that does not exist, you would initially have little to no direct competition - which is always a plus.

Similar pricing

Customers in your direct business segment will typically be within, plus or minus, fifteen percent of the current competitive price range in the marketplace, or within fifteen percent of the pricing structure, your concept intends to use. Understanding your competitions 'pricing' is another important aspect that directly relates to value in the minds of consumers. In general, consumers typically have a price point in mind that they will not exceed - to pay more erodes the value of the meal. Of course, which price is acceptable, and which price tips the scale in the negative direction, is a psychographic issue. Be aware of how your potential competitors are handling the pricing function from the 'value' perspective. Are they discounting the price with specials on certain nights of the week? How do they treat pricing in their competitive advertising scheme?

Competitor proximity

Trading areas generally do not extend beyond a three- mile radius of a foodservice operation. Although, some factors may help a restaurant to extend its pull beyond the three mile demarcation - or actually cause that radius to shrink to one mile or even much less. In a small community, consumers may be willing to drive across town for lunch if the traffic patterns are such that the trip completion can occur in five or ten minutes. On the other hand, downtown areas, for example, may pose parking difficulties for consumers who do not want to leave and give up their parking spot for a meal. In such cases, having a location within walking distance can be a necessity to reach the intended consumers of an operation. In yet another situation, in a prime downtown entertainment area of a city, the consumer may be moving from one venue to another, meeting friends, or looking for a quick meal. A foodservice operation one block away from the activities could be off the beaten path and considered out of the way - even though the distance a consumer would have to travel is one block. Where your competitors are located and how close to each other, and your operation, could make a huge difference in terms of your operation's success. Always consider the proximity of other competitors. Why are they located there? Does a strategic advantage exist from their location?

Hours of operation

Most foodservice operations do the majority of their business during lunch and dinner service. Quick service restaurants (QSR) are typically open the largest number of hours per day serving all day parts. Casual restaurants will also make themselves available to the consumer for most day parts including late evenings in some cases. The fine-dining restaurants are typically productive during the lunch and dinner portions of the day. What hours of operations and day parts are your competitors utilizing in their respective marketing mix scheme? In a downtown location surrounded by many businesses and possibly government offices, it might make sense to open for breakfast as workers arrive early and are looking for coffee and something quick to sustain them until lunch. Breakfast can also introduce customers to your concept and help them to become better acquainted with your menu offerings during

lunch and dinner. At the other end of the day, an entertainment district in a trading area may practically limit the hours of operation to dinner service and late-night business.

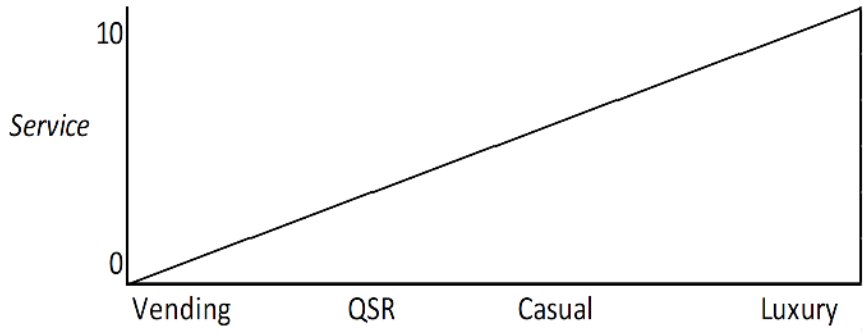
Take a moment to not only know just who your competitors are in terms of 'name' and ‘menu’ but equally begin to dissect their target market. Where are they located in terms of that market, and how each competitor addresses the market from their own perspective of what it means to compete in that area? For instance, Outback Steakhouse opens for ‘dinner only’ in most markets and does not accept reservations. Is this necessarily what the trading areas truly desires? The answer lies in Outback's operation strategy. They do not feel they are at their competitive best trying to extend to the other day parts. Another issue for this company is the number of trained employees necessary to sustain multiple day parts based on the size of their operation and the volume they must do to be successful. From their perspective, they are at their best for dinner and thus attacking this service segment alone gives them the best opportunity to top the competition.

Style of service

Service can be a moving target for many restaurant operations. From a broad perspective, as Figure 2.3 illustrates, the least amount of service required for food delivery would be the vending machine increasing along the scale to high customer attention in a fine dining establishment.

Service is essentially an interactive process. How much attention the customer receives is an operational decision that varies from one competitor to another. Service links equally to the restaurant concept and the need, or lack of a need, to turn tables. Thus service is a function of business segment in the sense that quick service restaurants generally provide what might be called 'transactional service,' just enough to complete the transaction at hand. Casual restaurants can provide service ranging from little to adequate service depending on the restaurant theme and method of operation. The highest level of skill and server awareness in typically required in the fine dining segment of the industry.

Figure: 2.3 Service Required by Foodservice Segment



Are your competitors ‘position’ allow them to serve and interact with their clientele? Interaction is an important element of service because this is generally the only point of contact an operation has with a customer. In fact, customers' interaction with the service staff is generally the only interaction a customer will experience with a company. How would you rate your competitors' performance in the area of service? Is service a core strength - or do opportunities exist to better service the trading area?

Menu pricing

Two important concerns are at the forefront of any menu pricing. First is the issue of 'value.' Does the competition have a ‘cost’ or ‘value’ leadership position in

the trading area? Consumers are always value conscious and how much they are willing to pay is typically a major consumer concern. Pricing also speaks to portion size as a value relationship. How do the competitors compare to each other in terms of pricing as it relates to portions and ultimately to the value of the meal? The second issue speaks to the range of pricing competitors use in the trading area. What is the price range for each of your competitors? Where do you see ‘your’ pricing in comparison to others - higher, lower, or within the same range of pricing? Pricing a menu and services too high can give the impression that that your operation is not value conscious. Price to low and many will think what you offer is of inferior quality? You must strike a balance with consumers. Image denotes pricing, pricing confirms image.

Beverages

Beverage sales can be a lucrative profit center for a restaurant operation. Are your competitors taking advantage of beverage sales? Do they sell alcoholic beverages? If
so, do they operate a full bar type of service or is alcohol sales limited to simply beer and wine? Is their approach to beverage sales effective in your opinion? Can you observe an increase in traffic during different day parts resulting from beverage sales to the operation?

Menu

The menu is a very important aspect of restaurant sales because it is the operation's primary tool to convey the restaurant's theme, 'position' in relation to other competitors, and offerings created to attract consumers. The menu is also the primary and often, the only source of revenue for the operation. Is the menu priced to breakeven, compete
with other competitors, or priced to make a good profit for the establishment. Most competitors have reasons for their offerings and price points. What is the menu saying to you about each particular competitor? The 'size' of the menu in terms of offerings is of importance for several reasons. First, customers demand a good selection of food and beverage items. Realistically, too large a menu is also at the center of an operation's waste issue. Does the competition offer variety in terms of the different types of selections (meat, chicken, seafood, and so forth) offered, or is there an abundance of one or two types of entrees? If the restaurant is quick service, is the menu easily prepared, or does it appear to create difficulty for the employees?

Other questions would include the ethnicity of a menu and how focused toward one cuisine a menu may be. Does the menu change often or is it static? A static menu would remain the same year-round. While a consistent menu has advantages, it can also after time, become repetitive to the consumer. A variable menu, on the other hand, could vary by day, week, month, or seasonally, to take advantage of product availability and pricing.

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3.6: Other Attributes to Consider

Age of the operation

The age of an operation is important from several perspectives. Typically, most operations must rejuvenate their physical operation as well as their internal operation every five to ten years. Facilities begin to appear stale and menus a bit boring as new competitors enter the marketplace with new and vibrant operations. Stale operations not keeping up with shifting trends or styles are targets for new entrants into the marketplace. Does the competition appear current, or in need of a face lift? On the other hand, age does have its merits. Have certain competitors been around for so many years that they have achieved 'generational' status - appealing to several generations of families?

Chain or independent operations

Is the competitive terrain comprised of large chain operators, independent operators, or a combination of these two different type of competitors? Chain operations typically have strong plans and structure while many independent operators have formal training and thus less structure. That is not to say that, in the case of food quality, one form of operation presides over the other in all cases. Having more structure for instance, can restrict a company's flexibility in the face of a changing environment. It can also result in menus that are more generic and taste offerings as the company strives for similarity across geographical areas. A well-informed independent operation is mobile in comparison to the more stringent corporation way of thinking and acting. Large companies typically do not offer ‘comfort’ food specialties, and likewise, the typical independent operation lacks the organizational structure and marketing prowess of a large nationwide operation. Look carefully at your potential trading area. What forms of competition exist there, and evaluate the strengths and blindsides of all.

Competitors - successful or less so

Most trading areas have foodservice operations that are highly successful and some that have not enjoyed success the extent of other in the market. This is an important assessment that to make as one considers whom they will compete against as a primary competitor. Understanding which companies have arrived, are up and coming, or past their prime and trending downward is key to positioning your own operation strategically into the area and structuring a scheme for success. Who are the successful operators in the area? What products and services do they offer, are they new, have they maintained a successful operation over time? These are key questions necessary to evaluate with accuracy where your company should be in a market.

What companies are doing - or can do - to garner success is paramount to your operation because at some point, you will enter the market and some competitive reaction will be forthcoming from these competitors. Understanding what strengths they can bring to bear in a competitive struggle strengthens your ability to plan and move against them. For example, if a strong market competitor is a low price leader, structuring your new operation with new technology kitchen equipment which reduces labor cost and allows for low pricing would be your initial 'counter' to the pricing strength of that company. If they attempt to reduce prices - you are ready. If another large competitor has strong capitalization, and spends large sums of money on television and radio advertisement, you develop a strong Internet, social media, and coupon strategy - effective and less expensive to meet your budgetary requirements.

When are they busy?

Knowing when your competitors are at their best is vital to competing. You will also have to engage in a marketing scheme to attract and maintain you customer base and knowing what days, and day parts, require the most attention is key to structuring a marketing scheme that produces result for your operation. Marketing is an expensive process and having the knowledge regarding where you will spend your precious dollars will certainly help to increase the impact of your marketing efforts and help to keep advertising expenditures at reasonable spending levels.

Indirect Competitors

When considering a trading area, it is important to evaluate all of the competition doing business there because in the end, it all comes down to the amount of disposable income the potential consumer has to spend at any given point in time. This particular aspect of competitor evaluation often goes unconsidered in the haste to enter a market. New operators tend to look only at those companies they feel are similar to their own. If you are in the quick service segment in a smaller community and a large buffet style

casual establishment enters the market and garners a sizable income stream from the existing consumer base, would you not consider them a competitor even though they do not have drive-thru or counter service? How about a multiple unit supermarket chain that does a huge take out business at very reasonable prices? ‘Who’ are they competing against - the practical answer is everyone! Have a keen knowledge of every competitor. Will you always confront or sustain injury from one competitor at a time, or will it be a nibble here and a nibble there that becomes quite noticeable in dollars and cents at the end of the month. The only thing worse than sustaining financial injury from a competitor is failing to know which competitor(s) injured you.

New entrant potential

What is the potential does the trading area offer to other foodservice operations that may want to enter the marketplace after you? Can a marketplace appearing quite favorable in the present allow others to follow your example? The answer to that question is neither right nor wrong in the sense that you will always have to compete in some way against someone. However, understanding the potential for other new entrants is key to protecting your own operation.

How fast is the area growing and in what direction is the growth occurring? If the grown is happening along a major thoroughfare where land prices and space is at a premium, your potential new entrant will in most case be well-capitalized, said differently, a chain operation. This does not have to be a negative, but it must be a consideration. Starting a new business is an expensive process and knowing and evaluating what might occur down the line beforehand help to protect your investment in the future.

Under-served customers

Do underserved customers exist in the trading area that might attract new entrants, present you with an opportunity to lock in a portion of the trading area rather than the entire area? Underserved could mean a lack of foodservice operations in a particular portion of the trading area, or it relates to a type of cuisine not offer by any of the area competitors. This is also an important reason for truly evaluating your marketplace - niches often simply go unnoticed.

Growth restrictions

While the opportunities for additional grown in an area might possibly be detrimental to you operation, the reverse is also true. A new operation is at its best in a trading area in a growth trajectory rather than on the decline. Remember the importance of where the consumers in a trading area receive income and the security of that income - they will supply your revenue. If your consumers are not stable, neither is your operation.

Another form of growth restriction is a restriction on space. Can a location under consideration expand at that site to accommodate a growing clientele? Is there room for say patio seating, or another floor? One of the most dangerous situations a restaurant can face is the need to grow. If grown can occur in a current location, this is the best-case scenario. Think of the situation from this perspective. An operator can achieve success for numerous reasons that pertain to the current location such as the 'feel' of the building, lighting, parking safety, view, and of importance in many cases, the personality of the wait staff, and the chemistry in the kitchen. Growth that requires a new location always runs the risk of failing to duplicate the elements of success that exist in the initial location. Thus issues such as space, zoning, and possibilities for expansion for all key initial considerations. How you intend to staff a new location has a direct effect on the ‘internal chemistry’ and production standards of the current operation.

Other type of restrictions would include ease of entry for other competitors including ‘your’ own potential entry into the market. A lack of real estate space can be both a protective and prohibitive element for an operation. How easy is it for new competition to locate into the trading area? Are licenses for alcohol or gaming available or difficult? Would waste disposal be a restrictive issue?

Labor force

Does an adequate amount of available labor reside within the trading area under consideration? Not having enough available workers can seriously restrict both the operation as well as the growth of any foodservice operation. Another issue is the quality of the worker's skill level. Unskilled labor could easily restrict the speed of service, and the very items your operation could offer. A complicated menu requires skilled labor to execute it. Thus, un-skilled labor can jeopardize speed, product quality, and at its worst, cause question as to whether the menu desired can be prepared without workers with higher skill levels. If skill levels are low in the marketplace, where could you find higher quality workers? Is there a solution to that issue? If not, you might have to re-think what

you offer to the consumer, and how you prepare it - which could involve some make or purchase decisions that will ultimately speak to the quality of your operation.

Competitors have a say

Finally, in the end, you should always evaluate your competitors in terms of their potential competitive actions toward your operation at some point in time. Thus knowing your own abilities and weaknesses is where evaluating the competition actually begins. Always be truthful and realistic with yourself and your operation. The first step in sizing up or fending off a competitor is to understand your own ability to withstand the competitive element inherent to this industry. Strengths do not exist in a vacuum; doors open and close; and if truthfully acknowledged, weaknesses can generally move toward a successful conclusion. Before entering a marketplace, spend time thoroughly evaluating your competitors, their strengths, weaknesses, and of importance, their ability to respond to your actions.

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3.7: Competitive Analysis Summary

In sum, to analyze a potential marketplace properly, it is best to begin with secondary data, data available from multiple sources. Think deeply about what you find, and any questions that information surfaces. These questions and concerns will drive your search for primary data, the data your research generates. Finally, you will form impressions and gut feelings about what you find – factor these elements into your competitive equation to formulate an appropriate strategy for the market.

Remember: Secondary analysis and Primary analysis + internal analysis = strategy

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Sources of Information on Competitors - Primary

- Review of competitors events or reader boards
- Parking lot observations
- Customer surveys
- The use of mystery shoppers
- Vendor inquiries
- Nightly calls assessing availability
- Speaking with competitors employees
- Visiting competitors

Sources of information – Secondary

- Financial websites
- Company annual reports
- Brochures and other collateral
- Press releases
- News articles
- Business journals
- Trade publications
- Trade associations
- Marketing material
- Chambers of Commerce
- Travel Agencies
- Guest reviews posted on websites

Information you should try to obtain

- Company’s historical background
- Physical and online presence
- Ownership and management entities
- Analysis of key financial ratios
- Products and services available and pending
- Facility demand, capacity, and condition
- Corporate and location specific marketing initiatives
- Pricing strategies
- Distribution strategies
- Key personnel and cultural environment
- Forward looking plans for acquisition, repositioning, and expansion or contraction.

The business should then develop a **SWOT analysis** (strength, weakness, opportunity, threat) for all of its competitors. Often from this process, your business may learn that its needs to adjust its competitive set. Afterwards, the business should conduct its own SWOT analysis. Following the development of the competitive SWOT and revision (if necessary) of the organizations SWOT, the company should apply the “5W’s) analysis to ask itself the following questions:

Who?

- Who are our primary competitors? Are they aware of our business?
- Who are their customers?

What?

- What are their primary products and services?
- What are their ancillary products and services?
- What are their strengths?
- What are their weaknesses?
- What opportunities exist for our competitors?
- What threats exist for our competitors?
- What do they do better than we do?
- What do we do better than they do?
- What market segments and sub-segments do they attract and why?
- What competitive advantages do they possess?
- What distinctive competencies do they possess?

Where?

- Where do they sell their products and services?
- WHere do they operate?

When?

- When their products and services are in high demand (time of day, week, month, or year)?
- When do customers see them as their first choice for purchases?

Why?

- Why do we compete directly with our competitive set?
- Whey do consumers purchase their products and services?
- Why do we compete directly with these organizations?

Common Opportunities

- New demand generators entering the market.
- Current demand generators expanding their operations within the market.
- An upswing in the economy.
- New technological advances.
- Increased consumer propensity to spend.
- Customizable bundling of hospitality products.
- New and more effective channels of distribution.
- New opportunities for segmentation.
- Increased demand for newer products and greater services.
- Current supply leaving the market.
- Contraction of current supply.
- No scheduled renovation or expansions of existing competitive supply.
- Change in ownership or operational direction of top competitor(s).

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3.8: Classroom Preparation Assignments

Competitive Analysis Exercise 3.8.1

1. Introductory paragraph
2. Direct competition
3. Indirect competition
4. Types of food
5. Price, quality, service, hours of operation, etc.
6. Rank your competitors
7. Discuss strengths and weaknesses – theirs and yours
8. Discuss opportunities and consider threats

Example

Competition in the Gulch
FILLING A NICHE IN A COMPETITIVE NEIGHBORHOOD

The Goal

The first concept explored the demographics and psychographics of The Gulch district of Nashville. To recap, this district is the only LEED certified neighborhood in the southern United States. Its many condominium complexes are home to a large percentage of young, educated, working-class millennials. The Gulch is also home to a 20% minority of older individuals who are old enough to receive Social Security but have not yet retired. In addition to this local population, the neighborhood is located in the heart of Nashville, a location that still attracts a significant amount of tourism to the area.

This data indicates certain parameters that, if implemented in a restaurant's image and marketing, could lead to establishing not simply a successful restaurant in this neighborhood, but an institution that becomes as much as part of the neighborhood as its residents are. To do so, we must carefully compete with not only the other restaurants and institutions in the area, but also the ones that will join the neighborhood in the future.

My goal, therefore, is to establish a restaurant that will become the neighborhood's go-to spot for a quick, filling lunch that the locals will fill fulfilled when they spend their money here. Since this is a local business catering primarily to educated, working-class local customers, I'd like my restaurant to be part of their lifestyles, a choice they feel good about making on all aspects: financially, health-wise, and even environmentally.

EXISTING COMPETITORS IN THE NEIGHBORHOOD

The area is very much a 'social-centered' development area denoting the careful, specific, and detail planning of every aspect of the neighborhood; it did not become the South's only LEED certified neighborhood just on random chance. One aspect of a social-centered development is its generally well-established market niches, and The Gulch is no exception. The competition—both direct and indirect—must undergo careful assessment in order to find the right niche for my restaurant, even if it means sharing and competing within that niche with other restaurants.

Direct Competition

Though there are several restaurants in The Gulch, we must especially consider those that will compete with our aim to become a local go-to spot for residents to grab a quick bite without making a large social or financial commitment. The financial commitment is an important one. Of the 25 eateries in the neighborhood, eight are fine dining restaurants with pricey menus; many even require reservations. These are not direct competitors for my restaurant. We will focus on inexpensive meals for working, busy locals. However, that leaves over a dozen eateries that are competitors with my concept, so I must examine these to fill a niche in the neighborhood.

Arnold's Country Kitchen (insert pictures)

Located down the street from the condominiums' and businesses of the neighbor-hood is one of the most famous southern food eateries in the city, if not the south in general. It is casual as well as cheap, with most meals being under $10. This restaurant a Nashville institution that attracts locals and tourists alike. The cafeteria-style eatery is constantly busy, often with a line leading from the cashier exiting the restaurant. On paper, it may be a fierce competitor with my concept. However, from personal experience, many locals do find the food overrated, especially considering the lines one must brave in order to receive the plate of food. In addition, Arnold's is only open for lunch during the week. It closes on the weekends. This leaves a lot of opportunity to attract people who may want a cheap lunch, maybe even southern country cooking, but who do not want to battle exorbitant lines, and who may want to eat it for lunch or dinner any time of the week.

Otaku Ramen (insert pictures)

This ramen shop is located in the heart of the residential condominiums, and, in fact, markets heavily to the locals who may live right above the shop. Though its menu is very limited, featuring only ramen and a few appetizers, all bowls are $12, making it a relatively easy decision for those who want an inexpensive, filling lunch. It is open for breakfast and lunch all days of the week except Monday. Otaku Ramen tends to market to the same segmentation profiles I would like to attract to my concept: young, workers who may live or work nearby and want a casual, inexpensive lunch that is filling and unique. It features an open kitchen, which is also a bar for individuals to sit at, as well as an additional beverage bar, which offers more individual seating as well. For an extra fee, this ramen shop even delivers to nearby locals. From my personal experience eating and working at this restaurant, there are aspects customers dislike. As with Arnold's, the restaurant is nearly constantly busy, and the space is very small, so the environment is not often as relaxing as customers would like it to be. Secondly, though the meal itself is inexpensive, the drinks offered are limited and expensive. Therefore, a $12 bowl of ramen with a Coke and a tip to the server can easily end up costing one person $20.

Saint Anejo (insert pictures)

Featuring a Mexican-style menu with dozens of offerings for both lunch and dinner under $10 as well as a sizable and inexpensive drinks menu, Saint Anejo could potentially be an ideal lunch spot for locals heading into or coming out of work or for meeting friends at a spot that will not break the bank. However, Saint Anejo has the same problem Otaku Ramen or even Arnold's has: locals might simply get tired of the food if all they serve is one type of cuisine. The Saint Anejo menu is static even though it is a locally owned restaurant. Locals might simply get tired of the food if there is not enough change. Additionally, getting to Saint Anejo is a bit of a walk, as its a few blocks from the cluster of condominiums and breweries where many live and work.

Potbelly Sandwiches/Subway

Because these two business serve the same type of meal for similar prices and are located in the same area in the neighborhood, I will group them together. These businesses are certainly competition to a restaurant that aims to be a quick, inexpensive bite to eat for working locals. They are not a far walk from any of the residences, and they are consistently cheap. However, they do one thing: sandwiches. Potbelly makes milkshakes and ice cream while Subway can do breakfast and pizzas, but their primary meal is the sandwich. Realistically, I see myself competing the most with these two businesses. They are quick, cheap, casual, and consistent. However, they are also chain restaurants. They will not offer daily specials, and they do not offer any alcoholic drinks. They will not cater to the local crowd and make them feel like this is "their spot." Simply, these businesses are competition, but they are not an institution like the one I am aiming to be.

Other Competitors

The five restaurants mentioned above are the five restaurants that share qualities of the establishment I hope to have. There are many other restaurants in the Gulch, but they do not share the qualities of my concept for many of the reasons listed above. The other restaurant competitors tend to be chains, much like Subway or Potbelly, or they have specialized cuisine, like Saint Anejo or Otaku Ramen. They might serve only burgers or only breakfast, but those places leave a niche for people who do not like to eat chain-restaurant burgers every week.

Indirect Competitors

Local businesses other than restaurants will consume the disposable income of the neighborhood as well. It would be wise to examine these, too.

The Turnip Truck

A local grocery store dedicated to selling organic and/or local produce, The Turnip Truck would be a destination for a young, educated worker who wants to eat consciously and healthy. This is exactly the market I am targeting. Though this business is not a restaurant, this will be where the locals spend their money on food if they do not go out to eat. I need to market my restaurant in a way that locals will realize I am serving the same healthy, environmentally conscious foods that they can buy at the Turnip Truck. Perhaps once my business is established, I can see about collaborating with The Turnip Truck to serve their produce while using their name to associate my business with the fresh, local produce they offer.

Zollikoffee

Though this is a coffee shop or a restaurant, I cannot ignore their cheap offerings for lunch and dinner. The atmosphere a local coffee shop offers is especially one that would attract locals who like to relax for breakfast or for lunch. One feature is that Zollikoffee is a good distance's walk from the hustle and bustle of the neighborhood. If I locate my business more conveniently to the residential buildings, perhaps Zollikoffee will not be a major threat to my operation.

POTENTIAL COMPETITION

The Gulch is Nashville's fastest-developing district. Even a fast-food chain coming into the market could be a threat to a business like mine. However, The Gulch lacks a restaurant with a menu that changes often, according to what is in season. It lacks an eatery with a complete focus on fresh ingredients for lunch and dinner for working-class folk. A fast-food chain cannot compete with a local restaurant with a fluid menu. This is how my restaurant will become an institution in the neighborhood.

? Discussion Questions 3.8.2

1. What are the seven basic principles of hospitality marketing?
2. What are 'entry barriers' to a marketplace?
3. Why would you want to emulate qualities of successful operations in a marketplace?
4. Why is it important to understand your competitors' strengths and weaknesses?
5. What is the advantage of a market niche?
6. What are the twelve general weaknesses foodservice operations must overcome?
7. How important is the customers' price /value perception?
8. How does a restaurant acquire a poor brand image?
9. What are the primary sources of information to assess a competitor?
10. What are the criteria for a competitor analysis and how could each of the criteria be advantageous or, a hindrance to your operation?

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3.9: Chapter Glossary and Notes

Glossary

Trading Area Restaurants. The overall number of restaurants in the marketplace as well as the restaurants you compete against on a daily basis

Direct competitors. Foodservice operations that are after the same customer, have similar types of menu, level of service, and are within plus or minus 15% of your pricing.

Indirect competitors. Restaurants that sell food and beverage but not trying to attract the same type of guest. For example, a fine-dining restaurant is an indirect customer for a quick service restaurant. The importance of knowing all of your competitors lies in the quantification of disposable income - there is only so much and everyone wants a portion.

Competitor marketing strategies. These strategies focus on the seven basic principles of hospitality marketing referring to price, promotion, place, process, participants, and physical evidence. All competitors in one way or another manipulate these principles commonly referred to as the 'marketing mix' of an operation.

Disposable income. The money left after one pays all necessary monthly expenses.

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CHAPTER OVERVIEW

4: Segmentation in a Marketplace

4.1: What is Market Segmentation?

4.2: Segmentation - Where to Begin

4.3: Selecting target markets

4.4: Segmentation in More Depth

4.5: Deciding on Market Segments

4.6: Classroom Preparation Assignments

4.7: Chapter Glossary and Notes

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4.1: What is Market Segmentation?

Chapter 4 Learning Objectives

- Understanding segmentation and its importance as a customer selection process.
- How to identify the market for segmentation.
- Understanding the various ways to think about segmenting a marketplace.
- Apply segmentation criteria.
- Gain a working knowledge of segmentation variables.
- Learning the decision process for selecting market segments.
- Understand the broad segmentation strategies.
- Comprehend the similarities among different segments.
- Understand how to profile each market segment selected.

Generally, market segmentation is a marketing strategy that involves dividing a broad target market into subsets (groupings) of consumers', who have common needs and priorities, and then designing and implementing strategies to target them. Market segmentation strategies are useful to identify the target customers, and provide supporting data for positioning to achieve a marketing plan objective. Businesses may develop product differentiation strategies, or an undifferentiated approach, involving specific products or product lines depending on the specific demand and attributes of the target segment.

Prior to beginning the segmentation process, the potential operator must clearly define the marketplace itself in terms of city and area, potential customers, and existing and future competition as such:

Elements of the Trading Area

- geographic area
- the major descriptors of the target market such as demographics, psychographics, and behavioral characteristics and

Industry Structure

- Existing competitors (primary and secondary)
- Potential competitors and the market conditions that aid or hinder their entry
- Product substitutes in general that could hamper sales
- Suppliers' products and services needed for operation.

What is Market Segmentation?

By definition, **market segmentation** is the process of dividing a broad consumer or business market, normally consisting of existing and potential customers, into sub-groups of consumers' (known as segments) based on some type of shared characteristics. In dividing or segmenting markets, researchers typically look for shared characteristics such as **common needs, common interests, similar lifestyles, or even similar demographic profiles**. The overall aim of segmentation is to identify **high yield segments** – that is, those segments that are likely to be the most profitable or that have growth potential – so that these can be selected for special attention (i.e. become 'target markets').

There are many different ways to segment a market. Business-to-business (B-to-B) sellers might segment the market into different types of businesses. While business to consumer (B-to-C) sellers might segment the market into **demographic** segments, **lifestyle** segments, **behavioral** segments or any other meaningful segment. The most common approach is a progression of **segmentation, targeting, and positioning** (known as STP). The STP approach highlights the three areas of decision-making

The process of segmenting the market is deceptively simple. Seven basic steps describe the entire process including segmentation, targeting and positioning. In practice, however, the task can be very laborious since it involves poring over loads of data, and requires a great deal of skill in analysis, interpretation and some judgement. Although a great deal of analysis needs to be undertaken, and many decisions need to be made, marketers tend to use the so-called S-T-P process, that is **S**egmentation→ **T**argeting → **P**ositioning, as a broad framework for simplifying the process and outlined here in Figure 1.1:

Figure 1.1: Segmentation Process

Segmentation	Targeting	Positioning
1. Identify market and segments 2. Identify, select and apply base or bases to be used in the segmentation 3. Develop segment profiles	4. Evaluate each segment's attractiveness 5. Select segment or segments to be targeted	6. Identify optimal positioning for each segment 7. Develop the marketing program for each segment

Market segmentation assumes that different market 'segments' require different marketing programs – that is, different offers, different prices, different promotion, different distribution or some combination of marketing variables. Market segmentation not only identifies the most profitable segments, but also to develop profiles of key segments in order to better understand their needs and purchase motivations. Insights from segmentation analysis subsequently support marketing strategy development and planning. Many marketers use the S-T-P approach to provide the framework for marketing planning objectives. That is, identify your market segments, select one or more segments for targeting, and position products or services in a way that resonates with the selected target market or markets.

Market Segmentation: Brief Historical Overview

Richard S. Bedlow, a specialist in the history of business at the Harvard Business School identifies four stages in the evolution of market segmentation:

1. **Fragmentation (pre 1880s):** Small regional suppliers who sold goods on a local or regional basis categorized the business economy.
2. **Unification or Mass Marketing (1880s–1920s):** As transportation systems improved, the economy underwent unification. Standardized and branded goods now occurs at a national level. Manufacturers tended to insist on strict standardization in order to achieve scale economies with a view to penetrating markets in the early stages of a product's life cycle - like the Model T Ford. In Henry Ford's words: "Any customer can have a car painted any color that he wants so long as it is black"
3. **Segmentation (1920s–1980s):** As market size increased, manufacturers were able to produce different models pitched at different quality points to meet the needs of various demographic and psychographic market segments. The era of market differentiation based on demographic, socio-economic and lifestyle factors.
4. **Hyper-segmentation (1980s+):** a shift towards the definition of ever more narrow market segments. Technological advancements, especially in the area of digital communications, allow marketers to communicate with individual consumers or very small groups sometimes known as one-to-one marketing.

Wendell R. Smith was the first to introduce the concept of market segmentation into the marketing literature in 1956 with the publication of his article, *"Product Differentiation and Market Segmentation as Alternative Marketing Strategies."* Smith's article makes it clear that he had observed "many examples of segmentation" emerging and to a certain extent saw this as a natural force in the market that would "not be denied." Smith was codifying implicit knowledge that available in advertising and brand management since the 1920s.

Contemporary market segmentation emerged in the twentieth century as marketers responded to two pressing issues. Demographic and purchasing data were available for groups but rarely for individuals and secondly, advertising and distribution channels were available for groups, but rarely for single consumers. Between 1902 and 1910, George B Waldron, working at *Mahin's Advertising Agency* in the United States used tax registers, city directories and census data to show advertisers the proportion of educated vs illiterate consumers and the earning capacity of different occupations etc. in a very early example of simple market segmentation. In 1924 Paul Cherington developed the 'ABCD' household typology; the first socio-demographic segmentation tool. With access to group level data only, brand marketers approached the task from a tactical viewpoint. Thus, segmentation was essentially a brand-driven process.

Until relatively recently, most segmentation approaches have retained this tactical perspective in that they address immediate short-term decisions; such as describing the current "market served" and are concerned with informing marketing mix decisions. However, with the advent of digital communications and mass data storage, it has been possible for marketers to conceive of segmenting at the level of the individual consumer. Extensive data is now available to support segmentation at very narrow groups

or even for the single customer; allowing marketers to devise a customized offer with an individual price that for dissemination via real-time communications.

A key consideration for marketers is whether to segment or not to segment. Depending on company philosophy, resources, product type or market characteristics, a business may develop an *undifferentiated approach*, or *differentiated approach*. In an undifferentiated approach (also known as mass marketing), the marketer ignores segmentation and develops a product that meets the needs of the largest number of buyers. A differentiated approach targets one or more market segments, and develops separate offers for each segment.

Even simple products like salt are highly differentiated in practice. In consumer marketing, it is difficult to find examples of undifferentiated approaches. Even goods such as salt and sugar, once treated as commodities, are now highly differentiated. Consumers can purchase a variety of salt products; cooking salt, table salt, sea-salt, rock salt, kosher salt, mineral salt, herbal or vegetable salts, iodized salt, salt substitutes and if that is not enough choice, at the brand level, gourmet cooks are likely to make a major distinction between a rare salt and other competing brands. The following table outlines the main strategic approaches to think about creating segments.

Table 1: Main Strategic Approaches to Segmentation

Number of segments	Segmentation strategy	Comments
Zero	Undifferentiated strategy	Mass marketing: no segmentation
One	Focus strategy	Niche marketing: focus efforts on a small, tightly defined target market
Two or more	Differentiated strategy	Multiple niches: focus efforts on 2 or more, tightly defined targets
Thousands	Hyper-segmentation	One-to-one marketing: customize the offer for each individual customer

A number of factors are likely to affect a company's segmentation strategy:

- **Company resources:** When resources are restricted, a concentrated strategy may be more effective.
- **Product variability:** For highly uniform products (such as sugar), an undifferentiated marketing may be more appropriate. For products that can be distinctive such as QSR or casual themes then either a differentiated or a concentrated approach is appropriate.
- **Product life cycle:** For new products, one version might be useful at the launch stage, but expanded to a more segmented approach over time. As more competitors enter the market, it may be necessary to differentiate.
- **Market characteristics:** When all buyers have similar tastes, or are unwilling to pay a premium for different quality, then undifferentiated marketing is an appropriate strategy.
- **Competitive activity:** When competitors apply differentiated or concentrated market segmentation, using undifferentiated marketing may prove to be fatal. A company should consider whether it ‘can ‘use a different market segmentation approach.

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4.2: Segmentation - Where to Begin

Segmentation begins with the analysis of the city itself from a broad perspective. From that point, the information gathering process should steadily move inward. The marketplace, trading area, and consumer profiles should follow. Once the consumer profiles are established, the competition comes under scrutiny and grouping - who else wants to attract the segments you might choose?

Thus, after researching the entire marketplace and customer base, it is now time to identify groupings of customers with similar attributes that influence their purchasing patterns within the total population. The goal of dividing the trading area into segments is to create a market strategy for your food service operation that (1) identifies targeted groups, (2) divided the industry into identifiable business segments, and (3) allows you to estimate the total local demand for the business segments chosen as viable consumers for your concept.

Identifying Market Segments - the Process

Begin with the identification of the market segments you organization will appeal. Decisions should embrace a rationale for reasoning through 'why' this will occur and these segments are appropriate. To address the appropriate segmentation questions the following sub-questions should considered prior to selection and rationale. The following what, where, when, and how questions will help guide your information gathering and keep the process on target.

What?

- What do our customers need, want, and desire?
- What primary products and services do our customers buy?
- What is the annual worth of our average customer?
- What products do we off, or intend to offer?
- What trends are occurring with could potentially have an impact consumer buying?
- What new products could we develop to capitalize on trends and potential consumer interests?
- What products could we use, or develop, to add more value from the perspective of the consumer?

Where?

- Where do we sell, or intend to sell, our products and services in demand?
- Where do customers prefer to make their purchases (dining room, take out delivery, etc.)?
- Where should we sell our products and services to attract our desired consumers?

When?

- When are our products and services in demand (how often)?
- When do our customers and potential customers buy (day part, week, or year)?

How?

- How far in advance will consumers purchase our products and services?
- How would consumers prefer to contact us (directly, online, etc.)?
- How can we bundle together good and services to increase the customer's desire to purchase?
- How can we customize our products and services to reach various niche markets available in the trading area?
- How else should we consider thing about these potential consumers?
- How do, or will, consumers perceive the price value of our offerings?
- How could we change our price/value positioning if it were necessary to do so?

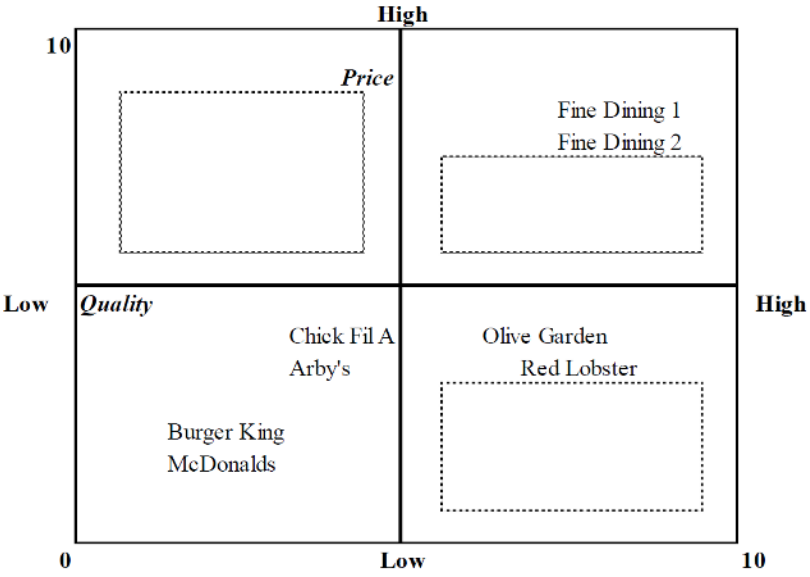
While this list of questions is by no means exhaustive, it provides a wonderful place to begin and at this point in the process, selection decisions and rationale (reasons for choosing them) formulation should be underway. The rationale is vital to the process because the reasons for selecting consumer segments and their associated behavior patterns will play an important part in the marketing scheme developed to attract them, and products and services offered to keep them. Now come the more appropriate grouping questions.

- Why do these consumers have similar buying patterns?
- What data supports this?

- Why is this demographic or psychographic attribute a good way to use to segment the population of the trading area (income, education, lifestyle, and so forth)?
- Why do our current customers purchase our products and services?
- Why do our potential customers purchase products and services from competitors?

As the data undergoes analysis and consideration, the need for and use of perceptual maps deserves consideration. These maps are probably the most appropriate method to convey the opportunities and threats an operation would face should they enter the market place.

See the following box plot. Visual representation makes things clear for everyone.



As part of the segment identification process, discuss the industry business segment from a competitive point of view. Divide the foodservice industry into competitive groups using themes such as similar attributes, pricing, type of service, and so forth. It is also important to describe the foodservice industry from another perspective - that of the consumer. Clearly state the information on which your arguments turn. In sum, you are reducing the market down to segments, competitors, and consumers based on gathered information, the nature of the competition, and how consumers perceive the environment.

Segmentation Strategy

What grouping strategy would be the most appropriate and effective as far as targeting groups in the trading area? How you group consumers ultimately determines how you would devise the organization's marketing program and the types of advertisement and promotion that would lend itself to attracting the right consumers to your operation. Who is you primary target audience - the consumers who are the best fit for your products and services. Who are your secondary, or indirect, target audience - those who might use your services less frequently, or be attracted to you over time?

Segment Demand

What is the total segment demand for the marketplace? Although this is a dollars and cents question, the purpose of arriving at the total demand for the marketplace is to determine whether, or not, the market can adequately support additional foodservice operations. This is the first step in calculating the adequacy of the segments you elect to target in the trading area. For example, if you chose to target individuals in the age range of 18 to 25 years, is there a sufficient number of these consumers to support your concept? If not you would have to expand your consumer base to include say 26 to 35 years of age ;or beyond if you are interested in locating in a smaller community. You might have to approach consumers up to the age of 65 to have a large enough base to insure enough potential customers on any given day. The importance of knowing whom you must attract affects, the physical facility, the menu you serve, the pricing you use, and the variety of marketing needed to reach and appeal to the larger range of consumer interests of the broader range of consumers you would need to be successful.

Once you have computed the total foodservice dollars spend in the marketplace, you then quantify the total amount of potential sales ($$$) for foodservice products in your chosen business segment in your trading area. This type of information is typically obtainable from the city Chamber of Commerce, city sales tax records, commercial real estate agencies, and demographic information related to city revenue. Other methods would include the following: (1) In some cases, foodservice organizations will assign a revenue estimate to the population count, say 50 cents to $1.00 or more to each resident in the trading area and projects a potential revenue figure. (2) A new operation could calculate the population percentage of the selected target segment age groups in relation to the total population of the marketplace and assume that percentage of the total foodservice revenue as a place to develop the potential revenue available to a restaurant operation. (3) An organization could also assume a percentage of the revenue that your competition would garner from the trading area as well and back this figure down to the reasonable amount you might obtain. (4) An established organization could project, based on their previous sales history, what a new operation in a different location might obtain based on a proven concept and how other trading areas and competitive elements have received and supported the concept.

The method(s) used to determine the ‘segment demand dollar calculation’ is at the discretion of the organization. It is important to develop a rationale explaining 'why' the method(s) used become the ‘choice’ to make the calculation. This has two purposes. **First**, it forces the organization to look critically at the viability of moving forward with their concept. **Second**, it provides documentation regarding the ‘choice’ to lenders who are scrutinizing the prudence of financing the venture. The more careful the process, the more credibility the results will appear when the presentation occurs. Thus, *although other methods were available, these methods form our selection based on the following reasons*.... It lets lenders know that your organization was aware of various methods to determine the needed information and a careful selection process ensued to use accurate and appropriate methods of selection to produce the best information possible.

Once all of the calculations are complete, the organization should be able to make a determination regarding what share of the targeted segment(s) your operation will attract based on the number of competitors in the general trading area and the total demand in the restaurant segment. Other questions of importance can receive assessment based on the number of seats provided to consumers by the competitions as well as the seating potential of your operation.

Method of delivery

A major consideration that may surface from examining the restaurant segment or the physical location would concern how customers will receive your products or services. Will seating in the dining room be the sole method of delivery used? Will other delivery methods be considerations for reaching customers? For example, a dining room can be significantly extendable by promoting drive-through business, carry out business, or a delivery service. The organization should select delivery methods that would significantly enhance their chances to receive an average or greater market share. Areas of the operation such as these are important issues to consider initially because they would affect the physical layout of the operation for proper implementation. The movement of people is an important consideration regarding a restaurant's layout. For instance, the ease for customers to place and pick up a carry out order. Although this sounds simple, proper location and connection to the restaurant's kitchen are important issues that require thoughtful consideration.

Identifying the market for segmentation

The market for a given product or service known as the market potential or the ‘total addressable market’ (TAM). The market analyst should begin by identifying the size of the potential market. For existing products and services, estimating the size and value of the market potential is relatively ‘straightforward’. However, estimating the market potential can be very challenging when a product or service is ‘totally’ new to the market and no historical data on which to base forecasts exists.

A basic approach is to first assess the size of the broad population, then estimate the percentage likely to use the product or service and finally to estimate the revenue potential. For example, when the ride-sharing company, Uber, first entered the market, the owners assumed that Uber would be a substitute for taxis and hire cars. Accordingly, they calculated Uber's TAM based on the size of the existing taxi and car service business, which they estimated at $100 billion. They then made a conservative estimate that the company could reach 10 percent share of market and used this to estimate the expected revenue. To estimate market size, a marketer might evaluate adoption and growth rates of comparable technologies.

Another approach is to use historical analogy. For example, the manufacturer of HDTV might assume that the number of consumers willing to adopt high definition TV will be similar to the adoption rate for Color TV. To support this type of analysis, data for

household penetration of TV, Radio, PCs and other communications technologies is readily available from government statistics departments. Finding useful analogies can be challenging because every market is unique. However, analogous product adoption and growth rates can provide the analyst with benchmark estimates used to cross validate other methods that might be useful to forecast sales or market size. A more robust technique for estimating the market potential is the Bass diffusion model, which is the equation that follows:

N(t) – N(t−1) = [p + qN(t−1)/m] x [m – N(t−1)]

Where:
N(t)= the number of adopters in the current time period, (t)
N(t−1)= the number of adopters in the previous time period, (t-1)
p = the coefficient of innovation
q = the coefficient of imitation (the social contagion influence)
m = an estimate of the number of eventual adopters

The major challenge with the Bass model is estimating the parameters for p and q. However, the Bass model has been so widely used in empirical studies that the values of p and q for more than 50 consumer and industrial categories have been determined and are widely published in tables. The average value for p is 0.037 and for q is 0.327.

Major bases used for segmenting a market

A major step in the segmentation process is the selection of a suitable base. In this step, marketers are looking for a means of achieving internal homogeneity (similarity within the segments), and external heterogeneity (differences between segments). In other words, they are searching for a process that minimize differences between members of a segment and maximize differences between each segment. In addition, the segmentation approach must yield segments that are meaningful for the specific marketing problem or situation. For example, a person's ‘hair color’ may be a relevant base for a shampoo manufacturer, but it would not be relevant for a seller of food services. Selecting the right base requires a good deal of thought and a basic understanding of the market under scrutiny.

In reality, marketers can segment the market using any base or variable as long as it is **identifiable, measurable, actionable,** and **stable**. For example, some fashion houses have segmented the market using women's dress size as a variable. However, **the most common bases for segmenting consumer markets include geographic, demographic, psychographic tendencies and behavior**. Marketers normally select a single base for the segmentation analysis, although, some bases can be combined into a single segmentation with care. For example, one can combine geographic and demographic data, but other bases are rarely suitable for combination. Given that psychographics includes demographic variables such as age, gender and income as well as attitudinal and behavioral variables, it makes little logical sense to combine psychographics with demographics or other bases. Any attempt to use combined bases needs careful consideration and a logical foundation.

Demographic segmentation

Segmentation according to demography centers on consumer- demographic variables such as age, income, family size, socio-economic status, etc. Demographic segmentation assumes that consumers with similar demographic profiles will exhibit similar purchasing patterns, motivations, interests and lifestyles and that these characteristics will translate into similar product/brand preferences. In practice, demographic segmentation can potentially employ any variable used by the nation's census collectors.

Typical demographic variables and their descriptors are as follows:

- **Age:** e.g. Under 5, 5–8 years, 9–12 years, 13–17 years, 18–24, 25–29, 30–39, 40–49, 50–59, 60+
- **Gender:** Male, Female
- **Occupation:** Professional, self-employed, semi-professional, clerical/ admin, sales, trades, mining, primary producer, student, home duties, unemployed, retired
- **Social class (or socio-economic status):** A, B, C, D, E, or I, II, III, IV or V (normally divided into quintiles)
- **Marital Status:** Single, married, divorced, widowed
- **Family Life-stage:** Young single; Young married with no children; Young family with children under 5 years; Older married with children; Older married with no children living at home, Older living alone
- **Family size/ dependents:** 0, 1–2, 3–4, 5+

- **Income:** Under $10,000; 10,000–20,000; 20,001–30,000; 30,001–40,000, 40,001–50,000 etc.
- **Educational attainment:** Primary school; Some secondary, Completed secondary, Some university, Degree; Post graduate or higher degree
- **Home ownership:** Renting, Own home with mortgage, Home owned outright
- **Ethnicity:** Asian, African, Aboriginal, Polynesian, Melanesian, Latin-American, African-American, American Indian etc.
- **Religion:** Catholic, Protestant, Muslim, Jewish, Buddhist, Hindu, Other

Segmentation base	Brief explanation of base (and example)	Typical segments
Demographic	Quantifiable population characteristics. (Age, gender, income, education, socio-economic status, family size or situation).	Young, Upwardly-mobile, Prosperous, Professionals (YUPPY); Double Income No Kids (DINKS); Greying, Leisured And Moneyed (GLAMS); Empty- nester, Full-nester
Geographic (geo-clusters)	Combination of geographic & demographic variables.	Rural farmers, Urban professionals,
Psychographics	Lifestyle, social or personality characteristics. (typically includes basic demographic descriptors)	Socially Aware; Traditionalists, Conservatives, Active 'club-going' young professionals
Behavioral	Purchasing, consumption or usage behavior. (Needs-based, benefit-sought, usage occasion, purchase frequency, customer loyalty, buyer readiness).	Tech-savvy ; Heavy users, Enthusiasts; Early adopters, Opinion Leaders, Luxury-seekers, Price-conscious, Quality-conscious, Time-poor

Geographic segmentation

This form of segmentation divides markets according to geographic criteria. In practice, markets can be segmented as broadly as continents and as narrowly as neighborhoods or postal codes. Typical geographic variables include:

- Country: USA, UK, China, Japan, South Korea, Malaysia, Singapore, Australia, New Zealand.
- Region: North, North-west, Mid-west, South, Central.
- Population density: central business district (CBD), urban, suburban, rural, regional.
- City or town size: under 1,000; 1,000–5,000; 5,000–10,000 ... 1,000,000–3,000,000 and over 3,000,000.
- Climatic zone: Mediterranean, Temperate, Sub-Tropical, Tropical, Polar.

The geo-cluster approach combines demographic data with geographic data to create richer, more detailed profiles. Geo-cluster approaches are a consumer classification system designed market segmentation and consumer profiling purposes. They classify residential regions or postcodes on the basis of census and lifestyle characteristics obtained from a wide range of sources. This allows the segmentation of a population into smaller groups defined by individual characteristics such as demographic, socio-economic or other shared socio-demographic characteristics.

Consider Geographic segmentation to be the first step in international marketing, where marketers must decide whether to adapt their existing products and marketing programs for the unique needs of distinct geographic markets. Tourism Marketing Boards often segment international visitors based on their country of origin. By way of example, “Tourism Australia” undertakes marketing in 16 core geographic markets; of which China, UK, US, New Zealand and Japan are priority segments because they have the greatest potential for growth and are extremely profitable segments with higher than average expenditure per visit. Tourism Australia carries out extensive research on each of these segments and develops rich profiles of high priority segments to understand their needs and how travel decisions are determined. Insights from this analysis drive travel product development, allocation of promotional budgets, advertising strategy and in broader urban planning decisions. For example, in light of the numbers of Japanese visitors, the city of Melbourne has erected Japanese signage in tourist precincts.

Behavioral segmentation

Behavioral segmentation divides consumers into groups according to their observed behaviors. Many marketers believe that behavioral variables are superior to demographic and geographic data for building market segments. Typical behavioral variables and their descriptors include:

- Purchase/Usage Occasion: regular occasion, special occasion, celebration, and gift giving
- Benefit-Sought: economy, quality, service level, convenience, access
- User Status: First-time user, Regular user, Non-user
- Usage Rate/ Purchase Frequency: Light user, heavy user, moderate user
- Loyalty Status: Loyal, switcher, non-loyal, lapsed
- Buyer Readiness: Unaware, aware, intention to buy
- Attitude to Product or Service: Enthusiast, Indifferent, Hostile; Price Conscious, Quality Conscious
- Adopter Status: Early adopter, late adopter, laggard

Note that these descriptors are merely commonly used examples. Marketers customize the variable and descriptors for both local conditions and for specific applications. For example, in the health industry, planners often segment broad markets according to 'health consciousness' and identify low, moderate and highly health conscious segments. This is an applied example of behavioral segmentation, using attitude to product or service as a key descriptor or the variable customized for the specific application.

Purchase/usage occasion

Purchase or usage occasion segmentation focuses on analyzing occasions when consumers might purchase or consume a product. This approach customer-level and occasion-level segmentation models and provides an understanding of the individual customers' needs, behavior and value under different occasions of usage and time. Unlike traditional segmentation models, this approach assigns more than one segment to each unique customer, depending on the current circumstances.

- Immediate Eat (34%): Driven by the need to snack, indulge or an energy boost.
- Home Stock (25%): Driven by the need to have something in the pantry to share with family in front of TV or for home snacking.
- Kids (17%): Driven by need for after school snacks, parties, treats.
- Gift-giving (15%): Products purchased as gifts, needs include a token of appreciation, a romantic gesture or a special occasion.
- Seasonal (3.4%): Driven by need to give a present or create a festive atmosphere. The products are relevant on feast days such as Christmas, Easter.

Benefit Sought

Benefit sought (referred to needs-based segmentation) divides markets into distinct needs, perceived value, benefits sought or advantage that accrues from the purchase of a product or service. Marketers using benefit-sought segmentation might develop products with different quality levels, performance, customer service, special features or any other meaningful benefit and pitch different products at each of the segments identified. Benefit segmentation is one of the more commonly used approaches to segmentation and is widely used in many consumer markets including motor vehicles, fashion and clothing, furniture, consumer electronics and holiday-makers.

Other types of Consumer Segmentation

In addition to **geographic, demographic, psychographic,** and **behavioral bases,** marketers occasionally turn to other means to segment a market, or, to develop segment profiles.

Generational segments

A generation is definable as "a cohort of people born within a similar span of time (15 years at the upper end) who share a comparable 'age' and 'life stage' and who were shaped by a particular span of time (events, trends and developments)." Generational segmentation refers to the process of dividing and analyzing a population into cohorts based on their birth date. Generational segmentation assumes the shape of people's values and attitudes by the key events that occurred during their lives and that these attitudes translate into product and brand preferences.

Demographers, studying population change, disagree about precise dates for each generation. Dating is normally achievable by identifying population peaks or troughs, which can occur at different times in each country. For example, in Australia the post-war population boom peaked in 1960, while the peak occurred somewhat later in the USA and Europe, with most estimates converging

on 1964. Accordingly, by definition Australian Boomers are those born between 1945 and 1960 - while American and European Boomers depict those born in 1945 to 1964. Thus, the generational segments and their dates discussed here are approximations only.

The primary generational segments identified by marketers are:

- Builders: born 1920 to 1945
- Baby Boomers: born about 1945–1965
- Generation X: born about 1966–1976
- Generation Y: also known as 'Millennials'; born about 1977–1994
- Generation Z: also known as Centennials; born 1995–2015

Unique characteristics of selected generations

Millennials	Generation X	Baby Boomers
Technology use (24%)	Technology use (12%)	Work ethic (17%)
Music/ popular culture (11%)	Work ethic (11%)	Respectful (14%)
Liberal/ tolerant (7%)	Conservative/ traditional (7%)	Values/ morals (8%)
Smarter (6%)	Smarter (6%)	Smarter (5%)
Clothes (5%)	Respectful (5%)	Not applicable

Cultural segmentation

Cultural segmentation is useful to classify markets according to cultural origin. Culture is a major dimension of consumer behavior and can be used to enhance customer insight and as a component of predictive models. Cultural segmentation enables the use of appropriately constructed communications for particular cultural communities. Cultural segmentation is applicable to existing customer data to measure market penetration in key cultural segments by product, brand, channel as well as traditional measures of recently, frequency and monetary value. These benchmarks form an important evidence-base to guide strategic direction and tactical campaign activity, allowing the restaurateur to monitor engagement trends over time.

One can map **Cultural segmentation** according to state, region, suburb and neighborhood. This provides a geographical market view of population proportions and may be of benefit in selecting appropriately located premises, determining territory boundaries and local marketing activities. Census data is a valuable source of cultural data but not meaningfully applicable to individuals. Name analysis is the most reliable and efficient means of describing the cultural origin of individuals. The accuracy of using name analysis as a surrogate for cultural background in Australia is 80–85%, after allowing for female name changes due to marriage, social or political reasons or colonial influence. The extent of name data coverage means a user will code a minimum of 99 percent of individuals with their most likely ancestral origin.

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4.3: Selecting target markets

In **‘market-targeting’** a group of consumers become the focus of the marketing program. Another major decision in developing the segmentation strategy is the selection of market segments that will become the focus of special attention (known as target markets). The marketer faces a number of important decisions:

- What criteria should we use to evaluate markets?
- How many markets should we enter (one, two or more)?
- Which market segments are the most valuable?

When a marketer enters more than one market, they often labeled segments as the **primary target market**, and **secondary target market**. The **primary market** is the target market selected as the ‘main’ center of marketing activities. The **secondary target market** is likely to be a segment that is not as large as the primary market, but has growth potential. Alternatively, the secondary target group might consist of a small number of purchasers that account for a relatively high proportion of sales volume perhaps due to purchase value or purchase frequency.

In terms of evaluating markets, three core considerations are essential:

- Segment size and growth
- Segment structural attractiveness
- Company objectives and resources.

Criteria for evaluating segment attractiveness

There are no formulas for evaluating the attractiveness of market segments and a good deal of judgement is necessary. Nevertheless, one can utilize a number of considerations to assist in evaluating market segments for overall attractiveness. The following lists a series of appropriate questions to ask.

Segment size and growth

- How large is the market?
- Is the market segment substantial enough to be profitable? (Segment size can be measured in number of customers, but superior measures are likely to include sales value or volume)
- Is the market segment growing or contracting?
- What are the indications of sustainable growth in the long term?
- Is the segment stable over time? (Segment must have sufficient time to reach desired performance level)

Segment structural attractiveness

- To what extent are competitors targeting this market segment?
- Do buyers have bargaining power in the market?
- Are substitute products available?
- Can we carve out a viable position to differentiate from any competitors?
- How responsive are members of the market segment to the marketing program?
- Is this market segment reachable and accessible? (i.e., with respect to distribution and promotion)

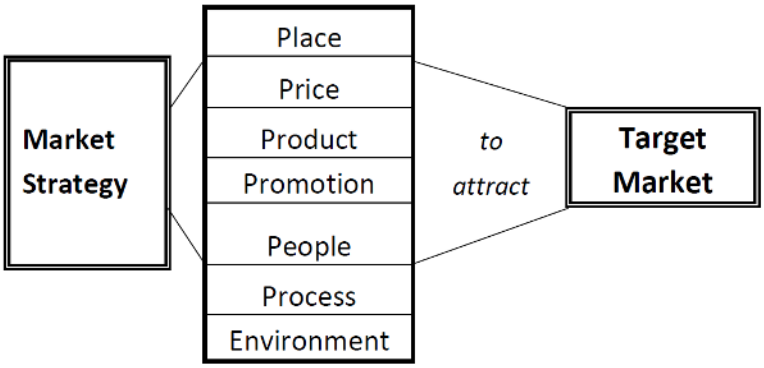
Company objectives and resources

- Does this market segment align with our company's operating philosophy?
- Do we have the resources necessary to enter this market segment?
- Do we have prior experience with this market segment or similar market segments?
- Do we have the skills and/or knowledge to enter this market segment successfully?

The restauranteur should design the marketing program with the needs of the target market in mind. When the segments have been determined and separate offers developed for each of the core segments, the marketer's next task is to design a marketing program (also known as the marketing mix) that will resonate with the target market or markets. Developing the marketing program requires a deep knowledge of key market segment's purchasing habits, their preferred retail outlet, their media habits and their price

sensitivity. The marketing program for each brand or product should be based on the understanding of the target market (or target markets) revealed in the market profile.

Developing the marketing program and positioning strategy involves:



Positioning is the final step in the S-T-P planning approach; **S**egmentation → **T**argeting → **P**ositioning; a core framework for developing marketing plans and setting objectives. Positioning refers to decisions about how to present the offer in a way that resonates with the target market. During the research and analysis, that forms the central part of segmentation and targeting, the marketer will have gained insights into what motivates consumers to purchase a product or brand. These insights will form part of the positioning strategy.

According to advertising guru, David Ogilvy, **"Positioning is the act of designing the company's offering and image to occupy a distinctive place in the minds of the target market. The goal is to locate the brand in the minds of consumers to maximize the potential benefit to the firm. A good brand positioning helps guide marketing strategy by clarifying the brand's essence, what goals it helps the consumer achieve, and how it does so in a unique way."**

Perceptual mapping is often appropriate to understand consumers' mental representations of brands within a given category. Traditionally two variables (often, but not necessarily, price and quality) are used to construct the map. A sample of people in the target market polled to explain where they would place various brands in terms of the selected variables. Average results across all respondents are plot on a graph. The final map indicates how the *average* member of the population views the brand that make up a category and how each of the brands relates to other brands within the same category. While perceptual maps with two dimensions are common, multi-dimensional maps are also used.

Why is it desirable to break a trading area down into groups, or segments? Numerous owners and managers of foodservice operations ask this question because, from their perspective, it would always be better to approach all of the potential customers in a market. Many operators feel that they would effectively weaken their competitive position and ultimately their profits. It is not difficult to think that if an operator were to segment the market and target their marketing efforts only on a few segments, then the result might be a reduction in sales volume. However, as history has shown more often than not, this type of approach proves invariably shortsighted because it fails to consider the reasons underlying a market segmentation approach - reaching customers through similar wants and needs. The basic premise of market segmentation is to allocate what are usually limited resources so that a return on investment can occur.

Segmenting a marketplace, when done properly, is a very effective way to improve sales and profits because it allows the operation to target specific individuals in the trading area who are more likely to patronize the restaurant. Think of it this way, if you were going to market a mixed neighborhood, singles, young adults, and senior citizens, what would your message say that appeal to everyone in that area? The task becomes difficult. Each group of individuals has different wants and needs. Your operation may well have the ability to offer each group something of value, but how you communicate that 'value' to each group of potential customers is what segmentation considers among other things. Regarding promotion in a segmented trading area, a restauranteur can promote different product-services mixes to meet the needs of the different segments.

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4.4: Segmentation in More Depth

This form of marketing permits the operation to use scarce marketing resources effectively to reach those segments with the highest probability of purchasing the restaurant's products and services. Thus, it becomes important to understand ‘which’ customers are the heavy users of your products and services. At the same time, market segments that hold little potential for using an operation's products receive little or no attention so that marketing resources available are not wasted chasing after market segments with little revenue potential for the operation. For example, restaurants that cater to business traveler would usually be busy on Monday through Thursday nights, and if this is the restaurant's main revenue source, then the weekend is slower so the marketing approach would promote incentives for patrons to visit the operation on Friday, Saturday, or Sunday. The approach could target lunch or dinner or any other day part, what is important is that sales increase on those days and the way to achieve that goal is to move customers to action - the message is not come to our restaurant, more specific, come on Friday, Saturday, or Sunday and you will receive something of value.

Segmentation Criteria

There are many methods for dividing a marketplace in to segments, but the most important consideration is to know when to segment and how far the segmentation efforts should go in targeting specific groups. There is a point where a market segmentation process can go too far, with the resulting subset being too small to be profitable. It could also not be efficient to develop several different marketing programs for the various trading area segments when in fact one or more could reach the entire market - considering narrow or broad segments.

Table 4.1 begins a deeper discussion on the important aspects of using segmentation as an appropriate strategy to assess the advantages and disadvantages a particular marketplace may present to the operation.

Table: 4.1 An ideal market segment meets all of the following criteria:

- Segments are possible to measure.
- Segments are large enough to earn profit.
- The segment is stable enough that it does not vanish after some time.
- It is possible to reach potential customers within the segment via the organization's promotion and distribution channel.
- The segment is internally homogeneous (potential customers in the same segment prefer the same product qualities).
- The segment is externally heterogeneous, (potential customers from different segments have different quality preferences).
- The segment responds consistently to a given market stimulus.
- The segment is reachable by market efforts in a cost-effective manner.
- An acceptable marketing mix is possible
- It identifies the target customer(s) and possibly a secondary market(s). (surrogate(s))

When any segmentation efforts are undertaken, Reid and Bojanic (2006), suggest four criteria that to evaluate the effectiveness of an operation's segmentation strategy. The criteria include:

1. Substantiality
2. Measurability
3. Accessibility
4. Actionability

Substantiality

Substantiality is concerned with whether the market segment is large enough. In market segmentation, the restaurant operation must adjustment the marketing mix (product, place, price, promotion, and so forth) to meet the needs of the individual segments and to achieve the marketing objectives of the operation. It is important that the size of each of these segments is large enough to warrant this form of special attention. A simple example would be to compare healthy eating to past trends. Twenty years ago, very few restaurants had sections of their menus dedicated to healthier foods because there were not enough customers justify the effort. When one considers current eating trends and the emphasis placed on healthy food, it is not surprising that even fast-food

restaurants have added healthy menu items. Taking a step further, today many restaurants have items targeting segments of individuals following a particular popular diet currently trending.

Measurability

Each market segment must be able to pass the measurability test that assesses two perspectives: the overall size of the target segment and the projected total demand or purchasing power of the target market. A restaurant should initially establish and continuously maintain cutoff points relative to the size and projected demand of any target segments. If the number of consumers or the projected total demand within a given segment falls below these cutoff points, target market segments can more simply be combined.

Accessibility

The accessibility a market segment is another key criterion for establishing its feasibility. It must be possible to reach the target market segments through a variety of marketing communication efforts. Communicating with customers can vary from one marketplace to another, as such, a wide variety of approaches are appropriate including but not limited to advertising, promotion, direct marketing, telemarketing and personal selling. Without accessibility to your intended customers, there is little reason for segmenting a particular target market. For example, a common marketing problem for operations in suburban areas adjacent to large metropolitan cities is effective radio advertising. An operator many intend to reach a suburban market segment within a three mile area of the restaurant but to use radio marketing, commercial time on a radio station with large metropolitan coverage must be purchased - in essence, paying to reach people who are of little to no interest to your business. At the end of the day, the radio marketing may reach your intended audience, but the cost factor included the broad coverage of the surrounding metropolitan area with may not be cost effective to the operation. One of the major purposes of market segmentation is to isolate viable segments of potential business and to direct marketing efforts related to specific aspects of the product and service mix aimed at those segments. Without effective accessibility, this may not be possible to accomplish, and thus creating that segment can ultimately be of little value to the operation.

Actionability

The purpose of an operation's marketing effort is to cause consumers to take action. Companies must be able to create marketing schemes that are effective in attracting purchasers from the market segment. Stated differently, customers within a particular market segment should share similar characteristics, while those in different segments should vary in terms of their characteristics. For example, if a restaurant offers an 'early' dinner special it should appeal to certain target segments and not to others. Families and senior citizens might be willing to eat early to save money, and avoid crowds and traffic whereas consumers in other segments are not as price sensitive and are not willing to compromise on convenience for a discount. If all consumers reacted the same to a business's marketing strategy, then there would not be a need to segment the market.

Segmentation Variables

Market segmentation is typically centers on five basic types of variables for use when segmenting consumer markets: *geographic*, *demographic*, *psychographic*, *behavioral*, and another variable that does not always receive the attention it deserves, the benefits variable.

Geographic

The geographic variable, as the name implies, relates to the consumers' geographic area of residence. Marketers can segment according to geographic criteria—nations, states, regions, countries, languages, cities, neighborhoods, or postal codes. The geo-cluster approach combines demographic data with geographic data to create a more accurate and or specific profile (Kotler and Keller, 2006). With respect to region, in rainy regions merchants tend to avoid outdoor seating. In hot regions, dress codes can be more relaxed with an emphasis on beverage sales. A small foodservice operation may target only customers from the local neighborhood, while a larger operation can target its marketing towards several neighborhoods in a larger city or area, while ignoring customers in other outer communities. Geographic segmentation is important and considered the first step to a national marketing effort, followed by demographic and psychographic segmentation. The use of national borders is the institutional use of geographic segmentation, although geographic segments classifications are also identifable by geological regions.

Markets can also occur by dividing the country into regions such as Northeast, Mid-Atlantic, North-Central, Southwest, Northwest, and so forth. Further, segmentation can also occur by examining the population of a given area. Several different terms are useful to describe cities and metropolitan areas, but the following designations are the most popular in marketing.

The term *metropolitan statistical area* (MSA) refers to the smallest urban area with an urban center population 50,000 and a total metropolitan population of more than 100,000 inhabitants. Metropolitan statistical areas are normally urban areas that are self-contained and surrounded by rural areas. The next category of urban area is the *primary metropolitan statistical area* (PMSA). A PMSA is an urbanized county or multicounty area with a population of more than one million individuals. Finally, the very largest cities such as New York, Chicago, and Los Angeles are known as *consolidated metropolitan statistical areas* (CMSAs). A CMSA must include at least two PMSAs.

Even at the level of the region or city as a geographic variable, it is vital to know just where your business comes from. Segmenting a restaurant market based on the origin of the guests by using their zip codes is an effective way to identify those areas that merit the heaviest concentration of advertising and promotion.

Demographic

Markets often segment based on the demographics of a trading area such as age, gender, income and spending patterns, family size, state in the family life cycle, educational level attained, and occupational data. When utilizing these variables in defining consumers within the hospitality and tourism industry, certain trends begin to surface. For instance, as a family size increases, the number of times per week that a family tends to dine outside the home tends to decrease. When families do dine out, their choice of restaurant changes as the family makeup changes. This is an important consideration because the size of the average family has decreased over the years. In the United States, there is a trend toward smaller families and people living alone to later ages than before. This is important knowledge toward the segmentation efforts of operations in our industry.

Often demographic data must also combine in the process to construct an accurate picture of the trading areas specifics. Consider a newly constructed neighborhood. The homes are new, the families young, and there are new or relatively new automobiles in the driveways. What exactly are you observing? Is this a newly constructed affluent neighborhood with adequate disposable income or simply young family attempting to establish themselves with a large amount of debt to overcome and little disposable income? The visual observation will not truly indication the viability of these consumers. Thus combining information will typically produce a more accurate description of these consumers in terms of their capability to patronize your operation - as well as what type of operation would be most suitable.

Family life cycle

The family life cycle is a good example of how variables can combine to create categories that can be useful for segmentation purposes. The family life cycle uses age, marital status, and the number of children to create categories sharing common discretionary income levels and purchasing behaviors.

The traditional family life cycle proposes that as individuals become adults and enter the workforce, they tend to be single and have lower incomes, resulting in lower levels of discretionary income - income available after covering current expenses for necessity items such as food and housing. However, these young singles do not have many obligations or responsibilities and so are able to spend money on items that are not necessities. Individuals begin to increase their incomes as they age, and young married couples without children will have increasing amounts of discretionary income. However, once married couples have children, their discretionary incomes begin to decrease, until the children are older and move out. At this point, the couples assume the description of 'empty nesters' and discretionary income begins to increase again. Finally, as individuals reach their golden years, they retire and see their incomes start to decrease.

The traditional family life cycle has changed over time and now includes several extensions to the original model. First, many people are waiting longer to get married thus extending the single stage. In addition, more people are choosing not to marry, and some single adults adopt children. Second, the increased in the divorce rate has resulted in more single parents and second marriages that involve older parents and younger children. Third, there are more same-sex couples, and organizations are beginning to recognize this form of partnership for benefits and adoptions. Finally, people are living longer, resulting in a higher percentage of solitary survivors, many of whom form relationships later in life. Figure 3.1 indicates the more modern family life cycle.

The senior demographic for example, is growing faster than any other market in America. By the year 2050, it is expected that one in three Americans will be 55 years of age or older. The senor market has been expanding and is becoming more attractive because older Americans have a good deal of free time, there are healthier and live longer than past generations, and they have more discretionary income than ever before. For example, if a firm chooses to target the senior market, it should determine the attributes that are important to this market segment in purchasing its types of products and services. Then products and services are designable and marketable 'specifically' to seniors. For instance, restaurants should provide menus with larger print, meals that are healthy and have smaller portions, and adequate lighting so seniors can read the menus. They also like to travel in groups for safety concerns thus the four-top table or two-tops able to join would help with dining room arrangements. One should approach each segment from this perspective to accommodate the members of different segments.

Psychographic

Psychographic variables are also commonly both useful and applicable in market segmentation strategies. As discussed in a previous chapter, psychographics refers to segmentation based on lifestyle, attitudes, and personal traits. The development of psychographic segmentation is an extension of lifestyle profiles normally derived from survey responses to attitudes, interests, and opinions (AIO) statements from consumers. Psychographic has characteristics that differ from the numerical data associated with demographic data.

In general, one should consider psychographics to be the practical application of the behavioral and social sciences to marketing research. More specifically, psychographics makes use of research procedures that are indicative when demographic, socioeconomic, and user-nonuser analyses are not sufficient to explain and predict customer behavior. Thus, psychographics seeks to describe the human characteristics of consumers that may have a bearing on their response to products, packaging, advertising, promotion, and public relations efforts. Such efforts may range from self-concept and lifestyle to attitudes, interests, and opinions, as well as perceptions of product attributes.

Figure: 3.1 Modern Family Life Cycle

Psychographics considers how people spend their leisure, and which external influences they are most responsive to and positively respond. Psychographic is highly important to segmentation, because it identifies the personal activities and targeted lifestyle the target subject endures, or the image they are attempting to project. Mass Media has a predominant influence and effect on psychographic segmentation. Lifestyle products may pertain to high involvement products and purchase decisions, to specialty or luxury products and purchase decisions. Lifestyle segmentation reflects on how the target subject identifies themselves, or how they desire to identify themselves in society. By identifying and understanding consumer lifestyle, operations can develop promotional mixes and product lines, which tailor to their needs (Reid and Bojanic, 2009).

While psychographics is used primarily to segment markets, it can is also useful for other purposes as well. It is quite useful when selecting the most effective advertising vehicles, in that the vehicle(s) selected can match with the actual interests, attitudes,

opinions, and personalities of the target market segment. They are also helpful when designing advertising and promotion messages. Illustrations, pictures, and the actual copy is easily designable with the needs of a specific segment in mind. By accurately pinpointing the target market in this manner, the advertising and promotional messages and images are more likely to be effective, resulting in increased sales and profits.

Behavioral Variables

Another type of variable often used in conjunction with others to segment markets is the behavioral variable. Behavioral segmentation focuses on the behaviors that consumer's exhibit in the marketplace. For instance, are consumers loyal or are they easily persuaded by competitors' marketing messages and promotional efforts? How frequently do they dine out? Would you consider them light, medium, or heavy users of various types of hospitality products? What restaurant segment do they prefer - QSR, casual, or fin dining? When they travel for pleasure, what types of lodging facilities would they prefer?

One of the best uses of the behavioral variable is to identify those individuals who are heavy users, meaning that they dine out frequently than the average person, or account for a large percentage of hospitality use. If these individuals are identifiable, then one can consider a marketing plan formulation to increase loyalty and frequency of use. The key aspect of such programs is that 'rewards' are commensurate with 'use.' The real strength of the behavioral variable is that it represents an excellent segment tool because the data collected concerns the manner in which consumers actually behave in a marketplace - quite valuable knowledge when it comes to the construction of an operation's product and service mix.

Benefits to the Consumer

Market segmentation can center on the benefits that consumers are seeking when they purchase foodservice products and services. Once an operation has determined which benefits consumers prefer, it can utilize this information to design their products and services and to create promotional materials that focus on these benefits. Market research can be useful to identify not only the benefits customers prefer, but also which of those benefits are of the greatest importance to various types of consumers. This marketing information allows the foodservice operation to segment the market based on benefits sought, as well as by demographic, psychographic, and behavioral variables. Therefore, for example, which is more important to your customers. Is it the table with the view, or the price of major concern? Said differently, do they expect to a greeting by name, or does 'value' trump personal attention? With this type of scenario, the question is essentially: Do we market the customer's ego, or do we appeal to their pocket? As illustrated in Figure 3.2, the process should begin with the identification of the segmentation bases, the development of profiles for each segment, the market demand of each segment should receive evaluation, and then the best market segments complete the selection.

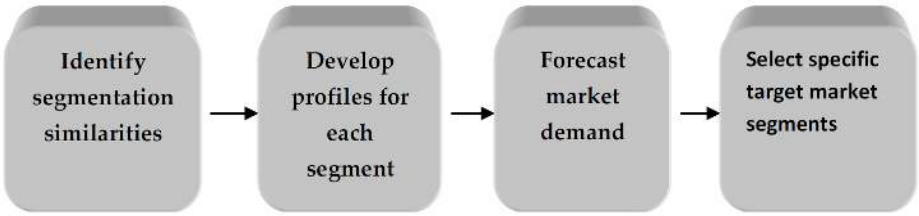
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4.5: Deciding on Market Segments

Deciding on Market Segments

When deciding on what viable segments exist in a trading area, restaurant operators should use a systematic approach, careful thinking, and analysis. The initial step for the operation is to identify one or more characteristics that can accurately describe the potential target market segment. Any of the segmentation criteria previously discussed will be useful to accomplish this task. Viable segments usually present several or more viable characteristics. For example, a new restaurant might want to target the following individuals: 21 to 60 years of age, living within 10 miles of the city, and having an annual income greater than $50,000 per year.

Figure: 3.2 Market Segments Decision Process



Identify segmentation similarities

The purpose of identifying segmentation similarities is to develop a relatively homogenous market segment made up of individual consumers who will respond in a similar manner to the marketing strategies and marketing communication efforts of the restaurant. It is also important that the members of the selected target segments place a high value on the combined attributes that the restaurant has used in its product and services mix. For example, the casual restaurant segment has experienced rapid growth over the recent years by offering good basic amenities at a relatively low price, resulting in a high level of perceived value to consumers. However, it would not make sense for these types of restaurants to target upper-level fine ding patrons. These individuals, for business or personal reasons, normally elect to eat and conduct business in upscale full-service restaurants.

Profile each Market Segment

The initial step in the segmentation process is to identify the actual target market you intend to serve. Once the target market surfaces, it is important to compile as much
information about the target market consumers as possible. The overall goal is to match the stated ‘wants’ and ‘needs’ of the targeted segment with the product-service mix offerings and marketing messages that the operation uses or will construct to use. The importance of matching consumers' wants and needs with the marketing offerings and advertising is a prime consideration. It is also important to identify the similarities and differences among and between various target markets. People within the same market segment usually share similar characteristics and react in a similar fashion to changes in marketing programs. When developing a profile of the target market, it is necessary to use the various segmentation variables described earlier.

Determining Market Demand

Forecasting the sales potential of a given market segment or for an entire market for any given product-service mix is an extremely difficult task. Although computer models and statistical approaches have facilitated the process somewhat, at the end of the day it is still extremely difficult to account for all of the variables that can influence consumer demand. Even the best forecasts contain margins of error in either direction. In any event, the restaurant operation has to make some determination of the level of demand a trading area has in order to make short or long-term contingencies as well as day-to-day operational decisions. Without reasonably accurate forecasts, restaurant management must cannot operate efficiently. Decisions become hit or miss. The competitive demands of the restaurant industry in general will not allow such a casual approach for long.

1. **Market demand** can best be definable as the potential consumers having both purchasing power and motivation to use the restaurant's products and services. Many different variables can affect the demand within any given segment. Variables such as consumer motivation are often difficult to quantify. Market demand for a product or service is the total volume that one comes to realize from a clearly specified customer group in a defined geographic area in a defined period. One can calculate market demand only when clear definitions are available for each of these variables. Determining total market demand is an important

marketing function because so many other assumptions come into play because of its forecast. It is important for restaurant management training to include the examination of forecasts for market demand and an understanding of their uses and limitations. **Primary demand** for a restaurant would normally receive the classification of the demand for the entire line of product offerings. **Secondary demand** would be the demand for a particular brand the operation offers, beverages, or other service attributes.

2. **Product demand** for the product-service mix calculates based on the total market demand multiplied by the market share, or the percentage of the market that the operation's product and service mix will capture. **Market share** calculates by dividing the operation's sales by the total figure for industry sales – in our case, restaurant sales. Determining the projected market share is an imprecise science. It should, however, be based on the operation's thorough and objective assessment of the company's capabilities, the competitiveness of those also targeting the same consumers, and marketing strategies used by all foodservice operations in the trading area.

$$\textbf{Market Share} = \frac{\text{Operation Sales}}{\text{Total Industry Sales}} \div \frac{\text{Total Market Demand}}{\text{Market Share Percentage}} = \text{Product Demand}$$

Once decisions become clear about the specific marketing strategies and tactics that will be useable, then resource needs can be determined to market the product-service mix to specific target market segments.

Broad Segmentation Strategies

Once specific target markets identification is complete, the marketing manager must begin to develop broad marketing strategies as depicted in Figure 3.3. There are three
segmentation strategies applicable a mass-market strategy, a differentiated strategy, and a concentrated strategy.

Figure: 3.3 Strategies for Reaching Target Markets

Mass-Marketing Strategy	A market coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer. It is the type of marketing (or attempting to sell through persuasion) of a product to a wide audience. The idea is to broadcast a message that will reach the largest number of people possible. Traditionally mass marketing has focused on radio, television and newspapers as the medium used to reach this broad audience.
Differentiated Marketing Strategy	One where the company decides to provide separate offerings to each different market segment that it targets. It also refers to multi-segment marketing as it clearly tries to appeal to multiple segments in the market. The company provides unique benefits to different individual segments. It increases the total sales but at the expense of increase in the cost of investing in the business.
Concentrated Marketing Strategy	A strategy targeting very defined and specific segments of the consumer population. It is particularly effective for small companies with limited resources, as it does not believe in the use of mass production, mass distribution and mass advertising. There is no increase in the total profits of the sales as it targets just one segment of the market.
Direct Marketing	Direct marketing involves buying consumer databases based on the defined segmentation profiles. These databases usually comes with consumer contacts (e-mail, mobile phone, home phone, and so forth).

Select the Best Market Segments

Once the previous steps reach completion, those responsible for developing the marketing plan must decide on the specific target market segments for the operation. While the use of data and all relevant information the operation has garnered over time is important, ultimately the judgment, insight, and experience the operation's marketing individuals bring to the decision process are also quite valuable. The overall goal is to limit the uncertainty surrounding market segmentation decisions. All decisions should form based on a careful analysis of the data and how the forecasts of projected demand and market share were determined.

At this point one must examine the projected return on investment (ROI) that the target market is expected to provide. The ROI calculation: Divide the return from the marketing effort, or the net profit by the amount of the marketing investment. Firms will normally have target ROI's for their invested dollars, but the higher the ROI, the better the investment - and the investment decisions.

Mass-market Strategy

A mass-marketing strategy requires the operation to develop one product-service mix that is relates to all potential consumers in the target markets. This approach considers the market to be one homogeneous market segment with similar wants and needs by its constituents. There is no reason to develop more than one marketing program, since consumers are alike and react in a similar fashion to the components of the marketing program.

When McDonald's first opened, the firm offered a very limited menu that was consistent across the entire organization. It featured only a couple of hamburger choices, milkshakes, soft drinks, and fries. No other choices were available, and as many restaurant organizations learned, the smaller the menu the less waste the operation experienced, and subsequently, with less money committed to inventory and the negative aspects of waste, the higher the resulting profit. Numerous companies and industries utilize this type of market strategy in the early stages of their life cycles.

However, in reality, few products or services appeal to all segments of the market. Since its inception, McDonald's has changed this strategy in response to trends in the demographic and social environments. From their original meager offerings, McDonald's has expanded into chicken sandwiches, salads, smoothies, coffee drinks, and other menu items that appeal to a more health-conscious market segment. The main problem associated with the expansion of products and services lies in the operations, and the customers', ability to identify what it is the operation does well. Consider a restaurant chain that only sells chicken strips. Where is there focus? Can you reduce or dilute the effectiveness of their efforts? The largest threat when using this strategy is that competitors will tailor their product-service mix and take away market share because they are better able to meet the needs of smaller target market segments of consumers. Beware trying to be too many things to too many consumers; ultimately, you become not wonderful at anything - to anyone.

Differentiated Strategy

When a restaurant operation decides to follow a differentiated strategy, it is adopting a strategy that calls for the operation to appeal to more than one market segment with a separate marketing program for each segment. The overall objective of this approach is to increase sales and market share by capturing sales from several smaller market segments. Each of the marketing programs, including the product-service mix, conforms to the specific needs of a market segment.

Many large foodservice organizations have followed the approach within the hospitality and tourism industry instituted by Choice Hotels International. The hotel chain has developed numerous product-service mixes or brands, each targeting a different market. Among the brands offered by Choice Hotels are *Clarion Hotels and Suites, Quality Inns and Suites, Comfort Inns and Suites, Sleep Inns, Economy Lodge, and Travelodge*. Each of the Choice brands offers a different array of amenities at various price levels in an attempt to have at least one brand that will appeal to any consumer in the economy or mid-priced market segments. A differentiated strategy could also be applicable at the unit or property level.

From the foodservice perspective, consider the large corporations that own multiple restaurant brands and have units specializing in casual to quick service operating offering everything from steak, chicken, and seafood to a variety of burgers and upscale sandwich items - all competing in the same marketplace and trading area. At the unit level, consider a small French Bistro that specializes in upscale crepe items in the $9.00 to $12.00 range but offer special entree items in the $22.00 to $26.00 price range. They offer interesting appetizers including an original onion soup, and flaming desserts such as Crepe Suzettes reasonable priced in the $5.00 range. They open early for breakfast with an array of filled croissants and coffees, and stay open late to get the dessert and glass of wine crowd boasting one of the best 'wine by the glass' options in the area. They are interested in approaching everyone in the trading area - but they appeal to consumer differences in specific and concise ways. These are other example of differentiating a trading area and to a smaller scale, day parts.

Concentrated Strategy

A **concentrated market segmentation strategy** calls on the operation to develop modifications of one or more product-service mixes marketed to one or relatively few market segments with limited changes in the marketing program. This strategy is most useful to smaller firms that do not have substantial resources to compete in broad appeal forms of marketing to large segments. A concentrated marketing strategy for a small restaurant might include flyers and coupons in their neighborhood of the unit. The operation could target breakfast patrons with morning specials, or they could approach the late night crowd with drink or food

discounts. A concentrated strategy does not move away from the primary marketing effort, but rather concentrates activity in specific areas to aid the overall marketing program. For example, a special to boost Tuesday night sales.

A principal concept in target marketing is that those who become the ‘targets’ show a strong affinity or brand loyalty to that particular brand. Target Marketing allows the marketer or sales team to customize their message to the targeted group of consumers in a focused manner. Research has shown that racial similarity, role congruence, labeling, shared knowledge and ethnic salience all promote positive effects on the target market. Research has generally shown that target marketing strategies are constructed from consumer inferences of similarities between some aspects of the advertisement (such as the source pictured, language used, lifestyle represented) and characteristics of the consumer (the reality of having, or desire of having the represented style). Consumer persuasion occurs by the characteristics in the advertisement and those of the consumer themselves.

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4.6: Classroom Preparation Assignments

? Segmentation Exercise 4.6.1

1. Introductory paragraph
2. Segmentation strategy
3. Broad or narrow segmentation
4. Age groups including psychographic 'face'.
5. The total segment demand in the area
6. Your share of the segment demand – market share & business mix variance.
7. Provide examples where applicable

Example

Marketing Strategies Example
RESTAURANT OVERVIEW

THE AIM OF MY RESTAURANT IS TO CREATE A NEIGHBORHOOD INSTITUTION FOR ALL THE LOCALS OF THE NASHVILLE DISTRICT THE GULCH TO BE A GO-TO SPOT SERVING INEXPENSIVE MEALS WITH FRESH, LOCAL INGREDIENTS AND A VARIED MENU THAT KEEPS THE LOCALS COMING BACK TO SEE WHAT'S NEW.

However, no matter the envisioned menu of the restaurant concept, the success of the restaurant will depend on the marketing techniques used to gather this customer base of locals. I need to examine marketing techniques that will affect my target markets.

TARGET MARKETS

My target customers will primarily be locals of two generations: first, the young working class who are educated, currently in or just graduated from college, and have a lower income. Second, the older working class who may be old enough to receive Social Security benefits but have not yet retired yet. Additionally, this area receives a good bit of tourism from the hotels nearby and from the tour busses that pass through the neighborhood on their ways Downtown or to Music Row.

By analyzing these groups individually for marketing strategies that would best fit them, we will build a local name for our restaurant as the go-to spot in the neighborhood.

Younger Working Class

As explained in concept 1, a large percentage of locals in The Gulch live in the numerous apartment and condominium buildings in the district. This means, potentially, some of them will be living right above my restaurant. Most of these locals are of the young working class: those without families who are in their twenties and maybe early thirties, most have college degrees but who have not spent enough time in their respective industries to reach higher income status yet. This is one reason why it is crucial for our menu to be inexpensive. Our restaurant must be one where the locals keep coming back, not one where it is a special treat to go.

The younger working class I speak of is highly connected to the internet, so a social media following may be the best way to connect to them in the end. However, we must build up the social media following first, so perhaps we can offer something free, like a drink or a dessert, to anyone who shows us they have 'liked' our Facebook page or followed us on Twitter. However, in addition to this, we must ensure that our social media posts are quality, which our market will actually want to see our posts in their feed and not consider it "just another advertisement." Besides our daily specials, maybe we can make posts about fun facts about our ingredients, or where they come from, or posts about events going on in the area.

Older Working Class

The older generation, however, is not as connected to the internet as their younger counterparts. I will need to rely on a different technique to gather this customer base. Perhaps once a month or so, we can send out flyers to all the locals with coupons offering tastings of perhaps our desserts or maybe $2 off an entrée or something similar. We can also post these

flyers on street poles near the bus stops in the area. Perhaps during certain hours of the day, like in the early afternoon, we can also offer one free cup of regular coffee with every meal, if it is financially sound to do so—sort of like a happy hour for the older generation who might want to eat earlier in the day. Finally, I would like to have a chalkboard or a whiteboard clearly visible on our storefront so that we can advertise one of our specials. The older generation in this area does not tend to drive, so perhaps we should let our store advertise itself when they walk by.

Out-of-Towners

Though our primary market is the locals, I do not want to pass up the possibility of getting business from non-locals and tourists as well. The Gulch is home to a couple of hotels, so I would like to talk with the owners of those businesses to include flyers or coupons for my restaurant in their Nashville guides or at their front desk. The Nashville Scene is also the go-to magazine that locals and tourists alike read to see what is going on in the city. As we're gearing up to open, and periodically after that, I'd like to place ads in that magazine to garner some business from all over Nashville, not just in The Gulch.

? Discussion Questions 4.6.2

1. What is market segmentation?
2. What are the steps in the segmentation process?
3. What is hyper-segmentation and what marketing advantages does it provide?
4. What is a differentiated strategy?
5. Five main factors affect a company's segmentation strategy discuss the importance of each.
6. The 'family life stage', a demographic variable, would affect marketing decisions how?
7. What are the typical behavioral variables?
8. What are the major criteria to determine an 'ideal market segment'?
9. Describe the market segments decision process.

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4.7: Chapter Glossary and Notes

Glossary

Trading area elements. Elements of the trading area include: geographic area, the major descriptors of the target market such as demographics, psychographics, and behavioral characteristics, and the industry structure comprising existing competitors (primary and secondary), potential competitors and the market conditions that aid or hinder their entry, product substitutes in general that could hamper sales, and suppliers' products and services needed for operation.

Market segmentation. The process of dividing a broad consumer or business market, normally consisting of existing and potential customers, into sub-groups of consumers' (known as segments) based on some type of shared characteristics. Market segmentation assumes that different market 'segments' require different marketing programs – that is, different offers, different prices, different promotion, different distribution or some combination of marketing variables.

Shared characteristics. These characteristics comprise common needs, common interests, similar lifestyles, or even similar demographic profiles. The overall aim of segmentation is to identify high yield segments – that is, those segments that are likely to be the most profitable or that have growth potential.

Segmentation strategy factors. These factors include company resources, product variability, the products' life cycle, market characteristics, and competitive activity.

Total marketplace segment demand. Once you have computed the total foodservice dollars spend in the marketplace, you then quantify the total amount of potential sales ($$$) for foodservice products in your chosen business segment in your trading area. This type of information is typically obtainable from the city Chamber of Commerce, city sales tax records, commercial real estate agencies, and demographic information related to city revenue.

Method of delivery. Concern how customers will receive your products or services and would include dining space, carryout service, delivery service, or Internet activity and so forth.

Major bases used for segmenting a market. In reality, marketers can segment the market using any base or variable as long as it is identifiable, measurable, actionable, and stable. Marketers are looking for a means of achieving internal homogeneity (similarity within the segments), and external heterogeneity (differences between segments).

Demographic segmentation. Segmentation according to demography centers on consumer- demographic variables such as age, income, family size, socio-economic status, etc. Demographic segmentation assumes that consumers with similar demographic profiles will exhibit similar purchasing patterns, motivations, interests and lifestyles and that these characteristics will translate into similar product/brand preferences. In practice, demographic segmentation can potentially employ any variable used by the nation's census collectors.

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Geographic segmentation. Physical location or region (country, state, region, city, suburb, postcode).

Geo-demographic segmentation. A combination of geographic & demographic variables such as rural and urban.

Psychographic segmentation. Lifestyle, social or personality characteristics. (Typically includes basic demographic descriptors)

Behavioral segmentation. Purchasing, consumption or usage behavior. (Needs-based, benefit-sought, usage occasion, purchase frequency, customer loyalty, buyer readiness).

Cultural segmentation. A segmentation done according to state, region, suburb and neighborhood. This provides a geographical market view of population proportions and may be of benefit in selecting appropriately located premises, determining territory boundaries and local marketing activities.

Market targeting. The selection of market segments that will become the focus of special attention.

Primary market. The target market selected as the 'main' center of marketing activities.

Secondary target market. This is likely to be a segment that is not as large as the primary market, but has growth potential. Alternatively, the secondary target group might consist of a small number of purchasers that account for a relatively high proportion of sales volume perhaps due to purchase value or purchase frequency.

Product demand. The total market demand multiplied by the market share, or the percentage of the market that the operation's product and service mix will capture.

Mass-market Strategy. A mass-marketing strategy requires the operation to develop one product-service mix that is relates to all potential consumers in the target markets. This approach considers the market to be one homogeneous market segment with similar wants and needs by its constituents.

Differentiated Strategy. When a restaurant operation decides to follow a differentiated strategy, it is adopting a strategy that calls for the operation to appeal to more than one market segment with a separate marketing program for each segment. The overall objective of this approach is to increase sales and market share by capturing sales from several smaller market segments. Each of the marketing programs, including the product-service mix, conforms to the specific needs of a market segment.

Concentrated market segmentation strategy. This strategy calls on the operation to develop modifications of one or more product-service mixes marketed to one or relatively few market segments with limited changes in the marketing program.

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CHAPTER OVERVIEW

5: Positioning the Product

5.1: Positioning
5.2: The Marketing Mix
5.3: The Marketing Environment
5.4: Sources of Marketing Information
5.5: Developing Consumer Interest
5.6: Systematic Advertising is Important
5.7: Positioning Strategy
5.8: Types of Restaurants
5.9: Classroom Preparation Assignments
5.10: Chapter Glossary and Notes

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5.1: Positioning

Chapter 5 Learning Objectives

- Gain a working knowledge of positioning and the general consideration involved.
- Compare the traditional marketing mix to the hospitality mix.
- Understand the importance of 'packaging' resources for customer appeal.
- Comprehend and evaluate the different market environments.
- Gain a working knowledge of the various sources of data collection and usefulness.
- Learn how to develop consumer interest.
- Understand the importance of advertising.
- Gain a working knowledge of how to develop a positioning strategy.
- Understand the distinction between different types of restaurants.

> *"Positioning the brand and regaining trust are all smart things for us to do and those are the litmus tests for any decisions we make."*
>
> *John McKinley*
>
> *"Great marketers have immense empathy for their audience. They can put themselves in their shoes, live their lives, feel what they feel, go where they go, and respond how they'd respond. That empathy comes out in content that resonates with your audience."*
>
> *Rand Fishkin*
>
> *"It's not about market share. If you have a successful company, you will get your market share. But to get a successful company, what do you have to have? The same metrics of success that your customer does."*
>
> *Gordon Bethune*

Positioning the Product – Service Mix

Positioning is the marketing activity and process of identifying a market problem or opportunity, and developing a solution based on market research, segmentation, and supporting data. Positioning relates to strategy, in the specific or tactical development phases of carrying out an objective to achieve a business or organization's goals, such as increasing sales volume, brand recognition, or reach in advertising.

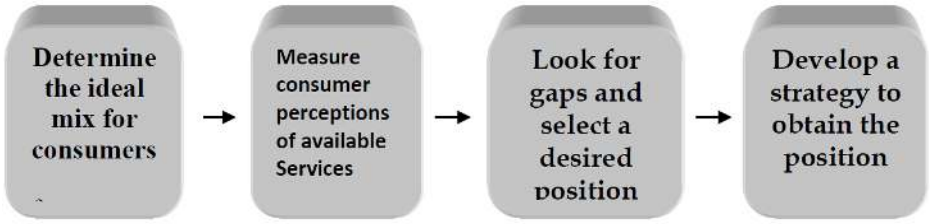
General Considerations Regarding Positioning

- Positioning starts by segmenting the target market based on the different benefits that each consumer group target seeks from your products or services.
- Positioning is often intuitive. Sophisticated analysis techniques help, but they are not substitutes for think through your marketplace.
- It helps to develop a mental map of where the competitor's position is to determine factors like benefits and quality features.
- A positioning map is useful to identify opportunities and specify the current and desired positioning of your products and services.
- The goal is to develop a differentiated products or services that creates a unique mind share, particularly in the target market segments you intend to attract.
- You can best attack a competitor's position by focusing resources and promotion on a 'particular' positioning element or quality feature.

- You can best defend your position from competitors by an aggressive, mobile counterattack of re-positioning existing products and introducing new ones.
- Set the price for the product position or service by estimating how much extra quality the product will possess over and above the competition and how much the target consumers are prepared to pay for this extra quality. The answer may be over and above the competition's actual selling price, or the correct position may be below your competitor's pricing
- Estimate the financial feasibility of the proposed positioning strategy. Will expected sales and share meet your targets?

After selecting market segments, the operation must develop a positioning strategy for its 'products and services' in each target market. Put simply, **'positioning' is the process of determining how to differentiate a firm's product offerings from those of its competitors in the minds of consumers**. Positioning answers the question 'What do we want consumers to think about our company when they see our restaurant, look at our sign, our logo, marketing literature, advertising, and so forth?' and begins the positioning function. To accomplish this, the operation must know how important certain attributes are to consumers in purchasing the company's products, and the consumers' perceptions of how well the company, and competition, are doing with respect to these attributes (Martin and Daily, 1989). Marketers want to position their products so consumers purchase them instead of competing products.

Figure: 5.4 A Positioning Process



For example, operations could base their positioning on intangibles such as food or ambience. Applebee's uses the slogan 'eating good in the neighborhood' to create a personal atmosphere, and Subway uses the slogan 'eat fresh' to focus on food quality and health themes. It would also be possible to use more than one basis for positioning when targeting a specific market. For example, in Subway's case, the positioning extends beyond 'freshness' to 'low calorie' options to bring home the 'healthy' eating theme. They could easily extend the message to 'lower cost' to move toward affordable healthy eating, and so on.

Several factors could affect an operation's decision regarding which positioning bases it should use. Figure: 5.4 provides a four-step process that considers the factors used to position the products of an operation. **First**, a company's current market position and the positions of its competitors' are important. **Second**, a company should consider the compatibility of a desired position with the needs of consumers and the goals of the firm. **Third**, a firm must have the resources necessary to communicate and maintain the desired position.

The Ideal Mix for Consumers

At this point, the operation has developed a strategy to attract consumers. Now, the important concern is determining the ideal product and service mix for the trading area consumers. Stated differently: "What are consumers looking for when they purchase products and services?" Once the operation has established this ideal mix of attributes, it can begin to examine the ability of its product-service mix to meet the needs of consumers. There are always salient attributes that are important to consumers in evaluating the alternative products or service offerings. These attributes will differ by product or service, but some of the more important attributes would include price, value, quality of food, type of food, service quality, menu variety, employee friendliness, location, atmosphere, service speed, cleanliness, parking, and so forth.

When you examine the major attributes previously listed, it become obvious that many attributes are important for all products and services. Price is not always the most important attribute but is generally one of the top three. Service quality is another attribute that is important to consumers in choosing service providers, and commonly used to differentiate between brands. Other attributes are generally more specific by the type of restaurant segment.

It is an ongoing necessity for restaurants to obtain importance ratings from consumers on a frequent basis using some form of research. The most common method would be to conduct a survey. Normally, individuals are asked to rate a list of attributes using

an importance scale. For example, a restaurant's comment card may ask a customer to rate the quality of food on a scale of 1 to 5, with ‘1’ being "not important at all" and ‘5’ being "very important." The answers to these ratings combine to provide an average rating for each desired target market. The construction of an ideal mix for the restaurant's products can result from the examination of the averages for all of the attributes - a product-service mix comprised of what consumers are looking for. This includes theme and logos, facility, ambience, menu, service style, affordability, methods of product delivery. Maybe at this point, it would be better just to say ‘almost everything’ having to do with what the customer can perceive.

Measure Consumer Perceptions

Once the ideal mix has been determined, the next step is to examine the current offerings of the operation - as well as its competitors - to evaluate their abilities to meet consumer needs. More important, it is necessary to obtain consumer perceptions of your service and your competitor's services. Even if your company believes that their product-service mix offers good value to consumers, this is only true if consumers believe it to be so. From the marketing perspective, perception is everything.

Figure 5.5 Competitive Benefits Analysis

Potential Benefits	Our Operation	Competitor A	Competitor B
Value for price			
Quality of food			
Quality of service			
Atmosphere			
Location			
Menu Variety			

It would be a critical mistake for a company to assume that it knows what consumers want and that its products and services are meeting consumer’s wants and needs. Once again, it is imperative for a restaurant operation to evaluate consumer perceptions by consumer surveys and other research methods. Table 5.5 offers an example of a competitive benefit matrix that can be useful to restaurants in compiling consumer perceptions for the operation compared to its closest competitors.

At this point, it may be helpful to be able to visualize the information in the competitive benefit matrix by using a 'perceptual map.' **Perceptual mapping** is a technique used to construct graphic views or representations of how consumers in a market perceive a competing set of products relative to each other because of the difficulties associated with graphing and understanding multidimensional presentations, in evaluating comparisons between alternative brands. For example, consumers might be given the names of restaurants and asked to select the ones most similar or the one that are least similar. *Preference* data involve asking consumers to indicate their preferences for a list of alternative brands. For competing products, operators must determine which two or three dimensions consumers consider most important, and use these dimensions to construct the perceptual plot.

The points of comparison can vary based on what the restauranteur considers as important elements for comparison to be. For example, quality and price may be important as the example demonstrates, but service versus price, cleanliness versus value, speed of service versus price, type of delivery versus ease in customer acquisition, and so forth can be equally of important to an operation. Using box plots, many points of comparison can paint a clear picture of where the operation fits into the marketplace and how they intend to respond to established competition or deal with new entrants to the market.

This perceptual plot construction uses perceived ‘price’ and perceived ‘quality’ as the two dimensions. Assuming the ratings for each restaurant on these dimensions were collected using consumer research, the placement of the firms in the perceptual space depicts their relative positions in the market. The results of perceptual mapping can be useful for the following purposes:

- To learn how consumers perceive the strengths, weaknesses, and similarities of the alternative product-service mixes offerings;
- To learn about consumer's desires and how these are satisfied or not satisfied by the current products and services in the market; and

- To integrate these findings strategically to determine the greatest opportunities for new product-service mixes, and how a product or service image modification may help to produce the greatest sales increase.

Several methods are useful to construct a perceptual map. Similarity-dissimilarity data involve asking consumers to make direct example, consumers might be asked to rank-order a short list of restaurants or rate a specific restaurant on a 1 to 5 scale, with ‘1’ being "least preferred" and ‘5’ being "most preferred." Attribute data involve asking consumers to rate the alternative brands on a predetermined list of attributes. For example, consumers might be asked to rate a given restaurant based on a series of attributes. After the data are collected, quantitative statistical techniques are useful to reduce the list of attributes into two or three dimensions for easier presentation and interpretation. Then management can use these perceptual maps to fine-tune current product-service mixes and uncover any gaps in market coverage between the ideal mix and the alternative offerings of the operation's competitors.

Look for Gaps in Coverage

Once consumers' perceptions are gathered, measured, and plotted on a perceptual map, the third step in the process is to examine the map for gaps in coverage. Said differently, are there any areas on the map depicting ideal mixes not adequately served by the brands currently in the marketplace? Could there also be a difference between the position sought by management and the position perceived by consumers. For example, Taco Bell entered the market in response to a lack of variety in foods offered by quick service restaurants like McDonald's and Burger King. Further, the creation of extended stay hotels were in response to consumers who had to travel for extended periods and wanted the ability to cook, do laundry, avoid crowded lobbies, and stay in a more residential setting.

The result of the consumer mapping and perceptual mapping enable firms to develop a “positioning statement” which should differentiate the organization's product-service mix from that of their competitors. However, in the twenty-first century, the statement must be original. For many years, restaurants have advertised and promoted "fine food," "prompt, courteous service," elegant atmosphere,' and so forth. As one would expect, these promotional approaches are not as effective as they could be. Consumers usually do not believe such statements because they have heard them too many times before and have often been disappointed when they patronize the restaurants that had made these promotional claims. These statements do little to separate the organization's product-service mix from that of the competitors. If other hospitality organizations are promoting 'fine food' or similar benefits, then all the promotion and advertising appears to be the same in the eyes of the consumers.

In the QSR sector, how many television commercials show smiling well-spoken people working the drive-through painting the perfect picture of the operation? However, when you ‘visit’ the restaurant drive-through, you get the ‘peanuts parents’ (they go wah, wah, wah, – you don’t get Charlie Brown or Lucy) you cannot understand what they are saying - except for the ‘suggestive sell’ that sounds like they are beyond fed up with having to say it. The advertising conveys the right message, but the physical reality of what you can expect tells you the message is false. Advertising aims to benefit the operation – not the consumers’ need.

The key to success in positioning is to establish some unique element of the product-service mix and promote it. This allows the operation the opportunity to differentiate the product-service mix from that of the competition and thereby gain a competitive advantage. The common term for this approach is a unique selling proposition (USP). With a USP, the operator should use every effort to link the 'benefits' offered with tangible aspects of the product-service mix. Consumers should be able to see, feel, and touch the benefits of the operation as often as possible as opposed to simple hearing marketing messages and slogans.

Develop a Strategy to Obtain Your Position

The final step in the positioning process is to develop strategies for obtaining the desired position that results from the analyses performed in the first three steps. As with any other marketing strategy, the restaurant must use the components of the marketing mix to develop a 'marketing program' to create the total image that the operation can use to achieve the restaurant's objectives. This involves decisions regarding price, product-service mix, promotion, and distribution of information as well as products and services.

Al Ries and Jack Trout (1981) provide a useful set of guidelines to use in developing positioning strategies in their text: Positioning: The Battle for Your Mind. The authors formulated six questions that should be useful to guide your thinking towards the proper positioning scheme that offers the most benefit to your restaurant organization. Figure 5.7 present these six questions along with a detailed rationale for asking them to increase positioning accuracy.

Figure: 5.7 Six Important Positioning Questions to Ask

What position do you own?	It is critical that you look at the marketplace and your image from the consumer's point of view. How do consumers view your product? What image does your product have in their minds? You must be objective - look at the product from the consumer's perspective.
What position do you want?	Those who are most successful tend to carve out a niche of the broad market. Those who attempt to be all things to all people often are not successful. Do not think beyond your organization's capabilities. You must be able to 'own' the position, even if it means displacing a competitor's brand. Not every company can be the leader, but organizations can be successful with other strategies.
Whom must you overcome?	No positioning statement exists in a vacuum. You must clearly visualize the positions held by the major competitors. Do they have a firm lock on their positions, or are they vulnerable? If they are strong to avoid a direct frontal, attack and instead go around them.
Do you have enough money?	Establishing and maintaining an image in consumers' minds is no small task. Every day we face exposure to hundreds of advertising images. If a change in positioning strategy is the plan, necessary marketing resources must also exist for the change to be successful.
Can you continue to compete?	A key to successful positioning is the ability to defend you position. The most successful companies do not change their position, only the short-term tactics they use to communicate their positions.
Do you equal your positioning claim?	Critical: The exact positioning statement must form the communication in the advertising and promotions that follow. The desired position should be consistent with the image of the firm and the firm's other products and services.

One of the most effective ways to change customer perceptions of the product-service mix is through promotion and advertising. For example, Burger King's attempt to differentiate its product-service mix as superior to those of other hamburger restaurants. The focus of Burger King's advertising is centered on charbroiling, its method of cooking hamburgers. The objective of the advertising is to promote the unique process as providing a better-tasking burger of higher quality than its competitors provide.

Another example of using product-service mix positioning is through the approach in which Taco Bell used price and packaging to gain a competitive advantage. At a time when the typical meal at a quick service restaurant costs between $375 and $4.50, Tack Bell took a very different positioning strategy. It introduced a line of value-priced products and meals at price points between 59 and 99 cents. The focus of all promotions and point-of-purchase displays was on low price and value. Because of these promotions, Taco Bell was able to increase its market share, largely at the expense of other fast-food restaurants.

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5.2: The Marketing Mix

Previous discussions refer to the product-service mix, or 'marketing mix' that a restaurant operation can bundle to position itself among competitors. A more detailed look into exactly what is involved in an operation's marketing mix now defines the current discussion.

The term 'marketing mix' has been universally accepted and used by marketing organizations for quite a long time. The discussion begins with the traditional marketing mix and then moves to the hospitality marketing mix components tailored more to this industry as a more appropriate alternative. A successful restaurant organization is one that focuses on the needs and wants of the consumers and markets the product-service mix that it brings together to attract consumers to its operation. Management of a restaurant operation must be able to integrate the components of the marketing mix into a marketing 'program' that will appeal to potential consumers and meet the goals and objectives of the restaurant.

The traditional marketing mix

The marketing mix consists of four individual elements that come together to form the marketing mix and are often referred to as the four P's of marketing: price, product, place, and promotion.

Price

The price component refers to the value placed by a company on its products and services. Some of the decisions involve pricing the product line, discounting strategies, and positioning against competitors.

Product

This component refers to the unique combination of goods and services offered by a company to consumers. The product includes both the tangible and intangible elements of the service offering. Product decisions involve product attributes such as quality, the breadth and mix of the product line (the number and type of products offered), and services such as warranties and guarantees.

Place

The place component refers to the manner in which the products and services make their way to consumers. Thus, the ‘place’ component can also reference 'distribution,' as it involves decisions related to the location of facilities and the use of intermediaries. In addition, the marketing of services includes the decision regarding customer involvement in the production process.

Promotion

This component refers to the methods used to communicate with consumer markets. The 'promotion mix' includes advertising, personal selling, sales promotions (coupons, rebates, contests, publicity, and so forth. These instruments can be useful to convey the operation's intended messages to consumers. The decisions for promotion involve the amount of spending to occur on each component of the promotion mix, the strategies for each of the components, and the overall message the operation wishes to convey to the consumer. To achieve marketing success, a restaurant operation must closely examine and understand all of the mix components because these components, collectively, must combine into well-conceived marketing programs, and managed properly. Failing to do so is one of the prime contributing factors to the high new restaurant failure rate.

The hospitality marketing mix

As researchers have demonstrated, distinct differences between good and services, some researchers believe that the traditional four P's approach to the marketing mix does not apply to the restaurant operation. Renaghan (1981) posit the necessity for a modified hospitality marketing mix consisting of five components.

Product-service mix

This is a combination of all the products and services offered by the restaurant operation, including both tangible and intangible elements. For example, it would include such things as the dining room, the amenities offered, and the broad array of elements that would also include the restaurant's 'ambience package.' One must remember that once a restaurant consumer leaves the facility, there is usually nothing tangible to show. Because the consumer has purchased and consumed the service, the largest part of the hospitality industry product-service mix is indeed the 'intangible' elements of service.

Presentation mix

This includes those elements that the marketing manager uses to increase the tangibility of the product-service mix that the consumer perceives. This mix includes physical location, atmosphere (lighting, sound, and color), food, and personnel.

Communication mix

This involves all of the communication that takes place between the restaurant operation and the consumer. It includes advertising, marketing research, and feedback about consumer perceptions. View the communication mix as a two-way communication link, rather than a simple one-way link with the restaurant operation communicating to the customer rather than 'with' the customer. This two-way link allows for the traditional advertising and promotion that flow from the seller to the buyer, but it also allows for marketing research and other data collection vehicles. In these cases, the seller is seeking information and data from the consumer, thereby establishing open communication through the various marketing elements at their disposal.

There are some similarities and differences between traditional marketing mix and the hospitality marketing mix. In the hospitality version, the product component undergoes expansion to include some aspects of distribution. People are part of the production process in services, and distribution occurs in the presence of the consumer. The communication mix is almost identical with the promotion component in the traditional marketing mix, although it does include some additional communications such as marketing research. Finally, the presentation mix represents the largest departure from the traditional marketing mix. It includes the price, and some of the aspects of the place component such as location, and it adds elements such as atmosphere and the personal contact between customers and employees.

Pricing mix

In addition to the actual price an operation charges, the pricing mix encompasses the consumer's perception of value. The pricing mix includes such variables as volume discounts and bundling multiple products together for an overall discounted price. Quick service restaurant chains use this bundling approach extensively as a method to increase customer spending.

Distribution mix

This includes all distribution channels available between the organization and the target market. Historically, distribution occurred at the point of production, such as restaurant food production. This has changed since newer distribution channels, such as the Internet, have developed; the importance of the distribution mix has increased.

External Factors

Several external factors can reduce the effectiveness of the operation's efforts to implement all the components of the hospitality marketing mix successfully. These factors, which may have either direct or indirect influence, are consumer perceptions, attitudes and behavior; industry practices and trends; local competition; broad national and international trends; and government policy and legislation. One additional factor that must be part of the overall planning scheme is the 'product life cycle. From a traditional marketing perspective, all products move through four stages of growth over time. The initial introductory stage, a growth stage, a maturity stage, and finally the interest in the products begins to decline. In each stage of the product growth cycle, proven strategic goals exist to maintain momentum and rejuvenate interest in the product offerings and the concept itself. Table 3.2 illustrates possible tactics given the different stages of growth of an operation.

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5.3: The Marketing Environment

During the past decade, numerous changes have had an impact on the restaurant industry. The industry has confronted and adapted to such diverse situations as economic recession, overbuilding, increased competition, increased emphasis on technology, newer forms of distribution and sale using technology, increased foreign restaurant ownership, changes in dining habits, changes in food consumption patterns, and the ever-increasing globalization of the hospitality industry in general. Figure 3.8 illustrates areas of concern for our industry. Each of these external forces has brought with it changes that restaurant operations have had to make to remain competitive in a global marketplace.

When operations' consider changes in marketing strategy or tactics, they often examine the changes in five major marketing environments: *competitive, economic, political and legal, social, and technological*. Firms cannot directly influence their external environments, but they can monitor changes and be somewhat proactive. It is critical for organizations to engage in some form of 'environmental scanning' so they can take advantage of marketing opportunities while at the same time anticipating any treats to their business. Environmental scanning can be a formal mechanism within an organization, or merely the result of managers or salespeople consciously monitoring changes in the environment. The larger the operation, the more likely it will have a structured approach to scanning the environment and documenting trends (Lewis, Chambers, and Chacko, 1994).

Economic environment

Consumers' 'purchasing power' or ability to purchase ‘products and services’, is directly related to the economic health of the city, sate, and country. As marketers study the economic environment, they are concerned about such things as inflation, recession, unemployment, resource availability, interest rate trends, personal income growth, business growth and performance, and consumers' confidence in the economy. Other key economic terms include the consumer price index (CPI) is a measure of the relative level of prices for consumer goods in the economy. As this measure rises, there are more concerns about inflation and a poor economy. The term disposable income refers to the portion of an individual's income that available for spending after required deductions such as taxes. Discretionary income is probably a more important measure for most marketers because it refers to the income that is available for spending after deducting taxes and necessary expenditures on housing, food, and basic clothing.

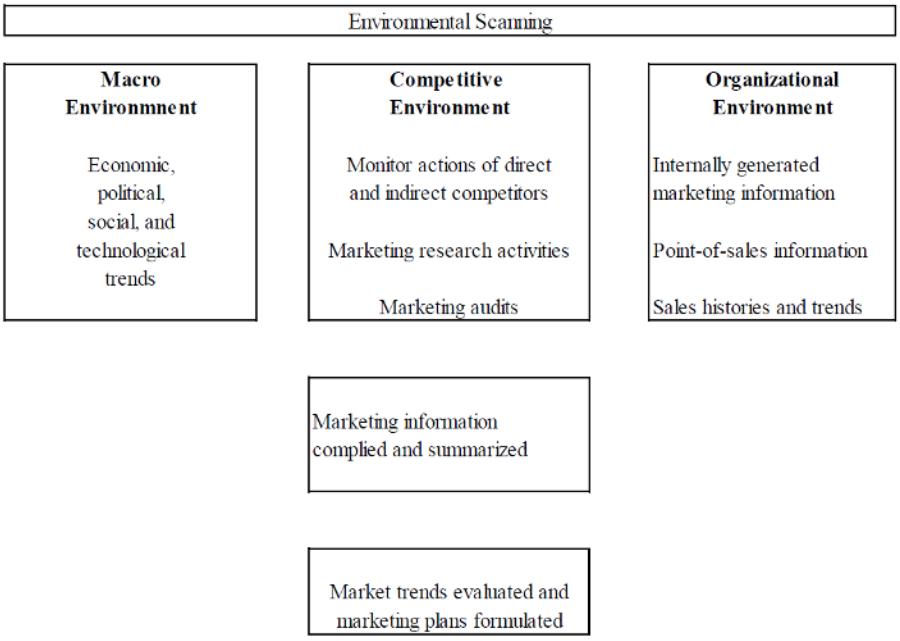
Social environment

The social environment is under the effect of all of the other environments to come into play. Changes in the economy, advances in technology, competitive actions, and government regulations all shape the way consumers view the world. These changes may be sudden, or they may take place over a number of years or even decades. First, there have been changes in demographics’ or characteristics that describe the population, such as age, income, education, occupation, family size, marital status, and gender.

Second, there have been changes in consumers' attitudes, interests, and opinions that determine their lifestyles. Examples of social issues include the proportion of two-income families and the impact that the increased discretionary income and time pressures have on their lodging, dining and travel behaviors. The proportion of older Americans and their purchasing power are continually increasing. The dietary habits of the American people have also changed. In some ways they are bipolar in that the percentage of individuals characterized as overweight or obese is at an all-time high, yet many individuals are showing an increased concern for their health.

Competitive environment

Within all markets, competitors seek to win the business of consumers by offering what they believe to be the best combination of products and services designed to result in maximum consumer satisfaction. The competitive structure in an industry can range from a *monopoly*, with one seller and many buyers, to *perfect competition*, with many buyers and sellers of homogeneous products that are almost the same. In between there is the *oligopoly*, with a few sellers and many buyers, and the most common form of competitive structure, *monopolistic competition*, where there are many buyers and sellers with differentiated products. The price *elasticity of demand* is a measure of the percentage change in demand for a product resulting from a percentage change in price. The price elasticity of demand normally increases as the competitive structure changes from monopoly to oligopoly to monopolistic competition and ends with perfect competition.



As companies examine the competitive environment, three important questions need to center this discussion. Should we compete? If we compete, in what markets should we compete? What should our competitive strategy be? While the questions may seem straightforward, the answers are often difficult to determine, and many organizations do not make the correct decisions.

Political and legal environment

Understanding the political and legal environment means understanding the rules and regulations from which competitive actions stem. At all levels of government - local, state, national, or international - there are laws and regulations that businesses must follow. To compete successfully, an organization must understand not only the current laws and regulations, but also any new ones that might come into play in the future. Most professional restaurant operators belong to one or more professional associations. One of the goals of these associations is to help members not only understand developing laws and regulations but have influence in how they come about through lobbying efforts with politicians and government officials. An example of a nation-wide restaurant association would be the National Restaurant Association (NRA). Branches of this association exist at the state and local levels. Issues relating to the political and legal environment that might affect the restaurant industry would include changes in the federal tax codes in terms of investment feasibility by passive owners who are not active in the business operation on a daily basis. Increased taxes on restaurant meals and the reduction in tax credit for business meals are other examples of political and legal issues that have an impact on restaurants.

Technological environment

Society is constantly becoming more and more technology oriented and interconnected. Through the pervasive access to the Internet via both wired and wireless connections, our lives have changed in ways we perhaps could not have even dreamed about twenty years ago. The power of computers doubles roughly every 18 to 24 months, with prices constantly dropping. Computers are now available for more and more applications in business. Although the hospitality industry remains a highly labor-intensive and personal-contact-oriented industry, computers and technology have had and will continue to have an impact. The area in which technology will have the greatest impact in the next ten year is in *direct marketing* and *mass customization*, where a product-service provider can customize the experience for each individual customer. Using data base software, marketers have improved their ability to target their customers, track their behavior and preference, and then provide exactly what the customers desire when they want it. Through the careful use of technology, marketers can monitor guests' purchasing behavior and then tailor service offerings to meet their needs.

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5.4: Sources of Marketing Information

Varieties of sources are at the disposal of most restaurant operations to begin and maintain a marketing information system. These information sources can group into two main categories: secondary data and primary data. **Secondary data** are past collections, usually for other purposes. **Primary data** come about for a specific purpose to gather information not available elsewhere. The information search should begin with secondary data to instituting a primary data collection process. In most cases, secondary data normally provides the information necessary to make a decision, and even if they do not, they are typically useful in developing research questions and moving the primary data collection process forward. Collecting primary data requires though and planning and thus - time to gather and process the findings. Figure 3.9 illustrates the possible sources of information for marketing purposes.

Secondary Data

Secondary data is already available from other sources and summarizes information about operations, marketing, human resources, financial performance, and other topics of interest to restaurant management. A perceptive manager will make a thorough check of all available secondary data sources before undertaking primary data collection. This will save the large amount of time involved with the primary data collection process, as well as the money spent to collect the information needed. Some of the major advantages of using secondary data include cost, and timeliness.

Cost

It is generally much less expensive to obtain information from existing sources than to develop entirely new data at your own expense. Some existing sources may charge a nominal fee for the information, bit it will be far cheaper than the cost of undertaking a primary collection process.

Timeliness

Secondary data are available almost instantaneously. A manager can have access to data very quickly and therefore does not have to wait weeks or months for primary data collection, analysis, and summary. Primary data collection is not time efficient is the sense that one must develop the research methodology, design the data collection instrument, pre-test the instrument, devise a sampling scheme, gather data, analyze the findings, and finally summarize and report the results. With secondary data, the manager need only locate the appropriate source and access the information desired. Thus, the information search reduces from weeks or months to hours or at the extreme, days. However, secondary data collection can have the following disadvantages: limited applicability, outdated information, and reliability.

Limited applicability

There is no assurance that information gathered by others will be applicable to a particular restaurant operation. For example, geographic differences can influence customer preferences and perceptions. Another example would be different restaurant segments, such as the varied characteristics of QSR, casual and fine dining operations. Thus, information that pertains to one operation may apply only to that operation and be of limited value to anyone else.

Information may be outdated

Restaurants need current and accurate information on which to base decisions. All too often, secondary data are not as useful as they might be merely because they are not current. Consider the results of a consumer attitude survey conducted by a restaurant two years ago. Depending on the market environment, that survey could be of limited value to the restaurant planning for today. During that time, a number of changes in consumer attitudes are likely to have taken place. These changes can render the original data outdated and useful only in a historical sense. Therefore, management's use of less than timely data could result in less than satisfactory outcomes.

Reliability

Reliability and accuracy are important concern when decisions center on the information. Utilize only sources with reliable reputations, and gathering methods in the operation's decision process. Management should always attempt to confirm who collected the data and the method of data collection protocol. Caution should always be the order of the day when secondary data drive decisions.

There are two main types of secondary data useful to a restaurant operation as Figure 3.9 indicates. **Internal data** exists within the firm and is obtainable with minimal time and effort. Advances in computer technology have made it easier to obtain pertinent information and provide to management in a useful form. External data are not readily available within the operation. This form of data acquisition occurs by spending more time and/or money contacting outside sources. The Internet has made this a much easier task, but there is still a fair amount of effort involved.

Internal Data

The component of a marketing information system that is the simplest to design and implement is an internal system, the collection of data from within the restaurant organization. When considering the organizational environment, management need to be concerned only with the wealth of information available from within the physical confines of the organization's restaurant units. Management has three main sources of internal marketing information: **guest histories and sales data**, **employees and management staff**, and **customer feedback**.

Guest histories and sales data

There are no hard and fast rules for management regarding exactly what records the operator should maintain. Those decisions must center on the intrinsic needs of the organizational. Within a restaurant operation, management should have knowledge of, and monitor, zip code origin of guests, day of the week and meal preferences, and pertinent customer data to name a few items for tracking. The records maintained should also include customer counts for each meal period and sales for each menu item over a specified period. Many larger organizations have elaborate management information systems in place. Many point of sale terminals interface with personal computers, making the transfer of data to off-the-shelf database management and accounting software relatively easy. Mangers can now use the collected customer information to increase the volume of business by targeting current customers via information gathered about them from within the confines of the restaurant. Figure 5.9 provides sources.

Employees and management staff

Too often, restaurant management overlooks the wealth of information for gathering informally from hourly employees such as restaurant back and front of the house workers. These individuals are in constant contact with guests, yet they rarely have the chance to supply information regarding customer comments and reactions to operational changes, such as new menu items or changes to the dining room. These employees represent an excellent source of information, although the information they provide may not be totally objective. It is a good idea for management to meet with employees on a regular basis to discuss problems and opportunities. Use the opportunity to gather information and provide recognition for the integral help employees provide in making the operation successful.

Customer feedback

The focus of any marketing effort centers on the restaurant operation's clientele. All aspects of the entire operation should aim at satisfying these individuals. The purpose of using an internal marketing information system is to solicit opinions and comments from the current clientele. This can occur in a number of ways, such as having the manager talk with a few customers or having service personnel check with their customers. One method frequently used is the customer comment card. The operator can place these cards on the table, or provide them to the guest upon checkout or possibly in some cases, on the customer bill itself. The questions for the comment card usually pertain to the quality of the meal and/or the operation itself.

All three sources of marketing information are valuable. When viewed as a collective tool they can provide a great deal of useful information for decision-making. Historically, restaurant managers have failed to use these sources to their maximum advantage, but the current competitive environment dictates that all sources of information may be useful to gain a competitive advantage and to earn maximum financial rewards.

External Data

Externally generated marketing information, though valuable, is normally not a priority on a daily basis, as is the case with internally generated information. This is due to the much larger investment of time, money, and other scare resources required in the gathering process. Still, management should consider using the wide variety of sources of this form of data. Literally thousands of sources are available, and thus any limitations regarding these sources occur from management’s own ineffective efforts to locate them. Some major sources with discussion follow.

Trade associations

Many industries form trade groups that provide data for their members. These trade associations collect information from their members and then provide industry average that can be useful to measure an operation's relative performance. Some of the popular trade associations for the hospitality industry are the National Restaurant Association, the American Hotel & Lodging Association,

and the Hospitality Sales and Marketing Association International. Two of the more popular tourism associations are the World Tourism Organization (WTO) and the Travel and Tourism Research Association (TTRA). However, most of the data for the tourism industry are collections of information from government travel bureaus.

Travel bureaus

Cities, states, and countries usually form organizations that are responsible for promoting travel to the area. Most cities have a chamber of commerce that is responsible for promoting business in the city and, in some cases, tourism as well. Larger cities and regions form convention and visitors bureaus for the sole purpose of promoting business and leisure travel to the region. A chamber of commerce has member firms from all types of industries, whereas convention a visitor's bureau tend to have member firms from travel-related industries such as lodging, restaurants, and tourist attractions. Finally, most states and countries have government travel and tourism bureaus that are responsible for promoting travel to that state or country.

Trade journals and periodicals

Many industry, or trade, journals are widely available to restaurant operators. Trade associations often publish their own journals, but many other organizations publish periodicals covering certain industries. Some of the more popular hospitality publications are Restaurants & Institutions, Nation's Restaurant News, Restaurant Hospitality, Restaurant Business, Lodging Hospitality, and Hotel & Motel Management. The articles in these publications provide information on new products and advertising campaigns, as well as current trends in the industry. These articles also provide a valuable resource for case studies involving success and failures of hospitality organizations.

Other periodicals

In addition to trade journals of a particular industry, other publications cover business in a variety of industries. Some of the more popular business publication s that cover the hospitality and tourism industries are Business Week, Wall Street Journal, Fortune, Barron's, and Forbes.

Internet

The growth in both the quantity and quality of information available on the Internet has occurred at a rapid pace. Using one or more of the available Internet search engines can produce highly valuable information for managers. A key consideration regarding the Internet, as with other secondary information sources, is the accuracy and usefulness of the information gathered.

University sources

Universities and colleges typically have well-stocked libraries that can be a valuable resource for foodservice operators. These institutions often have access to many other sources of external data. In addition, universities and colleges form centers to research specific areas such as hospitality. Most of the information available is free to the public.

Government sources

Local, state, and federal governments maintain detailed data on all aspects of the economy; the data are free or available for a nominal fee. The United States Census gathers detailed information about the population and retail business, and the Statistical Abstract of the United States contains similar information in abbreviated form. Census and statistical documents are now available in electronic form, enabling quicker searches and data retrieval. The federal government also collects information about foreign countries and provides specialists to answer specific questions and address inquiries.

Syndicated services

Firms such as Harris and Gallup pools, Target Group Index, Nielsen, and W.R. Simmons specialize in collecting and distributing marketing information for a fee. These syndicated services provide information about consumer profiles and shopping behaviors, consumer responses to sales promotions and advertising, and consumer attitudes and preferences. This form of information is useful in focusing on these services often advertise in trade publications and marketing periodicals.

Guides, indexes, and directories

These publications are other valuable sources of external information that are available at most university libraries and larger public libraries. Guides such as Business Periodicals Index provide references by subject matter for articles in major journals and trade

publications. In addition, most of the major publications such as the Wall Street Journal and the New York Times have indexes that provide references by subject matter for articles that appeared in those particular sources. Finally, Lexis-Nexis is an excellent online resource for data about the performance of publically traded companies.

Guidelines should be followed when collecting external information and include listing the fact that are already known to avoid duplication of effort, listing specific goals and objectives to properly direct the information search, using valid and reliable collection methods to increase the accuracy of the information gathered, and summarizing and reporting the information found and its pertinence to the operation.

Primary Data

Primary data consists of original research done to answer current questions regarding a specific restaurant operation. For example, a foodservice manager may attempt to ascertain consumer attitudes towards new menu offerings or to solicit consumer perceptions of increased menu prices or different portion sizes. This type of data is very pertinent to an individual organization but my not be applicable to others. The advantages of using primary data include **specificity**, and **practicality**.

- **Specificity**. These data are customizable to one operation and can provide excellent information for decision-making purposes that is not available from other sources.
- **Practicality**. Primary data can provide solid, real-life information and a practical base foundation to be useful in the decision-making process.

The disadvantages include cost, time lag, and duplication.

- **Cost**. For an individual operator, gathering primary information is extremely expensive. To gather primary data even from a city of 100,000 people may prove to be a monumental task for an operator and may cost too much in time and money.
- **Time lag**. Marketing decisions often have to occur quickly, yet it requires a good deal of time to conduct a thorough information-gathering study. While the operation is collecting the data, the competition could hurt the operation to the point of bankruptcy.
- **Duplication**. While primary data focus toward a specific operation, other sources of existing data may closely duplicate the information collected and would therefore be appropriate for decision-making purposes. This duplication of effort is very expensive, and primary data collection should therefore be undertaken only after all secondary data sources become non-productive. Stated differently, it would probably be better to test the findings of other studies in different markets than to research the same questions again in your own market. Trying and monitoring is less costly and close observation is possible. However, if the results are positive, then the time lag, cost, and duplication have been worth the effort.

In general, the advantages of using secondary data ten to be the disadvantages of using primary data, and vice versa. As previously stated, before collecting primary data, it is advisable to perform a secondary-data search to determine the necessity and scope of a primary-data collection effort.

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5.5: Developing Consumer Interest

Appealing to consumers is not an easy process and considerable time and thought goes into developing consumer interest and appreciation for your products and services. Several guidelines exist for creating consumer interest.

Value

First customers will not be interested on your concept or products if they do not perceive some form of value in doing business with you. If you are advertising and promotions do not speak directly to the needs of the primary target market, the chances for success dilute greatly. A well-rounded marketing information system should provide appropriate data about the marketplace that allows management to be on the same page with the values of the consumers they want to attract.

Distinctive

The advertising must be distinctive in some way. It is important to remember that your advertising must compete not only with all other hospitality organizations but also with advertising for everything from automobiles to washing machines. For the advertising to be effective, your advertising must offer something that separates it from everything else. Distinctive and unusual appeals are often used. Although, depending on the marketplace, a straightforward approach initially that informs consumers about ‘who’ you are and ‘what’ you do should not be undervalued. In the beginning, a cute commercial makes people smile but you goal is to make them want to come to your facility.

Believable

Trust is a major issue with consumers. Why should they trust you? You have to address that question in your marketing scheme. Claims made for the product-service mix must be genuine and supported at all times to develop and maintain credibility with the public. Remember, in the initial phase of your restaurant operation, you immediate job is calm fears and dispel doubts. Some consumers are more skeptical than others are, therefore your marketing and follow through must be convincing to those consumers who may distrust you at first.

Simple

Each day Consumers confront hundreds of advertising commercials and slogans. If you want them to remember you, a simple and straightforward message and catch phrase is most useful. Simple and effective phrasing that has been used successfully include: eat fresh; we do it all for you; you, you're the one; it's a good time for a great taste; have it your way; broiling beats frying to name only a few. Using powerful words that inform and create the correct image of your operation are important, but obviously, you need to understand exactly what things you do that appeal to consumers and constantly remind them that you do it.

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5.6: Systematic Advertising is Important

Systematic Advertising is Important

Time

Advertising requires patience. While the concentration often centers on the operation, sales are equally important and marketing requires time to generate positive results. In order to be effective, advertising must normally be repeated. Frequent exposure to targeted markets will increase the impact of advertising. Advertising specialists cannot tell you specifically 'why' consistent advertising works, but they can definitely document the poor results stemming from no advertising.

Budget

There are numerous stated percentages and national averages available to determine how much an operation should spend on marketing. In truth, all of these figures represent other operations in various stage of their product cycle. The best marketing budget scheme for a new operation should come about based on a 'needs' analysis of the operation in consideration of the marketplace and competitive environment it intends to enter. One has to have both the gumption and the money to spend enough to produce successful results.

Study

Managers and owners must constantly analyze the operation to determine the advantages it offers versus those of the competition. Disadvantages also need to surface so that they can be minimized or eliminated completely through internal adjustments - and advertising. Consistent evaluation should occur so that any changes in the competitive situation are noted and management can apply quick action. Table 3.3 - illustrates different types of media forms as well as the advantages and disadvantages of each media form.

Table: 5.3 Collateral Material - Advantages and Disadvantages

Collateral Material	Advantages	Disadvantages
Brochures	Informative Ability to target High production quality	Outdated easily
Specialty Items	Relatively inexpensive High recall rate by consumers	Outdated easily
Outdoor media	Good reach Good frequency Relatively uncluttered	Brief message High waste
Direct mail	Ability to target Personalized mailing pieces Excellent coupon distribution vehicle Low minimum cost	High cost per mailing (CPM) Junk mail image

Analysis of market segments

Much changes in a marketplace during the course of a year. Many people change jobs and move, as they do their lifestyles change as well. No market segment remains constant because change is constant. For this reason, management must know the patrons of the operation. By knowing your customers, management can react more quickly, and intelligently, to changes consumer demands.

A plan

Advertising cannot be effective if it occurs in a haphazard manner. It is important to establish strong continuity among all forms of advertising so that it gains momentum. Continuity refers to the use of the restaurant operation's facilities, decor, menu, logos, distinctive type styles, and all creative touches to make the advertising stand out from other advertisements.

Media

Select Media very carefully to increase its overall effectiveness. Media used must match the intended targeted markets. Choosing the wrong media can be expensive and non-productive. Each type of media offers advantages and drawbacks.

For the purpose of discussion, types of media generally fall into three distinct areas beginning with internally generated marketing or **collateral material, electronic media,** and **print media**. Advertising programs come in all patterns and sizes, depending on the resources and needs of the individual restaurant organization. Generally, programs organize geographically on a national, regional, or local level. Each level will differ in sophistication and media - sometimes a combination of media forms.

Collateral media are excellent ways to tell the story and inform potential consumers in the initial stages of the restaurant's operation. Further, they are most useful in the later stages as a way to target current clientele, and equally to reinforce the electronic and print Collateral Material Advantages Disadvantages Brochures Specialty Items Outdoor media Direct mail Informative Ability to target High production quality Relatively inexpensive High recall rate by consumers Good reach Good frequency Relatively uncluttered Ability to target Personalized mailing pieces Excellent coupon distribution vehicle Low minimum cost Outdated easily Outdated easily Brief message High waste High cost per mailing (CPM) Junk mail image media efforts. Thus, a marketing planner might engage in more than one form of media effort in an attempt to secure recognition and acceptance in a marketplace.

Local media planners often feel that they are at a distinct disadvantage because they have smaller advertising budgets and less marketing expertise. This situation need not be a disadvantage; instead, it often quite the opposite. The use of local radio spots and local print and/or television advertising allows the advertiser to speak directly with the local clientele.

Table 5.4 Electronic Media - Advantages and Disadvantages

Electronic Media	Advantages	Disadvantages
Television	Excellent reach Combined sight, motion, and sound Ability to catch people's attention Ability to target with cable and satellites	High total cost Clutter High waste Channels can be switched
Radio	Ability to target Less costly than television Good reach of travelers	Sound only Less attention getting than TV. Clutter Constant update required
Internet	Relatively low cost Amount of information Ability to provide sight, motion, and sound Interactivity Flexibility Buyer seeking seller	Constant update required
Other electronic media	Excellent visual and audio of CD-ROM Ability to target Amount of space for info transfer Flexibility	Expensive to design

Often the local advertiser has a much clearer understanding of the target market and is able to achieve a competitive advantage over regional and national advertiser. However, one distinct disadvantage lies in the broad coverage larger market radio and television can create in terms of cost.

Said differently, if the goal is to reach your potential and current customers. What form(s) of marketing will best help you to accomplish those goals? As you read about and compare the different forms of advertising media at your disposal, begin to think about your marketplace and trading area. Where are your customers located? Do they exist in clusters, or dispersions through different neighborhoods or nearby towns or cities?

Table 5.5 Print Media - Advantages and Disadvantages

Print Media	Advantages	Disadvantages
Newspapers	Timeliness Broad-based readership Local audience	Poor production quality Clutter Inability to target
Newspaper inserts	Good campaign distribution vehicle Higher coupon redemption rate	More costly than newspapers
Magazines	Ability to target Prestige High-quality reproduction High secondary circulation	Long lead time More costly than newspapers

A restaurant operating in a smaller community adjacent to larger communities or cities, will pay for the broad coverage of the radio or television advertising when the intent was to reach a smaller audience in the local community.

The larger the city, the higher the cost for electronic media such as radio and television. This is another reason why a combination of media forms are more cost efficient and effective in the end. What becomes important when multiple types of media are used is that the message has unity. Further, it is important to maintain visual similarity when using both visual and aural forms of media. Above all, portray a consistent attitude and positioning message for continuity. If your message is worth hearing - tell it often and in different ways.

An Internet Presence

The age of electronic commerce is at hand and those that follow the evolution of electronic commerce agree that companies who have an Internet presence and conduct business online (at least in part), experience numerous important benefits.

First, the Internet creates value largely or exclusively through the gathering, synthesizing, and distribution of information. Organizations that engage in e-commerce activities can collect significant data about their customers. They can more easily determine consumers' likes, dislikes, and responses to various marketing messages. This wealth of data that is readily analyzable, allows marketing managers to make better-informed decisions.

Second, electronic commerce helps companies formulate strategies in ways that result in a need for 'dual' management in the sense that the electronic business requires management itself, and various types of technology need overseeing as well. The management of technology is not a separate function, but an additional core business competency in the twenty-first century. Similarly, the development of e-commerce applications is not a parallel activity, but also a part of the core set of activities within the restaurant organization.

Third, use of the Internet allows firms to compete in real time. In the past, businesses made operational changes on an intermittent basis, resulting from data that took a considerable time to gather regarding financial performance or guest response studies. With the increasing use of technology, the lag time for information gathering has virtually become a non-issue. For example, a restaurant can e-mail their clientele special discount coupons and immediate begin to track buyer behavior via the usage of the coupons in the organization's restaurants.

Fourth, Hospitality operations such as restaurants have high cost structures for buildings, equipment, fixtures and so forth. The use of Internet helps the restaurant operation to conserve valuable financial resources to help reduce the cost of advertising and extend the marketing effort over time.

Fifth, the Internet has proven to be useful in organizing operational resources around the 'demand' side of the business (demand for the firm's products and services). The operator should constantly monitor ‘demand’ from potential customers to determine the occurrence of changes in consumer demand. This allows organizations the ability to encourage demand by changing marketing tactics and variables such as price and availability.

Sixth, electronic commerce allows organizations to examine customer relationships through interfaces using technology to manage and customize customers' experiences. In order to increase relationship-building interactions and reduce labor costs in the process, technology is useful to transfer customized information to the customers via customizable e-mail and Web site information to match the interests and past behavior of individual consumers.

Seventh, the Internet allows the restaurant organization to use technology- driven methods to measure and track customer behavior and interaction patterns. This data is then usable to customize future transactions among individual customers and customer groups with similar buying behavior.

Preparing the Organization for the Internet

An organizational decision to enter the e-commerce space is a critical one that should be receive thorough research beforehand. Managers should full consider broad perspectives before making the decision to move forward. Reedy and Schullo (2004) suggest that you address the following questions prior to engaging in commercial activities on the Internet.

- What is the firm's purpose for engaging in online commerce and communications?
- What are the firm's goals and specific objectives? What outcome is the firm seeking to achieve.
- Why should the firm want to go online? Is it to introduce new products and services? Is cost reduction one of the goals? Are enhanced relations with current customers an objective?
- What online expectations does the firm have? Are there different objectives for different divisions of the firm, such as marketing, human resources or finance?
- How will we integrate electronic commerce efforts with other forms of communication? How will we maintain our consistency of branding and identity?
- Who will be in charge of the Web site creation, maintenance, and evaluation?

These questions address the necessary elements for serious consideration to create functional online presence that accomplishes the goals of the organization and better service and awareness for consumers.

In summary, the size of the organization is not the driving factor when deciding what role the Internet and electronic commerce might play in the organization's overall program. Large firms use the Internet in a variety of way to meet marketing and other important objectives. On the other hand, small restaurant startups use it as well. A small restaurant operation in a small community that establishes an interesting Web site can extend their brand internationally. Which can be of great importance if the city is an international destination.

The most important objectives of an online ‘organizational presence’ include:

- Creating or improving your organizations 'brand' awareness;
- Helping the organization sell products and services;
- Creating interest in and sales related to promotions;
- Providing information about the many products and service that the firm offers;
- Building loyalty through frequent guest programs;
- Promoting human resource needs and employment opportunities for the operation; and
- Providing positive information about the community service work that the restaurant supports

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5.7: Positioning Strategy

Positioning Strategy

Positioning refers to what consumers think about your restaurant concept and how they value your products and services. Thus creating a position entails the construction of the operations image from facility, marketing, menu, and all other services and amenities you might offer to the public. Positioning begs the questions: What do consumers think about our business? In addition to, what do we want consumers to think about our operation?

Begin by segmenting

Establishing a market position for your restaurant concept starts by segmenting the market based on the different benefits that each consumer group that you select to target seeks from the product or services that you offer. As such, a narrow consumer segment would require your operation to resemble certain consistent characteristics. On the other hand, appealing to a broad group of consumer segments would require numerous physical and marketing approaches to speak to each consumer group in ways that attract them to your operation.

For example, attracting consumers from say 18 to 65 years of age is not as daunting as it might seem. Think of it this way, each age group would typically eat chicken, beef, pork, seafood, and various vegetables and starches. The differentiation would occur in the atmosphere of the location, the menu presentation, the pricing, and of great importance, just how you market (frame and present) your offerings to the public.

Positioning is an intuitive process

Positioning often comes down to intuitive decisions. Sophisticated analysis techniques and experience can be helpful, but at the end of the day, the decisions made will probably be subjective - mainly because you are dealing with people, who by nature have strong subjective tendencies. A positioning map can be useful to identify opportunities and specify the current and desired positioning of the operations' products and services.

Differentiation is the goal

The primary goal of positioning strategy is to develop a differentiated product or service that creates a unique mind share, particularly in the target market segment(s). Established positions currently maintained by competitors are best attackable by focusing the operation's resources and promotion efforts on only a small number of particular products, services, or quality features that make your company special. Pick one product at a time and promote that product and its features. Advertising occurs in short durations - have one clear message. Another decision that many operations fail to make involves ‘what’ will be a part of positioning strategy. Said differently, the operation must decide what promotions they will fund and what will not receive funding at all. Advertising equates to dollars spent. Operators must consider advertising from this perspective: if this product and service is worth promoting then really promote it do not dilute the message with other items or issues for consumers to consider. Stay 'billboard' clear at all times.

On the other hand, positions are best defendable with the use of an aggressive, mobile counterattack involving repositioning existing products and introducing new features. This is the reasoning for understanding the strengths and weakness of the competition. At some point you may need to quickly respond to competitors and the better your information regarding their positioning, the better your response will be.

Position by price

Value is one the most important determinations consumers use to justify purchasing decisions. Set the price for the positioned product or services by estimating how much extra quality the product will possess over and above the competition. How much are the target consumers prepared to pay for this extra quality, over and above the competition's actual selling prices? Of course, this value strategy is also applicable to pricing established slightly below the competition. However, pricing set too low can appear by consumers to be an indication of reduced product quality.

Positioning as financially productive

Pricing should always have a purposeful intent. Many operators lose sight of the fact that while the aim of positioning is attracting targeted consumers, the overall purpose is to establish, maintain, and increase the profitability of the operation. Thus, to that end, the

operator should estimate the financial feasibility of the proposed positioning strategy. Is there a reasonable chance that the operation's positioning strategy will meet expected sales objectives and obtain the intended market share?

Many experienced operators enter a marketplace with an established restaurant concept. However, this is not always prudent based on the structure of the market. When evaluating a marketplace where no similar restaurant concept exists, the operator can make a decision regarding which type of restaurant would best fit the potential clientele of a proposed trading area. The following are major restaurant categories that bear exploration and utilization subject to the market conditions found in a trading area.

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5.8: Types of Restaurants

Types of Restaurants

Fast food - Quick Service (QSR)

Fast food restaurants emphasize speed of service. Operations range from small-scale street vendors with food carts to multi-billion dollar corporations like Mc Donald's and Burger King. If table seating is available, ordering does not occur from the table but from a front counter. Diners typically then carry their own food from the counter to a table of their choosing, and afterward dispose of any waste from their trays. Drive-through and take-out service are generally also available. The accurate name for fast food restaurants in the restaurant industry is ‘QSRs’ or quick-service restaurants.

Fast casual

‘Fast casual’ restaurants are primarily chain restaurants, such as Chipotles Mexican Grill, and Panera Bread. More of the food is prepared at the restaurant than is the case at fast food chains. Fast casual restaurants usually do not offer full table service, but may offer non-disposable plates and cutlery. The quality of food and prices tend to be higher than those of a conventional fast food restaurant are but may be lower than casual dining.

Casual dining

A casual dining restaurant is a restaurant that serves moderately priced food in a casual atmosphere. Except for buffet-style restaurants, casual dining restaurants typically provide table service. Chain examples include TGI Friday's and Applebee's in the U.S. and Harvester in the U.K. Casual dining comprises a market segment between fast food establishments and fine dining restaurants. Casual dining restaurants often have a full bar with separate bar staff, a larger beer menu, and a limited wine menu. They are frequently, but not necessarily, part of a wider chain, particularly in the United States.

Theme Restaurants

Theme restaurants offer a dining experience that evokes special times, places, or events, such as English pubs, restaurants owned by sports celebrities, and re-creations of diners from the 1950's.

Ethnic Restaurants

Ethnic restaurants tie closely to the cultures or food ways from which they originated. They include Mexican, French, German, Thai, and Japanese, Chinese, or Indian restaurants to name a few.

Fine dining

Fine dining restaurants are full service restaurants with specific dedicated meal courses. Décor of such restaurants features higher-quality materials, with an eye towards the "atmosphere" desired by the restaurateur. The wait staff is usually has higher skill levels and often wear attire that is more formal. Fine-dining restaurants are usually small businesses and are generally single-location operations or have just a few locations. Food portions are visually appealing. Fine dining restaurants have certain rules of dining which visitors must follow often including a dress code.

Similarly, location is crucial to quick-service restaurants because their clients depend on convenient access. Nevertheless, for some fine dining and theme restaurants, location is less critical than to other types of concepts. As such, there are a many factors involved in a positioning scheme. Additional themes or attributes are comparable in terms of your operation and that of the competition and appear in Figure 5.11.

Figure 5.11 Positioning Comparisons By Industry Attributes

Price vs. Quality	Food Quality vs. Atmosphere
Service Quality vs. Food Quality	Menu Diversity vs. Price Diversity
Price vs. Convenience	Good Consistency vs. Price Value
Take Home Convenience vs. Atmosphere	Cyclical Menu vs. Static Menu
Customized Catering Menu vs. Static Menu	Price Value vs. Food Quality

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The following establishments are subtypes of fast casual drinking restaurants or casual dining restaurants.

Each of these categories of foodservice concepts involves differences in menu, decor, mode of service, and price. However, not all of these factors are equally important within a given concept. Price is a critical factor in the success of quick service, family, and casual dining restaurants where customers are value conscious. However, price may not be as important in fine dining restaurants where customers expect to pay top dollar.

Brasserie or Bistro

A brasserie in the US has evolved from the original French idea to a type of restaurant serving moderately priced hearty meals - French-inspired "comfort foods"—in an unpretentious setting. Bistros in the US usually have more refined decor, fewer tables, finer foods and higher prices.

Buffet

Buffet restaurants offer patrons a selection of food at a fixed price. Food service occurs on trays around bars, from which customers with plates serve themselves. The selection can be modest or very extensive, with the more elaborate menus divided into categories such as salad, soup, appetizers, hot entrées, cold entrées, and dessert and fruit. Often the range of cuisine can be eclectic, while other restaurants focus on a specific type, such as home cooking, Chinese, Indian, or Swedish. The role of the waiter staff in this case relegates to removal of finished plates, and sometimes the ordering and refill of drinks.

Dress Code

Casual

Blue jeans and a T-shirt best describe the "casual uniform". With the popularity of 'spectator sports' in the late 20th century, a good deal of athletic gear has influenced casual wear. Clothing worn for manual labor also falls into casual wear although an exact determination of what is acceptable and what is not does not really exist.

Smart Casual

Personal judgment is required to interpret the ill-defined term smart casual based on its context, theme, people, location, weather and spirit. Many state that Smart casual is not an issue of inventory or classification but rather knowledge and good taste to understand the environment; Smart casual is the dress code most open to interpretation and the one least understood. Some suggest wearing fresher colors, lighter, softer materials, patterned, relaxed, thoughtful, less structured, clean and not confrontational apparel with fabrics like linen, cashmere, fine wool and cotton that launder easily. From a different perspective, an example of smart casual attire could include the use of: (a) a dress shirt, or a dress shirt with French cuffs and cufflinks (formal); (b) a herringbone or navy jacket (casual); (c) jeans (casual); and (d) dress/business shoes. The Smart casual scene assumes the position of ‘flexibility’.

An individual's personality and pleasure of clothing choice should define this dress code assuming that the attire is a multi-purpose outfit that is acceptable for formal occasions, dating, or casual gatherings. Typically, smart casual involves casual and formal clothing pieces mixed and matched. Thus, a smart casual outfit can include a mixture of jeans, blazers, sweaters, necktie, dress shirts, business shoes, or an appropriate pair of sports shoes.

Business Casual

There is no generally agreed definition of 'business casual'. One line of thinking about business casual states that it includes khaki pants, slacks and skirts, and as well as short-sleeved polo shirts and long-sleeved shirts, but excludes jeans, tennis shoes, tight or short skirts, t-shirts, and sweatshirts. To others, business casual consist of neutral colors more towards the dark shades of black, grey, navy, but can include white and off white, and the clothing should be pressed and have clean, crisp seams. Still, there are those who feel that business casual is a pair of chinos, a blazer and a good shirt with a collar but no tie.

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5.9: Classroom Preparation Assignments

Positioning and Marketing Exercise 5.9.1

1. Positioning statement and strategy
2. Utilizing the hospitality marketing mix
3. Sources of data
4. Type of restaurant you intend to construct
5. Type of advertising you intend to utilize
6. Electronic media usage

Example

BRIEF MARKET POSITIONING STATEMENT EXAMPLE

With all these advertising strategies in mind, as well as our goals for the restaurant, we need to decide what sort of eatery our restaurant will be, and I believe that “fast casual” is the answer to that question. Because I do not want our customers to feel obligated to tip, I would like to make it so that the primary feature of the dining room is a drinks bar that the customers can order from, receive drinks from, and then take their seat, where servers will bring their food to them. However, I don’t want our restaurant to feel like a McDonald’s, so I will have a couple of dining room attendants, one of which is a manager, to ensure the guests have everything they need to ensure their meal and to clean the dining room so that it is always pristine. Each customer service will include a carafe of ice water at the table, but we will also offer beer and cans of soda, the latter of which will be at a low price to keep costs down for the customer. Even though all meals will be ‘cook to order’ with local ingredients, by keeping these “extra” costs like the cost of drinks and tipping down for the customer, we will become a go-to eatery for our local neighborhood.

Discussion Questions 5.9.2

1. What is the positioning process?
2. What are the attributes to consider when compiling the ideal mix for consumers?
3. What factors are involved in a competitive benefits analysis?
4. There are six important positioning questions to ask. Which is the most important and why?
5. How does the hospitality marketing mix differ from the traditional marketing mix?
6. What are the components of ‘internal’ marketing data?
7. How do primary data and secondary data differ?
8. What advantage does the Internet provide in terms of reaching customers?
9. What are the most important objectives of an online ‘organizational presence’?
10. What is a ‘push’ promotion strategy?
11. What methods would be used to accomplish a ‘’pull’ promotion strategy?

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5.10: Chapter Glossary and Notes

Glossary

Positioning. The process of determining how to differentiate a firm's product offerings from those of its competitors in the minds of consumers by answering the question ‘What do we want consumers to think about our company when they see our restaurant, look at our signage, our logo, marketing literature, advertising, and so forth?’. Positioning is the marketing activity and process of identifying a market problem or opportunity, and developing a solution based on market research, segmentation, and supporting data.

Consumer Mix. These attributes will differ by product or service, but some of the more important attributes would include price, value, quality of food, type of food, service quality, menu variety, employee friendliness, location, atmosphere, service speed, cleanliness, parking, and so forth.

Perceptual mapping. A technique used to construct graphic views or representations of how consumers in a market perceive a competing set of products relative to each other because of the difficulties associated with graphing and understanding multidimensional presentations, in evaluating comparisons between alternative brands.
Unique selling proposition (USP). The opportunity to differentiate the product-service mix from that of the competition and thereby gain a competitive advantage.

Traditional marketing mix. The traditional mix consists of four individual elements that come together to form the marketing mix and are often referred to as the four P's of marketing: price, product, place, and promotion.

Product-service mix. This is a combination of all the products and services offered by the restaurant operation, including both tangible and intangible elements. For example, it would include such things as the dining room, the amenities offered, and the broad array of elements that would also include the restaurant's 'ambience package.'

Presentation mix. This includes those elements that the marketing manager uses to increase the tangibility of the product-service mix that the consumer perceives. This mix includes physical location, atmosphere (lighting, sound, and color), food, and personnel.

Communication mix. This involves all of the communication that takes place between the restaurant operation and the consumer. It includes advertising, marketing research, and feedback about consumer perceptions. View the communication mix as a two-way communication link, rather than a simple one-way link with the restaurant operation communicating to the customer rather than 'with' the customer. This two-way link allows for the traditional advertising and promotion that flow from the seller to the buyer, but it also allows for marketing research and other data collection vehicles.

Pricing mix. In addition to the actual price an operation charges, the pricing mix encompasses the consumer's perception of value. The pricing mix includes such variables as volume discounts and bundling multiple products together for an overall discounted price. Quick service restaurant chains use this bundling approach extensively as a method to increase customer spending.

Distribution mix. This includes all distribution channels available between the organization and the target market. Historically, distribution occurred at the point of production, such as restaurant food production. This has changed since newer distribution channels, such as the Internet, have developed; the importance of the distribution mix has increased.

Discretionary income. This refers to the income that is available for spending after deducting taxes and necessary expenditures on housing, food, and basic clothing.

Economic environment. Consumers' 'purchasing power' or ability to purchase ‘products and services’, is directly related to the economic health of the city, sate, and country. As marketers study the economic environment, they are concerned about such things as inflation, recession, unemployment, resource availability, interest rate trends, personal income growth, business growth and performance, and consumers' confidence in the economy.

Social environment. The social environment is under the effect of all of the other environments to come into play. Changes in the economy, advances in technology, competitive actions, and government regulations all shape the way consumers view the world from both demographic and psychographic perspectives.

Competitive environment. Within all markets, competitors seek to win the business of consumers by offering what they believe to be the best combination of products and services designed to result in maximum consumer satisfaction. The competitive structure in an industry can range from a monopoly, with one seller and many buyers, to perfect competition, with many buyers and sellers of homogeneous products that are almost the same.

Political/Legal environment. Understanding the political and legal environment means understanding the rules and regulations from which competitive actions stem. At all levels of government - local, state, national, or international - there are laws and regulations that businesses must follow. To compete successfully, an organization must understand not only the current laws and regulations, but also any new ones that might come into play in the future.

Technological environment. Using data base software, marketers have improved their ability to target their customers, track their behavior and preference, and then provide exactly what the customers desire when they want it. Through the careful use of technology, marketers can monitor guests' purchasing behavior and then tailor service offerings to meet their needs.

Secondary data. Data that is already available from other sources and summarizes information about operations, marketing, human resources, financial performance, and other topics of interest to restaurant management.

Primary data. Primary data consists of original research done to answer current questions regarding a specific restaurant operation. For example, a foodservice manager may attempt to ascertain consumer attitudes towards new menu offerings or to solicit consumer perceptions of increased menu prices or different portion sizes. This type of data is very pertinent to an individual organization but my not be applicable to others. The advantages of using primary data include specificity, and practicality.

Fast food - Quick Service (QSR). Fast food restaurants emphasize speed of service. Operations range from small-scale street vendors with food carts to multi-billion dollar corporations. If table seating is available, ordering does not occur from the table but from a front counter. Diners typically then carry their own food from the counter to a table of their choosing, and afterward dispose of any waste from their trays. Drive-through and take-out service are generally also available. The accurate name for fast food restaurants in the restaurant industry is ‘QSRs’ or quick-service restaurants.

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The following establishments are subtypes of fast casual drinking restaurants or casual dining restaurants.

Brasserie or Bistro. A brasserie in the US has evolved from the original French idea to a type of restaurant serving moderately priced hearty meals - comfort foods—in an unpretentious setting. Bistros in the US usually have more refined decor, fewer tables, finer foods and higher prices.

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categories such as salad, soup, appetizers, hot entrées, cold entrées, and dessert and fruit. Often the range of cuisine can be eclectic, while other restaurants focus on a specific type, such as home cooking, Chinese, Indian, or Swedish. The role of the waiter staff in this case relegates to removal of finished plates, and sometimes the ordering and refill of drinks.

Push promotion strategy. Marketing managers uses the 'push promotion strategy' when they want to push the product-service mix through the service delivery system or channels of distribution. This approach encourages an increase in purchases and consumption by consumers. This method includes point-of-sale displays, cooperative advertising, traditional and electronic collateral material such as brochures.

Pull promotion strategy. This strategy aims at stimulating consumers' interest and having them pull the product through the channels of distribution. This in turn puts additional pressure on the retail outlets to supply the products and services most in demand by consumers. These methods include sampling, price reductions, coupons, combination offers, and premiums.

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CHAPTER OVERVIEW

6: The Marketing Plan

6.1: Marketing versus Selling
6.2: Marketing Plan Inclusions
6.3: Competitive Methods
6.4: Managing successful promotions
6.5: Types of Sales Promotions
6.6: Classroom Preparation Assignments
6.7: Chapter Glossary and Notes

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6.1: Marketing versus Selling

Chapter 6 Learning Objectives

- Comprehend the difference between ‘marketing’ and ‘selling’.
- Gain a working knowledge of what a marketing plan should include.
- Understand competitive methods.
- Comprehend and utilize different types of sales promotions.
- Gain a useful understand of ‘push’ and ‘pull’ sales promotions.
- Understand promotional themes and techniques.
- Gain a working knowledge of successful promotion management.

> “Even when you are marketing to your entire audience or customer base, you are still simply speaking to a single human at any given time.”
> Ann Handley

> “Great marketers have immense empathy for their audience. They can put themselves in their shoes, live their lives, feel what they feel, go where they go, and respond how they'd respond. That empathy comes out in content that resonates with your audience.”
> Rand Fishkin

The Marketing plan

Most restaurant operations engage in activities that they incorrectly refer to a marketing. Many people confuse advertising or personal selling with marketing. Although such activities are without question a part of the marketing function, alone and with no support they do not refer to marketing. Advertising and personal selling are merely forms of promotion, and promotion is just one component of the marketing mix. Operators engaging in activities of this type are merely attempting to sell their products and services. Marketing refers to the ‘entire’ process addressing the hospitality product and service mix.

The product-service mix is composed of all the tangible and intangible products and services that make up a hospitality operation. The product-service mix includes the food, beverages, dining room, meeting facilities, tabletop appointments, and personal attention by service personnel, and well as a host of other tangibles and intangibles. Advertising and selling, alone, focus only on the hospitality operation’s product-service mix, and the goal is to convince the consuming public to purchase and consume a portion of that mix. The ‘needs’ and ‘wants’ of the consuming public are given little consideration. Instead, the operation is hoping that a sufficient number of consumers will patronize the operation to allow the restaurant to achieve its financial objectives.

The hospitality and tourism industry, especially, food service, abounds with examples of operations that have failed because the owners created operations they ‘like’ or ‘always wanted to operate’, yet the owners and operators fail to consider fully the needs and wants of potential customers. The results are predictable: low volume, poor sales revenue, and frequent bankruptcy.

Marketing versus Selling

The difference between selling and marketing is very simple. Selling focuses mainly on the firm’s desire to sell products for revenue. Sales people, and other forms of promotion, come together to create demand for an operation’s current products. Clearly, the needs of the seller are very strong. Marketing, however, focuses on the needs of the consumer, ultimately benefiting the seller as well. When truly marketing a product or service, the needs of the consumer are a strong consideration from the very beginning of the product development process, and the product-service configuration aims at the unsatisfied needs of the consuming public. When a product or service arrives on the scene in the right mix, very little selling is necessary because the consumer need already exists and the product or service is merely in production to satisfy the need.

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6.2: Marketing Plan Inclusions

A marketing plan will normally accompany the business plan for the concept. A business plan sets a direction for the restaurant before beginning work on the actual development; provides a reality check on the feasibility of the undertaking; sets budgets; and determines capital needed and attracts investors. An effective marketing plan includes all information pertinent to locating, attracting, and retaining customers. The information contained in a marketing plan include:

- The target market and the market segments that will be the most advantageous to the operation
- A detailed description of the geographic market area
- The final building design
- The type of signage that will be used to carry the concept to the target market
- A description of the decor and atmosphere of the facility
- The selected name for the operation and the designed logo to hallmark the concept. Note that name, where possible should indicate what cuisine a potential customer could expect. A name that does not connote a specific type of menu fare will be confusing to the public and require marketing to attract a clientele.
- The final menu
- The level of quality customers can expect and how this standard will be maintained
- The amount and type of staffing and training -quality standards for employees
- A description of the intended price/value perception
- The sanitation and cleanliness standards
- The feedback loop for continuous product and service improvement the strategic business units (SBU's) within the organization and within the restaurant such as breakfast, lunch, dinner, catering, delivery, and retail
- An analysis of the competition and their strengths and weaknesses
- Any barriers to market entry now and in the future
- The intended promotion and advertising intended to attract and retain the concept's clientele

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6.3: Competitive Methods

When entering a marketplace knowledge of the existing competition, and those other entities that might enter the marketplace are essential. What is the current restaurant environment? How will you gain a foothold? 'Competitive methods' is nothing more than a clear picture in your own mind regarding 'what' and 'how' you intend to compete. Matching the correct competitive method to the market is critical to both success and survival. Once success and growth begins to occur the appropriate adjustments can ensue to sustain and continue to increase profitability.

Restaurant Environment / Competitive Methods Match

Environmental Events	Competitive Methods
Entering and Expanding within a Segment and Marketplace	• Multiple concepts • Brand recognition • Real estate holdings • New concept development • Unit facelift improved atmosphere
Address Consumer Expectations	• Changes in pricing strategy • More upbeat, energetic music • In-store execution of production • Friendly and helpful employees • Community involvement • 'Guest first' philosophy
Technology	• Efficient cooking systems • Website • Management information system • Simplify operational procedures

Competitive Methods Relating to Executing the Marketing Plan

Physical	Human	Organizational
• Convenience • Packaging • Technology • Augmenting menus • Variety of product offerings • Downsizing units • Limited menus • Upgrade building, equipment • Décor / ambiance • Cleanliness • Location • MIS systems • Landscaping • Signage • Maintenance systems • Asset security systems • Real estate holdings	• Management talent • Team spirit – employees • Cultivating diversity • A motivated workforce • Innovative personnel • Employee loyalty • Performance measurements • Recruiting • Appropriate attitudes • Appearance • Training programs • Turnover ratio • Development programs	• Product innovation • Market research capability • Brand identity • Reputation • Dual branding locations • Synergy from several concepts • Marketing frequency • Control procedures • Good planning • Quality perception • Simple operations • Ability to adjust to change • 'Services' marketing orientation • Internal marketing orientation • Effectiveness of functional units • Appropriate standards • Production methods • Entertainment experience

Remember, the competition is generally unaware of your presence in the beginning. As your operations grows and becomes profitable. Your competitors will muster a response to your actions. This is why taking a deep look at your competitors is vital to your success. Understanding the possibilities of a competitive response allows you initiate a ‘counter’ from the beginning.

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6.4: Managing successful promotions

When developing a sales promotion campaign, the marketer must consider several major aspects. First, it is necessary to determine the size of the incentive that will appeal to consumers and get them to participate. The larger the incentive, the more likely it is to attract attention. Second, the firm must establish the conditions for the participation. Restaurants often limit offers to certain times of day or days of the week. In addition, offers may require reservations in advance and depend on availability. Third, the marketer must determine the timing of the promotion, including its duration. Will the offer combine with other promotions, such as advertising? Will it be available during peak or non-peak hours? How long will the sales promotion be available? Finally, it is necessary to determine how consumers will learn of the promotion, and to estimate the total budget for the promotion. The disbursement of coupons usually occurs by mail, point of sale in the restaurant, or the Internet.

Hospitality trade journals are full of terrific ideas for promotions. There is never a need to reinvent the wheel. Rather, simply modify the ideas that others have used successfully before. Like anything else managers do, developing a promotion calls for careful planning, execution of the plan, and evaluation.

- Select the target market for the promotion. Analyze sales records to determine the most likely target markets for a special promotion, as these segments offer the greatest potential for increased sales.
- Establish specific objectives for the promotion. Objectives should be very specific, detailing exactly what the promotion should accomplish. Desired results should be numerical.
- Select the promotional technique. Examine the situation and the advantages and disadvantages of each of the techniques, select the one best suited to the situation.
- Brainstorm about the potential offer. There are hundreds of excellent ideas. Make a list of those deserving consideration and seek input from others. Consider all potential offers carefully from two perspectives: the potential appeal to the target market and the potential sales increase in light of the costs and expenses the operation will incur.
- Create the promotional theme. This is the area where you can be very creative. What will the promotional ‘tag line’ be? Does it capture the interest of potential guests? Can it be useful both internally and externally in the promotion? For a promotion to achieve the maximum potential, it needs to move forward both outside and inside the operation. Externally, its purpose is to build business. Internally, it should create excitement among the staff and build morale.
- Develop the promotional budget. A projection of the total costs you anticipate the promotion will costs, including both direct and indirect expense measurements. The wise operator projects the impact on both costs and revenue generation at several different levels of consumer participation.
- Select advertising media and vehicles to support the promotion. Secure advertising time space and the media platforms that will best reach your target audience.
- Develop an implementation timetable. Promotions require attention to detail so that all phases will integrate and implement properly. To accomplish this, a timetable is required. Plan the specific date selections for the promotion.
- Conduct internal training for the entire staff. Just prior to the implementation of the program, brief the entire staff so they are familiar with the details of the promotion. Items of interest are how long the promotion will last and ‘who’ is responsible for ‘what’ the details.
- Work the plan. Put the promotion plan into action and follow the timetable.
- Monitor the results. Feedback should receive careful consideration along with a timetable comparison. Are things progressed according to schedule? Is the level of consumer participation within the target range? Are the staff members working according to anticipation? Attention to detail is very important. You should collect and retain all information for future use in other promotions.

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6.5: Types of Sales Promotions

Restaurant operations use two common strategies within the broad sphere of sales promotion: 'push' promotion and 'pull' promotion. Marketing managers uses the 'push promotion strategy' when they want to push the product-service mix through the service delivery system or channels of distribution. This approach encourages an increase in purchases and consumption by consumers. A 'pull promotion strategy', on the other hand, aims at stimulating consumers' interest and having them pull the product through the channels of distribution. This in turn puts additional pressure on the retail outlets to supply the products and services most in demand by consumers. Some of the most commonly used push and pull techniques follow.

Techniques for push promotions

- **Point-of-sale (POS) displays**. The displays you usually see at the counter of fast-food restaurants or as table tents in other types of restaurants, called 'point-of-sale (POS) displays. Their purpose is to stimulate an increase in sales. Similarly, signs, banners, and table tents are often useful displays in restaurants as well.
- **Cooperative advertising**. A national chain normally provides advertising at the national, regional, and local levels to support outlets. In addition, franchisees will often receive financial assistance with local advertising, in addition to chain's national advertising, as part of the franchise agreement. This practice references 'cooperative advertising'.
- **Advertising materials**. To encourage the local property to run advertising, the national chain will supply camera-ready advertising materials as well as radio commercials.
- **Traditional and electronic collateral material**. Many firms supplement their other promotional efforts with materials such as brochures, flyers, or directories of other outlets within the chain. Beyond the traditional print collateral materials, firms use Web-based promotion to communicate with current and prospective customers.
- **Convention and owners'/managers' meetings**. National chains use these meetings as a method to introduce new products and services to those who will be working in the individual units. These meetings are useful for sales and service training.

Techniques for pull promotions

- **Sampling.** This technique is useful and effective for foodservice operators. Distribute samples of menu items at the table or in the lobby area of the restaurant. Thereby encouraging customers to try the product. The goal is to convert this trial into regular use and repeat purchase. This technique is common in banquet sales where operators allow patrons to 'sample' the products and services before they make a final decision about the host restaurant for an upcoming event.
- **Price reduction promotion.** Price reductions for a limited time can encourage trial and increase sales. Many restaurants use price reductions to increase volume during otherwise slow periods of the week, or daypart. As with all promotions, restrictions should apply and a definite time- period.
- **Coupons.** These are certificates entitle the consumer to receive a discount upon presentation at the restaurant. Distribution can occur in newspapers, magazines, face-to-face, direct mail, or through the Internet utilizing a customer e-mail bank or Web function.
- **Combination offers or bundling.** This involves combining two or more products or services and offering them for less than what they would cost if the purchases occur separately.
- **Premiums.** Extra merchandise or gifts that the restaurant gives away or sells at a very reasonable price to guests are 'premiums'. Examples include items such as hats, tote bags, glassware, and T-shirts with the logo of the restaurant on them. If the restaurant is able to cover direct costs of the item, the premium refers to 'self-liquidating'. Some operations sell a considerable volume of logo merchandise. Hard Rock Café T-shirts are virtually collector's items from national restaurants and international locations as well.

Common Promotional Techniques

The most common sales promotion techniques in the hospitality and tourism industry are coupons, sampling, and premiums. A more in-depth discussion of these techniques follow.

Coupons

The primary objectives for coupons are to stimulate trial of your products and services by reducing the price, encouraging multiple purchases, and generate temporary sales increases. Coupons offer several advantages.

- The coupon represents a tangible inducement, offering savings or benefit.
- The price reduction is for a limited time and will not affect profit margins in the long term.
- Coupons can be used to accomplish specific objectives, such as boosting business during non-peak periods or slower sales days
- The maximum cost of the promotion calculation occurs in advance. For example, previous experience allows you to estimate the coupon redemption rate.
- If codes are present on the coupon and a corresponding record indicates ‘where’ the coupon distribution occurs, the operator can gain an understanding of ‘where’ the new business is coming from.

Coupons have disadvantages as well:

- Some employees will be tempted to defraud the business. It is possible for them to take cash and substitute coupons. The higher the value of the coupon, the more supervision is necessary.
- Redemption rates are not an easy prediction. Among the environmental factors that can affect the redemption rate are the value of the coupon, timing, and the activities of direct competitors. This is most common with new promotions because there is no prior history on which to predict future coupon redemption rate

Sampling

Encouraging trial of new or existing products; is the primary objective of ‘sampling’. If consumers will at least try the product, there are more likely to purchase it in the future. Sampling is also an excellent way to persuade consumers to trade up to more expensive products and services. Sampling can tie in with other types of promotions. Sampling offers these advantages:

Getting consumers to try the product is superior to getting them to look at an advertisement - It provides the operator with instant feedback.

It represents value to the consumer. Many consumers like to think that they can get something free. For example, including small portions of entrée and appetizer items ‘complements of the chef’ or in the free offerings during ‘happy hour’ is an excellent way to stimulate dining room business.

Some disadvantages of sampling include:

- Giving away products can become a major expense if it occurs for an extended period.
- Samples of food products must reach the customers when they are fresh. If the operation intends to hold the products for a lengthy period, care is necessary to ensure that the product quality sustains until it reaches the customer.

Premiums

Premiums – items that you give away – are useful to bring in new guests, to encourage frequent visits by current customers, and to build positive word of mouth about the operation. Advantages include the following.

- Most consumers like to get something for nothing or for a good price. It helps to build goodwill for your business, especially if the customer places a high value on the premium.
- If the premium is clever or unique, it will build positive word of mouth as consumers tell others where they found it. When your logo is included on the premium, the message is always in front of the consumer.

Disadvantages of premiums include:

- Storing and handling the premium items can be a challenge if they are large or bulky.
- Employees and others may take the premiums for their own use or for their families and friends.
- The quality of the premium must be equal or superior to the image of the restaurant facility. If the premium does not work properly or breaks, it will diminish the image the consumer has of the facility or organization.
- Anticipating demand from premiums is difficult. If the operation’s advertising indicates that the premium is available, it is imperative that a sufficient inventory is available so that consumers will not walk away empty-handed.

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6.6: Classroom Preparation Assignments

The Marketing Plan Exercise 6.6.1

1. Marketing approach and target markets
2. Electronic and traditional media
3. The methodical approach you intend to use
4. Incorporate position statement

Example

Table of Contents – A Standard Outline Marketing Plan

1. Vision
2. Goals
3. Purpose
4. Customer
5. Market Needs
6. Market Trends
7. Market Description
8. Demographics
9. Psychographics
10. Behaviors
11. Geographic Area
12. Growth Projections
13. Differentiators
14. Direct Competition
15. Indirect Competition Strategy
16. Core Message
17. Positioning Goal
18. Key Strategic Indicators
19. Core Branding Elements
20. Colors
21. Logo
22. Images
23. Product/Service Innovation
24. Price Rationale
25. Marketing Materials
26. Marketing Story Case Study Plan
27. Testimonial Plan
28. Multi Media Materials
29. Web Plan /Website Marketing +Strategy
30. Content Strategy
31. Search Engine Strategy
32. Social Media Plan
33. Social Networking
34. Lead Generation Plan
35. Advertising/Public Relations Referrals
36. Direct Mail
37. Mailing List Source & Follow-up
38. Community Building Plan

39. Loyalty Product/Service Offerings
40. Critical Numbers
41. Sales Forecast/Marketing Expense Budget
42. Measurement Plans
43. Key Marketing Metrics
44. Marketing Training
45. Marketing Organization

? Discussion Questions 6.6.2

1. How does marketing differ from selling?
2. What does an effective marketing plan include and how does it differ from a business plan?
3. How could a restaurant operation enter and expand within a segment and marketplace?
4. What would be possible advantages offered by ‘technology’ to a foodservice operation?
5. What are the two main types of sales promotions and what is the method?
6. What techniques do ‘pull’ promotions utilize?
7. What are the primary objectives of coupons and what advantages do they offer.

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6.7: Chapter Glossary and Notes

Glossary

Selling. Selling focuses mainly on the firm's desire to sell products for revenue. Advertising and personal selling are merely forms of promotion, and promotion is just one component of the marketing mix. The goal is to convince the consuming public to purchase and consume a portion of that mix.

Marketing. Marketing focuses on the needs of the consumer, ultimately benefiting the seller as well. When truly marketing a product or service, the needs of the consumer are a strong consideration from the very beginning of the product development process, and the product-service configuration aims at the unsatisfied needs of the consuming public.

Business plan. A business plan sets a direction for the restaurant before beginning work on the actual development; provides a reality check on the feasibility of the undertaking; sets budgets; and determines capital needed and attracts investors.

Marketing plan. An effective marketing plan includes all information pertinent to locating, attracting, and retaining customers.

Competitive methods. A clear picture in your own mind regarding 'what' and 'how' you intend to compete. This includes your capabilities and knowledge as a competitor and includes physical, human, and organizational capabilities.

Push promotion strategy. Marketing managers uses the 'push promotion strategy' when they want to push the product-service mix through the service delivery system or channels of distribution. This approach encourages an increase in purchases and consumption by consumers. This method includes point-of-sale displays, cooperative advertising, traditional and electronic collateral material such as brochures.

Pull promotion strategy. This strategy aims at stimulating consumers' interest and having them pull the product through the channels of distribution. This in turn puts additional pressure on the retail outlets to supply the products and services most in demand by consumers. These methods include sampling, price reductions, coupons, combination offers, and premiums.

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CHAPTER OVERVIEW

7: Materializing the Concept - The Facility

7.1: Materializing the Concept into Facility Development

7.2: Location

7.3: Facility Development

7.4: Concept Development

7.5: Spatial Aspects of Restaurant

7.6: The Physical Location

7.7: Classroom Preparation Assignments

7.8: Chapter Glossary and Notes

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7.1: Materializing the Concept into Facility Development

Chapter 7 Learning Objectives

- Understand the importance of market evaluation to design a facility.
- Gain a working knowledge regarding how to think about facility inclusions.
- Understand the function of money in the facility design process.
- Know the elements of a poor location.
- Comprehend how to think about real estate worth.
- Gain the ability to perform a detailed analysis of a restaurant's location.
- Utilize a facility checklist.
- Learn how to integrate concept and location.
- Understand how to equip a facility.
- Understand how to locate various components within a facility.
- Apply design state considerations to a facility.
- Gain a working knowledge of facility space considerations.
- Gain a working knowledge of the various licensing and permits necessary for restaurant operation.

> *"Nothing belongs to itself anymore. These trees are yours because you once looked at them. These streets are yours because you once traversed them. These coffee shops and bookshops, these cafés and bars, their sole owner is you. Nothing belongs to itself anymore."*
> *Kamand Kojouri*

> *"It's hard to target a message to a generic 35-year-old middle-class working mother of two. It's much easier to target a message to Jennifer, who has two children under four, works as a paralegal, and is always looking for quick but healthy dinners and ways to spend more time with her kids and less time on housework."*
> *Elizabeth Gardner*

To begin to think about what the physical facility should represent to a potential clientele. The concept integrate into the building design to position the concept as well as the delivery of products and services in the minds of those patrons the operation intends to attract. The successful foodservice operation combines the following elements of concept development into the actual design of the physical facility: market, menu, money, management, and method of execution. Each will receive discussion in detail later in the chapter, but this initial grouping should help to center their importance to the restaurant's physical presence.

Market

Once an examination of the trading area occurs to gather the appropriate demographic, psychographic, and behavioral profile, an analysis of the data should render sufficient information to make segmentation choices and provide answers to the following relevant questions pertinent to the determination of what the physical facility should offer to the operation. Basic market questions include:

- **To whom are you marketing the food operation?** Before construction begins on the facility, the operation must have a clear idea about specifically 'who' the preferred clientele will be. Are they young, middle-aged, families, older couples? Each category of customer prefers certain amenities.
- **Is the market large enough to generate sales and produce a profit?** This question can reflect the city and trading area itself, or equally used to refer to different clientele brackets. If one intended segment of the market is not sufficient to cover the expenses of the operation and produce a profit, then additional segments must be included and the requirements of those additional patrons should receive consideration in the design process.

- **How will you identify the market?** What is the segmentation strategy? Based on the size of the city, and trading area, choose and describe each segment of patrons the facility must attract.
- **What level of competition exists in the market?** What quality standard and level of functionality do direct competitors offer your intended patrons? What could you do to enhance the customer's experience and sense of obtained value?
- **What method(s) will be useable to communicate to this market?** This question is important to consider when deciding on the facade, ground, lighting, signage, and logo design of the facility to name a few important items.
- **Will the potential customer want or need the food product?** This question speaks directing to the sunk costs of the facility and subsequent pricing because of expenses incurred. If customers feel a 'need' for the products and services of the restaurant, they will typically be willing to pay a bit more than customers who are will to more toward substitutes to obtain greater value should financial considerations come into play.
- **Will a quality assurance plan be developed that will encourage the customer to return because of superior service and/or product quality?** The operation and facility must always deliver what the concept marketing indicates patrons can expect. Too often operations fall short of advertised promises. The facility design must meet both the desired and pubically conveyed standards the operation must maintain the public trust and its perception of value.
- **Will internal marketing successfully sell the customer additional services or products and maintain different avenues of product and service delivery?** From the broad perspective, the facility design must display products and logo items of the concept. Additionally, how will you handle customer delivery orders if that form of service is available? Will you force customers placing take-out orders to mingle with seated patrons? Will the facility have a convenient walk-up design for those wishing to remain in casually dress? How will payment be made and food delivered to these customers. The devil is always in the design.

Most operations fail to plan the various ways customers are reachable by their concept. All areas of the operation should complement each other without impeding any other area. Each customer should receive a superior product and service experience no matter what manner of delivery is desirable. Stated differently, many operators consider delivery, or take-out, as just additional revenue. The prudent operator that it is also an expansion of the dining room and a decision to utilize the operation when the customer makes the decision to use the operation's services in a capacity other than 'seated' dining - as such, this is business that would be lost if avenues other than sit-down dining were not offered.

A classic mistake made by both large corporations and individual restaurant operators is to conduct the market analysis and then fail to act based on the information obtained.

Facility

The menu has a tremendous influence on the design and success of a food operation. An operator must constantly frame his or her thinking of the menu as the primary or sole source of revenue for the operation that will cover the expenditures of the operation on a monthly or yearly basis, and provide the profits sought by the organization. Will the menu be static, seasonal, broad, or narrow? Is there a balance among sautéed, gridded, and fried items - or will one station bear the burden of production? From a design and layout perspective, these are just some of the factors determined by the menu:

Amount of space required

A complex menu requires more space to prepare items than a limited, or simple, menu because separate workstations and additional equipment are necessary. Depending on the amount of space available in a prime location, 'make' or 'purchase' decisions may well become practical considerations. Will artisan breads, rolls, or desserts be prepared from scratch in house? Will these items be outsourceable? Do we actually need an ‘on premise’ bakery? Will you plate-up desserts with ice cream in the hot kitchen? How will you segregate and partition the kitchen? How will you stock preparation areas? Product control considerations? The list can be extensive.

Service area size and design

The greater the number of menu items, the more area required for service in the kitchen as well as staging and work stations necessary in the dining room (each different entrée requires a point of service and each form of beverage a dispenser). Stated a bit differently, how far do you expect your service staff to travel to obtain or prepare necessary amenities for the customer? How involved in the preparation of certain products would you expect the service staff to be engaged in? Table setting, bread, butter,

drink and/or dessert service? These questions speaks to the spatial aspects of floor plans as well as the number of tables that a server can adequately handle in terms of movement and product/service delivery.

Dishwashing area, size, and machine capacity

Complex menus require multiple plates, dishes, and utensils, so the dishwashing area and machine capacity will need to be greater than in the case of simple menus. Based on the size of the operation, will one dishwashing area suffice to maintain smooth and efficient service? Should one dish area exist for the kitchen and one for the dining room items such as plates, glasses, and utensils? A well-planned ware-washing arrangement could reduce the amount of plates, glasses and flatware necessary to the flow of service.

Types of cooking equipment

Complex menus require multiple types of equipment, especially in the final preparation area, where it may be necessary to steam, fry, bake, and sauté. Which pieces of equipment are necessary to execute the menu? Which items utilize the same pieces of equipment? What about preparation for different day parts? Is the intended equipment sufficient to prep and prepare items for dinner while luck is in progress? Can we receive multiple food deliveries per week that would reduce the need for a freezer? Product procurement is an often-overlooked consideration regarding space allotment in the kitchen.

Equipment capacity – limited menus may require relatively few pieces of equipment but with large capacities. Complex menus may require many different types of equipment with relatively smaller capacities.

Size of dry and refrigerated storage areas

The size of the dry and refrigerated storage areas is central to the ingredients needed to execute the menu. What are the packaging dimensions for these necessary ingredients - both dry and those needing refrigeration or freezing? Plan these issues to accomplish a storage area and scheme that facilitated product safety, security, freshness, taking inventory, and product rotation.

While product specifications can be easily obtainable from the market suppliers, one important aspect of procurement often goes overlooked when space decisions are considered. How often will the supplier make a delivery to the operation? The projected volume of the restaurant should be a consideration along with the frequency of delivery when determining spacing needs. ‘Just in time’ ordering requires less space. For instance, products from a supplier that delivers three times a week as opposed to once a week would require less space for the products they provide to the operation. The operator, for example, does not have to project customer volume and a pad should that volume increase. You will be able to replenish products utilized for a larger Monday dinner crowd on Wednesday rather than having to take a chance on running out of ingredients before the following week's shipment.

Number of employees

When factoring in the menu and the amount of customer volume, how many employees will the operation need to run smoothly? During slower periods, will equipment capacity and placement allow for fewer employees in your kitchen and dining room? Will you section off portions of the dining area to allow for good customers service with them feeling alone in the dining room? This takes planning from the beginning of facility development.

Amount of investment required

The investment you require must center initially on the amount of money your target market can afford to spend on a meal. The facility must embody your marketing scheme and brand elements. Your menu selections and pricing must consider your cost and profit factors. Thus, the menu must be affordable to your consumers and cover your expenses and profit. Do not build a facility at odds with this fact. While an attractive facility is important, it cannot exceed in cost what your menu and target market can reasonably afford or you will see your customers once a month rather than once a week. The message is to not ‘over-build’ the facility to the detriment of the operation.

Money

Successful capitalization of a food facility includes funding for the following items.

- Planning costs
- Building construction or renovation
- Equipment (fixed)
- China, glassware, utensils

- Furniture and fixtures
- Décor
- Start-up and operating costs

Obtaining funds is a two-stage process – preliminary identify financial support, after concept development securing investors or lenders.

Management

The quality of the management of the operation will be the most important element in achieving success. Typical questions that owners must address include:

- Who will operate the facility?
- What kind of food experience and educational background must this person have?
- Who will assist this person in covering the long hours that are usually required to operate the facility?
- What level of pay will this person receive?
- Will this person receive compensation in some way for excellent sales and profit results?
- How will the owners set operational policies and communicate these to the management staff?

The answers to these questions will determine the organizational structure and the kind of management team that will efficiently operate the food facility. Investors or institutional administrations prefer traditional management principles of good communication, strong controls, and sound personnel relations.

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7.2: Location

Poor Location

The prudent restauranteur considers the location of a restaurant as the ‘connection’ between your target customer and your operating concept. Regarding the actual site selection, some experts indicate that as long as the restaurant is located in the 'right' area of a city with a strong economic component, the actual 'site' is not a primary concern for success. They feel that unique food and beverage offerings, along with good service, will overcome most obstacles and attract customers, even to a location that is not so obvious to consumers. Others on the other hand are not so optimistic. To meet in the middle, regardless the methodology you inherently embrace, it would be safe to say that, at the very least, the restaurant's concept and location must "fit" each other and the restaurant site is an important part of that fit. Over time, it would equally be appropriate to state that as certain things about the trading area and location change, the concept must often change to adapt. A discussion of the important aspects of choosing a 'location' should begin with a look at how bad locations come about.

1. **Choosing the most convenient location.** Many operators insist on settling for a location that is the most convenient for them thus ignoring the demographics, psychographics, and behavior patterns, or site problems within the marketplace. Many forget that the intention is not to find a site for the restaurant you are looking for the best site available to bridge the consumer and the intended concept. This is what the site must accomplish.
2. **Selecting a weak strategic location.** Often the selected site offers little strategic advantage to the operation. For example, choosing a location not visible from a major thoroughfare would certainly decrease customer awareness of your operation. Further, you must now market your concept to consumers thereby increasing operating costs incurred from the lack of visibility that would enhance your chances. The problems of such a selection are higher if the trading area is highly competitive.
3. **Overlooking the importance of drive-by features.** A lack of easy access and visibility can be hard to overcome once the restaurant goes online. When considering the nature of foodservice, it is important to remember that customers need to think of you when hunger set in, additionally, your concept must come to mind when the consumer chooses a location to feel that need. Visibility constantly reinforces your name and operation in the consumers' mind. Easy access must the choice effortless for them. Should they eat here, or battle traffic to reach your out of the way location? Different customers make different decisions. Make it as easy as possible to choose your operation.
4. **Choosing a site that can be out-positioned.** If it is possible for a major competitor to acquire a location between your operation and the customer, think carefully before selecting that site. In the quick-service or casual segments as examples, location becomes key because there is little consumer loyalty in either segment. Thus if the consumer has trouble reaching your concept, another choice becomes equally viable.
5. **Entering the market too late.** In any trading area, there is a fine amount of disposable income. Even if consumers in a trading area decided to try your concept, not enough income is available to sustain your operation over time everyone will typically garner a smaller portion of the available 'pie,' Becoming a market niche in ‘sellers’ market’ is inherently far more profitable - and provides a better cushion for negative happenings.
6. **No competition in the trading area.** Sometimes operations will settle in areas with no competition with the assumption that such a move will instantly provide an advantage only to find out that this is not the case. Typically, a lack of competition in the trading area is an indication of poor market conditions or other consideration that make a site selection in that area a poor decision. An area devoid of foodservice facilities where operations once were is a prime indicator of a declining market. It is always best to explore 'why' no competition exist before one revels in the lack of it. In foodservice, a competitive environment will generally act as a traffic generator for the area pulling consumers toward the area rather than sending then to other parts of the market.
7. **Locating in areas primarily occupied by offices.** Such areas have large populations during 'business' days only to find the area empty after five o'clock in the evening. While these areas might possibly provide some breakfast or lunch business during the workweek, searching for potential customers on evenings and weekends can become a futile activity. Some organizations are satisfied with breakfast or lunch business but those day parts are not as profitable to a full-service restaurant. Consumers expect lower prices for meals during those day parts. An additional difficulty exists in the attempt to draw customers to the trading area after dark when the area is a ghost town with little drawing power from adjacent areas.

- Another prime example would be medical offices surrounding a large hospital facility. What appeared to be wonderful opportunities have cripple many a foodservice organization. Doctor's offices and the like generally close early and most hospitals offer foodservice on the premises not to mention time constraints for worker and the arduous task of leaving and returning. In sum, breakfast consumers consider themselves 'late' and lunch consumers are 'in a hurry.' The customer who is transitioning from the happenings of the day with the time to relax and enjoy a full meal is the 'evening' dinner customer. This area lack the consumer most apt to enjoy your offerings and service.

8. **Overlooking demographic information.** When determining whether, or not, a location connects with the targeted consumer in a trading area, overlooking the market's demographic information can be an insurmountable mistake. If the information suggests that the closest neighbors are not really the lifestyle types who would love to see your concept in their trading area, look to a different location. Those that fail to do so typically do not survive. Thus, before the location search, it is extremely important for foodservice operations to have a clear definition and understanding of who would be attracted to their concept and have the resources to act on that attraction.
9. **Selecting quaint out of the way locations.** An area with little vehicle or foot traffic is generally problematic if not initially, with certainty over time. Again, visibility reinforces consumer familiarity needed to remain at the forefront of restaurant selection process. Worded differently, the question about such a location that needs consideration from the start is “What will make consumers decide to leave the beaten path to come to our operation?” With the current importance of the two-family income stream limited time, and finite resources, a positive answer from the typical consumer might well be 'occasional' rather than consistent. The occasional choice limits your operation from becoming the 'habit' it needs to be to generate the consistent income need to fund a restaurant operation. At the practical level, how many good employees can you retain when sales are inconsistent or primarily on the weekends? It is not a good idea to situate your operation under such circumstances.
10. **Overlooking vehicle patterns.** Vehicle patterns can present formidable barriers to the success of your operation. Many a failed restaurant, seeking dinner business, made a location selection on the inbound side of the thoroughfare instead of the traffic flow exiting the area with the much higher customer probability. How would potential customers cross heavy traffic lanes to get to the facility? Traffic lanes where the speed limit is above 45 miles per hour hamper the consumers’ ability to make quick decisions regarding a restaurant selection, or the slowing process to turn into the establishment parking lot. Consumers generally follow the path of least resistance.
11. **Failing to do a market study.** When one examines the types of decisions made which lead to a restaurant failing, many of the aforementioned issues are a result of the organization failing to do a current and comprehensive market analysis prior to making site decisions. Consumers with the appropriate resources to make the restaurant successful are the highest priority in a market feasibility study. Their psychographic tendencies and behavioral nature are of equal importance in evaluating the restaurants chances for profitability if not its very survival.
    - Over time, many restaurants get off track by failing to maintain 'current' consumer demographic information. In five years, a neighborhood can become unrecognizable. Other businesses will enter the marketplace and some will leave. Consumer preferences will change and a concept fresh and new that is only a few years old can become stale and uninteresting from the customers' perspective. Failing to stay current in terms of information about the marketplace and reacting to that information is one of the primary causes of restaurants failing to maintain consumer appeal. Consumers can have very short memories. An enjoyable visit to a competitor can wipe out almost any trace of your operations existence. After all, the other restaurant is new, fresh, current - more exciting than your concept. Consumers are not shallow. They seek to be enticed, excited, and entertained. If your operation forfeits the ability to accomplish that, another operation will graciously fill your shoes.

Considering the Location

Concept and Location - The Relationship

The proper question: Is it a concept looking for a location, or, a location in search of a concept? In any case, the meanings are similar. The restaurant and the location must complimentary to each other. The physical restaurant represents a concept that threads throughout the furnishings, atmosphere, menu price, seat arrangement and spacing, and the type of service scheme offered. As a location changes its character, parts or all of the conceptual elements in place at that location change as well. A simple foodservice concept such as a hot-dog stand may fit nicely in a shopping center at a given time. However, as other fast food concepts enter the

market, the character of the location begins to change. The hot-dog operator may try to extend the menu to compete. As you draw more and more children to that location, an entertainment arcade arrives and now competes for the money children or their parents might have spent on food. In another instance, as sales in a particular casual restaurant fell off, the company changed the place into a more family friendly restaurant featuring hamburgers, peanuts, and entertainment. A Mexican restaurant in an affluent section of Dallas fails. The same location becomes successful as an expensive upscale restaurant. A seafood restaurant in Long Island loses ground and returns to prominence as a Mexican restaurant. This is the path for many operations - concept and location, two sides of the same coin.

What makes a good location for a restaurant?

The answer squarely lies on the desired concept, and the targeted clientele to which it appeals. Does the concept fit the site? Is the location convenient and accessible for the potential clientele in the trading area? A restaurant targeting white and pink-collar professionals for lunch, for example, must be relatively convenient. For other groups of consumers, ‘availability’ drives choice. Auto travelers’ favor roadside restaurants located near Interstate highways as an exemplar. Thus location within a community (rather than on the edge of a city) and near the major highway are plus-factors for tourists traveling through. Further, being a "branded" entity adds to the appeal when the consumers are strangers to the community and are looking for a standard of quality and price. Most travelers know the standards of an Olive Garden or a McDonald's. They are familiar with menu items and pricing, and of additional importance, the sanitation standards of the operations whether it is located in Dallas, Chicago, or New Orleans.

The size of the potential trading area must be large enough to support a particular type of restaurant. A quick service restaurant many need only a population of 10,000 to support it while an upscale gourmet restaurant may require 200,000 to have success. In most instances, a required population within a certain "mile' radius of the operation is considered adequate. In general, the price structure of the restaurant will be one of the major determinants in establishing a restaurant operation within a given market place. For example, the $16.00 to $25.00 menu prices of one type of operation may only appeal to 5 percent of the population while a $8.00 meal for two at a nearby quick service restaurant my appeal to 40% or more of the potential clientele in the market. In reality, neither restaurant actually needs to be near a highway to be successful. The public is more apt to search them out according to tastes and available funds.

The Concept Creates the Location

Normally upscale dining, many forms of casual, and family-style restaurants need not place the same high priority on the convenience of location that, on the other hand, are vital to the success of a coffee shop and most quick service restaurants. In effect, with the right concept, the restaurant itself creates the location if the food service and atmosphere are desirable to consumers. The fact that undesirable locations that have failed as restaurants for as many as ten times in succession then taken over by another operator with a different concept and within a few weeks are again bustling with clientele reinforces this point.

In light of this, developers and community officials are often eager to entice a successful restaurant operator into a new shopping center, areas with stagnant growth, or even those areas that have fallen on hard times. Decaying communities may offer particularly attractive terms to an operator with a proven record of accomplishment. A productive restaurant attracts hundreds of people and can be part of the rejuvenating process for a shopping center, mall, or other area.

A successful restaurant scheme with a colorful personality may often do well in a relatively poor location with regards to its surroundings, its distance from the actual trading area, accessibility issues, and general convenience to the consumers it intends to attract. Of course, it would be equally fair to say that such a restaurant would probably be that much more successful situated in a prime location. Many established restaurateurs consider the usual location factors as being relatively unimportant. They feel, and experience has proven, that people will search out their restaurants. Consequently, they look toward buying failing restaurants located in relatively undesirable locations, remodel them, and utilize a strong marketing plan to build its clientele and bring back the location. Nonetheless, not every case is a success story and while many operators might subscribe to this way of thinking, and equal number or more would state that even with the best location it can be difficult to succeed in the hospitality arena. The restauranteur must understand that prime locations do cost a great deal more thus adding to the operations overhead.

What is the restaurant location worth?

What is the fair price to pay for a restaurant location? The answer to this question actually centers on a balance of two potential values. The first value is the worth placed on the location itself – the real estate value. This value derives from the worth of the

surrounding properties or 'comparable' prices. Other factors that would add to the real estate worth of a property include improvements or upgrades to the building or grounds, ease of access, and so forth. The real estate value may be greater than the operational value. On the other hand, the lack of such amenities might reduce the worth of a location despite higher comparative prices.

A restaurant location has 'two' potential values:

1. Real estate value
2. Value as a profit generator

While a true real estate value calculation is justifiable, the true value of a location to you, the restauranteur, concerns its ability to be a profit generator. A good restaurant operator understands that the real estate value is of little consequence if the site's ability to fulfill the needs of the operation do not exist. A site lacking profit generation viability truly has no worth to the restaurant operation in this case. Further, the building can detract from the restaurant value if the building has failed as restaurant before, or is unattractive.

The following are some of the important factors to help determine the worth of a location to you.

Real Estate Value

- A potential buyer is concerned with the real estate value; a potential lessee is less so.
- However, an entity wanting to lease a restaurant location must also be concerned with the real estate (or its potential value) because if the value increases, the owner will increase the rent (unless the lease agreement includes a clause to prevent such an increase).

How is the real estate value determined?

1. The value computation involves competitive values in the community.
2. The market value ties to the value set for similar properties in the area.
3. Question – Is the asking price above or below the "market value" for the area?

What affects market value?

- Potential changes in property zoning by local or state zoning boards.
- Will highways or other changes occur in the near future?
- Is the area getting better or worse for a particular kind of restaurant?
- Is the area going on the decline or undergoing revitalization?

As the area changes, the kind of restaurant that will be supported also changes.

- A declining area may need a lower check average restaurant, fast food, or coffee shop.
- As affluence grows, more dinner houses can enter the market.

Why did a restaurant fail in that location?

- Did they not see neighborhood 'direction' (growing or declining) correctly?
- Did the preceding firm have a strong well-conceived concept?
- How was their menu development?
- Was the location attractive to that clientele?
- Did they have qualified management and employee practices?
- Was it simply that the areas could not support the restaurant - or a particular concept?

A Detailed Analysis for the Restaurant Location

Seating

- 40 to 50% of all table-service restaurant customers arrive in pairs
- 30% come alone or in parties of 3
- 20% in groups of 4 or more

Space recommendation:

- Luxury or table service - 15 to 20 square feet
- Coffee shops and casual dining – 12 to 17 square feet
- Cafeterias – 10 to 12 square feet
- Counter service – 18 to 26 inches per stool

Site Specification:

- Population requirements
- Residential backup, motels, shopping centers, or office parks
- The area must demonstrate growth and stability
- Easy access and visibility
- Availability of all utilities to the property, including sewer
- Minimum dimensions for the location
- Zoning requirements are conducive to expansion
- Free-standing building
- Free-standing corner location
- Building limitations
- Building regulations applicable to the site
- Mall location
- Heavy vehicular/pedestrian traffic
- Home values and family income levels are average or above
- Minimum income level within 1 mile of the location
- Close to activity generators
- No less than 2 to 3 miles from other existing company locations
- Restaurant competition within 1 mile of the location

Insurance – consult your insurance agent and the fire marshal for all current requirements.

- If leasing or renting – who carries the insurance, the operator or the property owner?
- If it is the property owner – what specifically is covered? Is a copy of the insurance available for inspection? If you have not seen it – it does not exist.
- Does coverage include your inventory as well as the building? The coverage may not include the interior of the building or item contents – always ask about this.
- Is "business interruption insurance" feasible?
- Is current insurance coverage sufficient to replace losses? Inflation and new equipment make it necessary to update insurance coverage periodically to reflect replacement costs.
- Is a sprinkler system in the location? This helps to reduce insurance costs.
- What about construction materials? Are they flammable?
- Does the building have an alarm system, fire extinguishers, and proper exit signage? All of these reduce insurance premiums.

*****Department of Health – walk through the property with the health inspector as codes may have changed.**

If the build was functioning as a restaurant in the past, the operation may have not made the necessary changes to adhere to current requirements. The new tenant becomes liable for those changes to bring the build up to the current health code. The restauranteur should be aware of any additional expense they may face to make the building suitable in the present. Additional changes or upgrades to the facility are not necessarily unworkable – not knowing you will incur them 'prior' to securing the funds to renovate and operate the operation, on the other hand, is unacceptable and dangerous to the success of the business.

Triple Net Lease

This refers to a lease in which the property owner passes on the operator the responsibility for building leasehold improvements, increases in taxes, or increases in insurance. In general, it means that the property owner incurs no further expense beyond his investment after signing the lease. In simple terms: the operator assumes the burden of upkeep, taxes, improvements (replacing old necessary items are improvements) and insurance on the building.

Drawing Up A lease

Begin with a few questions that are important to the operator. Why is the building up for rent or lease? Who were the previous operators? Is it a high crime area? Will highway expansion disrupt the flow of business in the near future? Is there sufficient parking? Is the building in good repair? Is it a bad location? Pests? Are there fire hazards? You should consult with the fire department, police, and health department to confirm all property owner information or to obtain this information.

Clauses that should be included in a lease for a restaurant:

- Names and addresses of the parties – property owner and tenant.
- Period of time the lease is in effect
- Amount of lease payments
- How paid. Rent is payable on the last day of the month, unless there is a clause in the lease requiring advance payment. Negotiate this if necessary
- Occupancy (how many people can occupy the building)? The fire marshal is your confirmation source – not the property owner.
- Facility availability and a specific date.
- Parking (exact amount of space to be available to your operation)
- Equipment included as part of the lease
- Who is responsible for repair or replacement of existing equipment?
- Security deposit return
- An assignment/sublet clause
- Clause stating that the property owner agrees not to withhold unreasonably his consent for the tenant to assign or sublet.
- Condemnation clause – a right to interpose your own claim in condemnation.
- You have the right to operate a restaurant – and/or permission to alter the building.
- Permission to erect a sign (some landlords see this as higher insurance risks)
- Right to paint the building the color you wish
- Wine and liquor licenses, health permit, business permit, fire department permit – there should be a conditional clause stating that 'the lease will have no effect if any of the above permits are denied. The lease is conditional on obtaining the necessary licenses and permits.'
- An option to renew the lease and the method of computing the rent at the time.
- The have the right to remove equipment and provisions for such movement
- A "no competition" clause in the lease (the property owner cannot rent to other foodservice establishments creating adjacent competition for you).
- A clause, which protects the tenant in case of death or insanity, such as "wife or partner may terminate the lease".
- Unpleasant odors that cannot be eradicated easily will terminate the lease

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7.3: Facility Development

The better the connection between customer and concept, the better the chances of success for the organization. With this in mind, remember that the location is the physical domain that allows the concept to come to life. Therefore, the building, concept, and customer elements must come together at the restaurant site. Some initial broad considerations begin this discussion.

- The type of customer the business will attract.
- The amount of construction or remodeling cost incurred to bring the facility online.
- Subsequently, the investment requirements from lending institutions or investors.
- The type of local ordinances and the state and federal laws that affect foodservice establishments
- The availability of workers in the trading area.
- The ease or difficulty in obtaining alcoholic beverage licenses.
- The parking availability for the operations customers as well as the ease of accessibility to your facility from roadways.
- Occupancy costs such as insurance, fire suppression, accessibility of restrooms, other handicap law requirements, and so forth.
- Zoning ordinances. One of the very first issues to investigate with regard to a location is the area zoning. Zoning ordinances for the location under consideration must allow your specific type of operation to do business at the location, and must permit adequate parking on or near the property.

To begin to think about what the physical facility should represent to a potential clientele. The operator must integrate the concept into the building design to position the concept as well as the delivery of products and services in the minds of those patrons the operation intends to attract. The successful foodservice operation combines the following elements of concept development into the actual design of the physical facility: market, menu, money, management, and method of execution. All will receive discussion in detail later in the chapter, but this initial grouping should help to center their importance to the restaurant's physical presence.

Market

You must properly examine the trading area to gather the appropriate demographic, psychographic, and behavioral profiles. An analysis of the data should render sufficient information to make segmentation choices and provide answers to the following relevant elements pertinent to the determination of what the physical facility should offer to the operation Before the facility can begin construction, the operation must have a clear idea about specifically 'who' the preferred clientele will be. Are they young, middle-aged, families, older couples? Each category of customer prefers certain amenities. Is the market large enough to generate sales and produce a profit? This question is reflective of the city, and trading area itself. It could equally to refer to different clientele brackets. If one intended segment of the market is not sufficient to cover the expenses of the operation and produce a profit, then additional segments must be included and the requirements of those additional patrons must receive consideration in the design process. Basic market elements would include:

Market Identification

What is the segmentation strategy? Based on the size of the city and trading area, choices are necessary to describe each segment of patrons the facility must attract.

Level of competition

What quality standard and level of functionality do direct competitors offer your intended patrons? What could you do to enhance the customer's experience and sense of obtained value?

Market Communication

How will we communicate with our target market? This question is important to consider when deciding on the facade, ground, lighting, signage, and logo design of the facility to name a few important items.

Customer wants or needs

This speaks directing to the sunk costs of the facility and subsequent menu pricing as an expenses incurred consequence. If customers feel a 'need' for the products and services of the restaurant, they will typically be willing to pay a bit more than customers who are will to more toward substitutes to obtain greater value should financial considerations come into play. Will a

quality assurance plan be developed that will encourage the customer to return because of superior service and, or, product quality? The operation and facility must always deliver what the concept marketing indicates patrons can expect. Too often operations fall short of advertised promises. The design the facility to meet both the desired and publically conveyed standards. The operation must maintain the public trust and its perception of value. Will internal marketing successfully sell the customer additional services or products and maintain different avenues of product and service delivery?

From the broad perspective, the design the facility to display products and logo items of the concept. Additionally “How will delivery orders be handled if that form of service is offered? Will customers placing take-out orders have to dress up and mingle with seated patrons? Will the facility have a convenient walk-up design for those wishing to remain casually dressed? How will payment be made and food delivered to these customers. The devil is always in the design. However, the proper design is profitable.

Most operations fail to plan the various ways to reach customers with their concept. All areas of the operation should complement each other without impeding any other area. Each customer should receive a superior product and service experience no matter what manner of delivery customers ’prefer. Stated differently, many operators fail to consider delivery or take-out as an expansion of the dining room and a decision to utilize the operation when the customer makes the decision to use the operation's services in a capacity other than 'seated' dining - as such, this is business that would be lost if avenues other than sit-down dining were not offered. Understanding how customers wish to utilize your products and service is vital to your success. A classic mistake made by both large corporations and individual restaurant operators is to conduct the market analysis and then fail to act on the information obtained.

Menu

The menu has a tremendous influence on the design and success of a food operation. An operator must constantly frame his or her thinking of the menu as the primary or sole source of revenue for the operation that will also cover the expenditures of the operation on a monthly or yearly basis, and provide the profits sought by the organization. Will the menu be static, seasonal, broad, or narrow? Is there a balance among sautéed, gridded, and fried items - or will one station bear the burden of production? From a design and layout perspective, these are just some of the factors determined by the menu:

Space required

A complex menu requires more space to prepare items than a limited, or simple, menu because separate workstations and additional equipment are necessary. Depending on the amount of space available in a prime location, 'make' or 'purchase' decisions may well become practical considerations. Will we prepare artisan breads, rolls, or desserts in house? Is it more prudent to outsource these items? Do we actually need an on premise bakery? Will we have to plate-up desserts with ice cream in the hot kitchen? How will we segregate and partition the kitchen? How will we stock preparation areas? Product control considerations? The list can be extensive. The HACCP orientation required product to flow from the back of the restaurant to the front to minimize cross contamination. A normal restaurant kitchen flow follows. Notice that dishwashing and ware washing can occur at different locations within the facility. This type of configuration separates dirty pots and pans found in the kitchen from glassware, plates, and utensils in use in the dining area. Waste disposal is another area that can be located more conveniently to the outside trash bin.

Typical Kitchen Product/Traffic Flow

Equipping the Facility

Major Categories of Kitchen Equipment

1. Receiving and storage of food
2. Fabrication of food
3. Assemble, hold, and serve
4. Clean-up and sanitize the kitchen and kitchen ware

Storage

- Dry storage
- Cold storage
- Freezer Storage

Space Analysis

- Dock, receiving area
- office, locker room, toilets
- storage area, dry, cold, freezer, cleaning supplies, dishes, and utensils
- preparation area
- ware-washing
- production are
- bakery
- dining room
- service areas
- wait stations

Pre-prep - Fabrication - Preparation

The key thought about this area is that it is where raw (or processed) foods begin their journey to their final destination, the plate of the guest. This area is for breaking down different cuts of beef, seafood preparation, chicken, opening and prepping crates of fresh

produce, and storing or not storing these items.

Preparation items needed

- worktables
- compartment sinks
- refrigerators
- freezers
- food and condiment wells
- cutting boards
- portion scales
- meat saws
- grinders
- mobile carts
- speed racks
- shelving
- knife and tool compartments

Garde Manger items

- Hand Held and small appliances
- Salad spinner
- Graters
- Portable mixers
- Blenders'
- Knives
- Scrub brushes
- Kitchen towels
- Color-coded bowls, cutting boards
- Cross-contamination controls

Production area

Dry Heat: sauté, broil, roast, fry, and bake
Moist heat: braise, boil, and steam

Dry and moist heat cooking equipment, refrigerated storage, tool storage, exhaust system, fire suppression system, refrigerated prep lines, steam holding tables, compartment sink, hand-washing sink(s). The following placement suggestions help to segregate equipment based on task and function. These groupings also increase the ease and maneuverability of the kitchen staff. For example, you do not want the grill person walking around a steam kettle or a tilt skillet to perform a sauté function during a slower period.

- Volume cooking to the back, to order cooking to the front.
- Group large-volume cooking together (deck ovens, steam-jacketed kettles, and tilt skillets).
- In a la carte kitchens, group together fryers, broilers, open-burner ranges, and steam equipment.

General equipment requirements

The following are the major types of equipment found in restaurant kitchens: broilers, grills, stoves, ovens, frying equipment, steamers, prep lines, holding equipment, convection ovens, tilt-skillet for breakfast items, sauté, braise, roast, steamer, poacher, or a hot-hold unit.

Bakery

On-site baking requires additional room and equipment. What baked goods will be prepared on site, and which, if any, will be purchased? Will baking occur from scratch? Will you use premixed or frozen items? Choice determines equipment needs. Depending on the type of baking done, the location of the bakery can be a crucial choice. Considerations include cold dessert

preparation and holding, preparation area for from scratch bread or roll products, and access to dishwashing. While this production area requires some thought, products produced can achieve signature status for the restaurant.

Assembly, Holding, and Serving

- Beverage equipment
- Cold/ hot -serving equipment
- Infrared warmers
- Coffee brewers
- Condiment holding
- Mobile equipment
- Plates and saucers (hot or cold),
- Glasses, and so forth

Cleaning and Sanitation

- Cleaning and sanitizing supplies
- Cleaning sink(s)
- Three - compartment sink(s)
- Glassware storage
- Water heating equipment
- Dishwashing equipment
- Ware washing equipment
- Hand sink(s)

Service area size and design

The greater the number of menu items, the more area required for service in the kitchen as well as staging and work stations necessary in the dining room (each different entrée requires a point of service and each form of beverage a dispenser). Stated a bit differently, how far do you expect your service staff to travel to obtain or prepare necessary amenities for the customer? How involved in the preparation of certain products would you expect the service staff to be engaged in? Table setting, bread, butter, drink and/or dessert service? These questions speaks to the spatial aspects of floor plans as well as the number of tables that a server can adequately handle in terms of movement and product/service delivery.

General Considerations

Dishwashing

Complex menus require multiple plates, dishes, and utensils, so the dishwashing area and machine capacity will need to be greater than in the case of simple menus. Based on the size of the operation, will one dishwashing area suffice to maintain a smooth and efficient service operation? Should we construct one dish area for the kitchen and one for the dining room items such as plates, glasses, and utensils? A well-planned ware-washing arrangement could reduce the amount of plates, glasses and flatware necessary to the flow of service.

Types of cooking equipment

Complex menus require multiple types of equipment, especially in the final preparation area, where it may be necessary to steam, fry, bake, and sauté. Which pieces of equipment are necessary to execute the menu? Which items utilize the same pieces of equipment? What about preparation for different day parts? Is the intended equipment sufficient to prep and prepare items for dinner while luck is in progress? Can we receive multiple food deliveries per week that would reduce the need for a freezer? Product procurement is an often-overlooked consideration to space allotment in the kitchen.

Equipment capacity

Limited menus may require relatively few pieces of equipment but with large capacities. Complex menus may require many different types of equipment with relatively smaller capacities.

Size of dry and refrigerated storage areas

The size of the dry and refrigerated storage areas directly relates to the ingredients needed to execute the menu. What are the packaging dimensions for these necessary ingredients - both dry and those needing refrigeration or freezing? These issues deserve careful consideration during design to accomplish a storage area and scheme that facilitated product safety, security, freshness, taking inventory, and product rotation.

While product specifications are easily obtainable from the market suppliers, one important aspect of procurement often goes over looked when space decisions are considered. How often will the operation receive deliveries from suppliers? The projected volume of the restaurant should be a design factor along with the frequency of delivery when determining spacing needs. “Just in time” ordering requires less space. For instance, products from a supplier that delivers three times a week as opposed to once a week would require less space for the products they provide to the operation. The operator, for example, does not have to project customer volume with the addition of a pad should that volume increase. The products utilized for a “larger than expected” Monday dinner crowd could be easily replenished on Wednesday rather than having to take a chance on running out of ingredients before the following week's shipment.

Number of employees

Kitchen space must also consider the number of people working in the kitchen area. Factors that to consider would include the size and type of menu, the diversity of the menu, and the volume of the restaurant. Other considerations in terms of equipment is the necessity to turn tables requiring more ‘fire power’ in the kitchen, and placement of equipment to allow ease of operation by fewer staff members during slower periods – allowing kitchen staff to easily oversee more than production area during slower periods in the day.

The financial investment required

Again, this is a function of what you need to kitchen to produce. If your design requires a ‘show kitchen’ then the quality of the equipment will be visible to the guests and should be appropriate for viewing and the equipment arrangement should reflect that purpose. In such kitchens, cleanliness is paramount and thus an important consideration. This would equally extend to the type of menu offerings that will allow functionality and appearance.

A kitchen design ‘closed’ from customer view allows the operator to utilize second hand equipment to reduce startup costs. This is an important consideration if money is limited. As the restaurant becomes established, the income produced from sales revenue can be useful to purchase new equipment to replace the older equipment. Modern equipment requires less maintenance and comes with a warranty while second hand equipment comes ‘as is’ and the purchaser assumes all risk for repairs or replacement. It is important to note that many pieces of equipment have long life expectancies and should receive strong consideration in a new foodservice operation.

When considering the equipment purchases, the life span of the equipment you will need to operate the restaurant become important. Determining what equipment should be new and what second-hand equipment could help you to reduce your initial expenditure is a major financial consideration. Every dollar you can allocate toward marketing and promoting the operation is key to your success. The following table indicates the useful life span of many of the pieces of equipment your restaurant might utilize.

An additional benefit of second hand equipment will come in the approval of lender. A second hand equipment purchase is normally at ‘market value’ – the actual worth of the equipment. Thus, the purchase price closely resembles the amount the equipment would bring if put up for sales later. Further, you collateralizing market value cost with your lender as opposed to the inflated cost of new equipment what will depreciate in value – but not your monthly payments those pieces of equipment. **Always consider the ‘durability’ and ‘technical’ aspects regarding maintenance of equipment when making this type of decision.**

Restaurant Equipment Useful Lifespan

Item	*Expected Life (Years)*
Convection ovens	8 to 10
Deck ovens	10 to 15
Rotary ovens	12 to 20
Mixers	15 to 25
Ranges	10 to 15
Steam-jacked kettles	15 to 25
Food Choppers	10 to 15
Vertical cutter-mixers	12 to 15
Tilt skillets	12 to 20
Grills	8 to 12
Fryers	8 to 12
Broilers	8 to 12
Steamers - high and medium pressure	10 to 15
Steamers - convection	8 to 12
Walk-in refrigerators/freezers	12 to 20
Reach-in refrigerators/freezers	8 to 12
Coffee urns	8 to 12
Ware-Washing machines	10 to 15
Shelving - stainless steel	25 to 40
Shelving - glavanized wire	25 to 40
Ice machines	8 to 12
Hoods/ventilation systems	5 to 8

Successful capitalization of a food facility includes funds to cover the following elements of the facility:

- Planning costs
- Building construction or renovation
- Equipment (fixed)
- China, glassware, utensils
- Furniture and fixtures
- Décor
- Start-up and operating costs
- Two stages – the preliminary identification of financial support, and after concept development securing investors or lenders.

Preliminary Planning

Development – refers to the size and complexity of a foodservice facility design project. You can divide ‘development’ into four levels of complexity, each of which requires the involvement of different individual and different amounts of planning time.

1. The development stage influences the design approach taken by the owner or manager depending on complexity.
2. It is an important 'first step' before planning begins.

Stage 1 - Simple Development

Involves no more than the selection of a major piece of equipment or the replacement of a small area of a foodservice facility. Typically, the completion of this stage comes to completion out under the direction of the owner, or a manager, with the help of an equipment dealer. Examples of stage one include:

- Replacement of a dish machine
- Installing or replacing a display refrigerator
- Designing or changing a service counter
- The purchase and installation of an outdoor walk-in freezer, etc.

Stage 2 - Significant Development

Involves the renovation of a significant portion of an existing foodservice facility. A full complement of professionals is necessary at stage 2 because such projects are complex and require expertise in construction, engineering, and foodservice equipment layout and design.

Professionals involved from Stage 2 development onward:

- An owner
- An architect
- Mechanical and electrical engineers
- Foodservice facility design consultant
- Construction company or general contractor
- Kitchen equipment contractor.

Stage 3 - Complete Development

Projects involve the complete renovation of an existing foodservice facility or the design and construction of a new foodservice facility.

- Renovating the dietary department of a hospital
- Construction of a new theme restaurant
- Renovation of the kitchen, service, and dining areas in a country club
- Development of foodservice for a new hotel

The planning process for renovation of a foodservice facility often is even more complex than designing a new facility because of the:

- Difficulty of dealing with existing walls, structural members, utilities, and space and the demolition of parts of the existing structure.
- Decisions must consider which pieces of existing equipment should or could be useful in the newly renovated facility.
- Time element that can take from one to three years from design to completion.

Stage 4 - Large Scale Development

Projects that involve the development of a chain or franchise prototype.

- Constructed in multiple locations
- Inefficiencies in design or inadequacies in equipment can occur hundreds of times and thus will be exceptionally expensive to correct.
- Involves the full complement design team and the following: a corporate strategy; a well-researched marketing plan; complex financial planning; strong management team.

The food facility design at stage 4 must fit the needs of the:

- Menu

- Market
- Strategy
- Financial package developed by the corporation.

Professionals involved:

- Design team
- Investors / owners of the corporation
- Marketing consultants
- Financial planners
- Bankers
- Corporate staff specialists

Once the scope has been determined and the budget approved, the project can move forward to the next step in the process.

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7.4: Concept Development

Concept Development

It is normal for a person to consider a new restaurant or, in fact, to open a new restaurant without knowing what type of food facility will have the best chance of succeeding. The “concept” of a foodservice operation is the overall plan for how it will meet the needs and expectations of its intended market.

A foodservice operation’s can express a concept in many ways, including:

- Menu
- Décor
- Form of service
- Pricing
- Location

Therefore, “concept development” means developing a plan for the success of the operation in its market in advance of actually designing – let alone building – the facility.

- It proceeds the actual design of a facility because the design team must know what the menu, demand, hours of operation, and mode of service will be.

Single-Unit Restaurant Concept Development

The individual restaurant owner will most frequently uses a food facilities design consultant for concept design. Typically, a restaurant owner organizes a small group of business people to aid in the process.

- They begin to develop the concept
- Success or failure depends on the strength of the concept
- Success depends on how well the plans are followed

Not all of these factors are equally important within a given concept.

- Price is critical for quick service, family and casual restaurants – their customers are value conscious.
- In fine dining restaurants – prices is not so important.
- Location – is crucial for quick service restaurants because their clients depend on convenient access. Fine dining and theme restaurants it is less so.

Multiunit casual dinner houses and theme restaurants (Chili’s, Olive Garden, and TGI Friday’s are exemplars) follow a similar pattern in concept development. Their emphasis is on identifying the key characteristics of their target markets and then locating restaurants where a high concentration of individuals’ who have those characteristics live or work.

Key characteristics would include:

- Income
- Age
- Education
- Home ownership

Multiunit restaurants have a competitive advantage over single-unit restaurants because they have the opportunity to learn from experience with multiple examples of the same concept for analysis and comparison. When a chain restaurant firm has 500 virtually identical restaurants, it can analyze the factors that differentiate its high performing restaurants from its low performing restaurants, and make changes as necessary before opening additional units.

Multi-theme Restaurant Concept Development

A particular form of multiunit restaurant for which concept development is critical to success is the restaurant organization that opens and operates restaurants whose concepts are not identical but different. They need:

- Excellent marketing

- Well-planned menus
- Good design
- Sophisticated management

Hotel Food and Beverage Concept Development

The modern idea of food and beverage service departments in hotels is that it is an important profit center, which can attract guests and locals alike. Hotel managers have known for many years that hotel restaurants must have certain desirable features if they are to be successful. These include:

- Availability of parking
- Unique theme or décor (differing from the hotel itself)
- Strong promotion to the community
- A menu and a method of service that are distinctive

Institutional (Non-commercial) Foodservice Concept development

Often clarity of thought regarding the "operational concept" does not develop fully and this is a serious mistake. The institution must accurately interpret its market and must "sell" its products, even when the food is indirectly paid for by the customer. Institutions have moved from dining hall to "food court" designs. For example, institutional foodservice operators generally have exclusive rights to food sales at universities – but people can leave campus to eat. Thus, many made the change to a "food court" design to move away from the 'cafeteria' feel of the dining facility and to fend off replacement by individual food operations sources.

The Elements of Concept Development

The successful foodservice operation combines these elements of concept development: menu market, menu, money, management, and method of execution.

Market

A study of basic market questions that every operator needs to clearly answer:

- To whom will we market the food operation?
- Is the market large enough to generate sales and produce a profit?
- How will the market be identified>
- What level of competition exists in the market?
- What method will we use to communicate to this market?
- Will the potential customer want or need the food product?
- Will a quality assurance plan be developed that will encourage the customer to return because of superior service and/ or product quality?
- Will internal marketing successfully sell the customer additional services or products after he or she arrives at the food facility?

A classic mistake made by both large corporations and individual restaurant operators is to conduct the market analysis and then fail to act based on the information obtained.

Menu

The menu has a tremendous influence on the design and success of a food operation. From a design and layout perspective, these are just as some of the factors determined by the menu:

- **Amount of space required** – A complex menu requires more space to prepare than a limited or simple menu because separate workstations and additional equipment are necessary.
- **Service area size and design** – the greater the number of menu items, the more area required for service. (each entrée a point of service and each beverage a dispenser)
- **Dishwashing area, size, and machine capacity** – complex menus require multiple plates, dishes, and utensils, so the dishwashing area and machine capacity will need to be greater than in the case of simple menus.

- **Types of cooking equipment** – Complex menus require multiple types of equipment, especially in the final preparation area, where it may be necessary to steam, fry, bake, and sauté.
- **Equipment capacity** – limited menus may require relatively few pieces of equipment but with large capacities. Complex menus may require many different types of equipment with relatively small capacities.
- **Size of dry and refrigerated storage areas** – remember that the times and number of purveyor deliveries can help you determine the amount of space necessary for storage.
- **Number of employees** – the menu complexity and size, as well as type of service, are prime determinants in people requirements.
- **Amount of investment required** – the target market, type of concept, location costs, are all factors that drive capital requirements to fund the operation.

Money

Successful capitalization of a food facility includes:

- Planning costs
- Building construction or renovation
- Equipment (fixed)
- China, glassware, utensils
- Furniture and fixtures
- Décor
- Start-up and operating costs
- Two stages – preliminary identify financial support after concept development, and securing investors or lenders.

Management

The quality of the management of the operation will be the most important element in achieving success. Typical questions must be address by the owners:

- Who will operate the facility
- What kind of food experience and educational background must this person have?
- Who will assist this person in covering the long ours that are usually required to operate the facility?
- What level of pay will this person receive?
- Will this person receive rewards in some way for excellent sales and profit results?
- How will the owners set operational policies and communicate these to the management staff?

The answers to these questions will determine the organizational structure and the kind of management team that will be appropriate to operate the food facility. Investors or institutional administrations prefer traditional management principles of good communication, strong controls, and sound personnel relations. The in-depth discussion of ‘ownership structures’ follow in the next chapter.

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7.5: Spatial Aspects of Restaurant

There are two major considerations in deciding on an appropriate amount of space for a foodservice facility, which should be constant guides for decision-making:

- The exact purpose and use of the space.
- The cost of building and/or renting the space.

Upon surveying customers, Restaurants and Institutions found that most customers would prefer bigger dining areas so they would not have to wait for a table, or more restroom stalls so they would not have to wait there, either.

Where to start?

Decide what your end product will be: (1) the quantities of food you will turn out, (2) the number of meals, sizes of portions, amount of seat turnover, and type of service, (3) and to a lesser degree, the surroundings – kitchen and dining area – what do you have to work with?

Decide on your method of food preparation. Why is this important? You have to decide on which pieces of equipment your space must accommodate. Rule of thumb: 30% of the kitchen space goes to equipment.

- Equipment takes up a lot of space – you need to know (1) how many pieces will meet your volume needs as well as (2) what times of day each piece will be in service.
- Consider other space needs such as storage, serving areas, and general utility space available.
- For each piece of equipment you think is needed, draw a rough sketch of the work center (where a group of closely related tasks are done) where it will sit.

When it comes to space planning, it is not as simple as deciding on the number of guests you will serve and making certain there is enough room for them. *Space planning initiates in examining all parts of the foodservice facility, including beyond the front and the back of the house*. As such, the allocation of space begins with the 'customers view' from the front of the restaurant to the working space they do not see beyond the dining area, the space that must facilitates the food and service delivery and accomplish the goal of the operation in terms of guest expectation, cost control, and efficiency.

Exterior of the facility

This area included the parking lot, any public area that surrounds the business, patio seating, and sidewalk tables. The exterior of the facility is where initial customer experience impressions form. Restaurants located in malls or large office buildings will typically have to account for food-court-style seating will generally have to account for any seating or public area surrounding the facility.

Front of the house interior

This area includes the entryway into the facility, the dining area, wait stations, beverage service area, and restrooms. The customers' comfort should be very high on your list of space-priorities.

Back of the house interior

This space includes the hot-food preparation area, the cold-food preparation area, a serving and plating area, a bakery if one is included, and ware-washing area(s).

Kitchen auxiliary space

This space includes the receiving area, dry storage area(s), cold (refrigerated) storage, freezer, employee staging or break room, and office space.

American Disabilities Act

All spacing configurations and elevations must accommodate those patrons with disabilities. The act generally concerns, but is not limited to, the facility's entrance and exit areas and walkways, restroom accommodations, and aisle spacing for patrons with disabilities.

Planning Public Spaces

It is important to follow the thought process of the potential guest as they approach a restaurant. Many of the reasons for choosing a particular place may be spur of the moment but they require some serious judgments on the part of the potential guest. They are hungry - but they do not want to drive too far. These judgments might include:

Convenient location

Many of a restaurant's potential clientele prefer to dine close to work or home. The typical driving range is two to three miles in distance.

Outside signage

The restaurant's sign clearly indicates the type of cuisine the restaurant offers. The diner loves this type of food. An additional lunch special sign indicates a bargain or sale price. This form of outdoor signage also speaks to the customers' spending ability. Customer friendly includes pricing among other things.

Parking

An empty space right up front; on the convenient side of the street; does not look too crowded – maybe this diner is looking for a quick meal. Lunch diners seldom want to spend time searching for a parking place. Carryout parking is becoming quite popular and answers the parking need.

Architecture

Resembles other types of restaurants that the diner already like; the building and grounds look clean and inviting. This must be a good place – I think we will try them! The facility must look inviting but not raise the 'affordability' issue for the customer.

The Importance of a First Impression

Both quick service and table-service chain restaurants rely heavily on exterior appearance as marketing tools. McDonald's golden arches provide instant recognition. Casual restaurants like *Macaroni-grill* and *T.G.I. Friday's*, although not all alike, have similar exteriors that make it impossible to confuse them with other chain operations.

For an independent restaurant, it is important to state that it is often difficult to inherit a once well-known location and mask its former identity without costly reconstruction. Simply repainting the distinctive, pointed roof of an *International House of Pancakes*, for example, and opening a Chinese restaurant there is probably not a wise decision.

The diner approaches the front door. Remember, he or she already has plenty of impressions from what they have seen in the parking lot, the other customers' cars, the front signage, the landscaping, and whether the lot is clean or littered. The diner has not decided to eat here- just still checking it out. The next thing encountered is the door itself. Is it heavy wood with beveled glass insets? Clean, clear glass? A sleek colorful laminate? Even the doorknob or handle is a key to what awaits inside. Whatever the case, the door should be easy to open. Now the customer enters the restaurant. You should think through your customers' movements as design considerations.

Parking Areas

Consider the question of sufficient parking very early in the planning process for three critical reasons:

- Whether your operation is a freestanding restaurant or in the middle of a strip mall, ease of entry, exit, and of the greatest importance, availability are critical issues that can make or break a restaurant.
- The parking area may be both the first, and last, impression the guest has of your operation.
- Safety is a critical concern with many restaurant patrons. IF they do not feel safe in leaving their vehicles - they will frequent a competitor who provides a safe parking environment.

There are generally city laws that dictate public parking requirements. In most cases, local ordinances clearly indicate the space needs for restaurant parking. For freestanding buildings, the widely accepted standard is the need for *one parking space for every 100 square feet of space covered by roof*. This included patio dining covered by permanent awnings, for example, but excluded umbrellas used. The space 'under roof' includes all space: hallways, closets, kitchens, bathrooms, dining rooms, and so on. Thus, **if you have a total of say 3000 square feet of space under a roof, you would need 30 parking spaces.**

Cities generally spell out how much space to allocate per car. Most ordinances specify a single parking space must measure **7.5 to 10 feet in width, and 16 to 18 feet in length**. The shorter dimensions are for compact cars, and a parking lot may generally allocate up to 35 percent of its space for compacts. Roughly, this means that you need a space 40 feet wide to park a car at a 90-degree angle to the building and to provide a traffic lane; you need slightly less space if the car is park at an angle. Because parking requirements are quite technical, consult your city zoning authorities to be sure there is adequate space for parking.

If there is not adequate parking space on the property, other options do exist. Most cities allow off-premise parking, but only with a signed parking agreement with owners of space adjacent to the restaurant. Valet parking is another option if the valet lot is located near the restaurant. If you are located in a historic district or a busy downtown area, there are often different, less stringent standards that require fewer spaces - as few as one parking space per 2000 square feet under roof.

The appearance of the parking lot should be consistent with the image you wish to create. The parking area may also serve as a buffer between your business and the neighbors. It is important to keep parking lots free of litter, and someone on your staff should be in charge of checking it on a daily basis. Large cities like businesses to landscape parking areas to reduce the heat that radiates from large, flat stretches of cement and asphalt.

A parking lot should also convey a sense of safety, keeping criminals out as it draws customers in. From a legal perspective, good security lighting is a positive attempt on the part of a business to provide a safe environment.

- Lighting in the lot should provide a specific intensity throughout the lot.
- The lighting should also provide good visibility (with minimal glare) for customers and employees
- The first two goals should be accomplished without annoying the neighbors

When making lighting decisions for exterior areas such as parking lots and garages, operators often find themselves dealing with two competing forces: local energy-use codes and the recommended lighting levels from the **Illuminating Engineering Society of North America (IESNA)**. Occasionally the two sets of recommendations differ significantly. There is, however, general agreement that, because of their light color temperature and a superior color rendition index, **metal halide fixtures** are the preferred sources of parking lot illumination. Efficiency is measureable on a **Color Rendering Index (CRI)** a measurement of how a light source makes the colors of objects appear to the eye. **High-pressure sodium lamps have a CRI of 25, while metal halides have a CRI of 65 - 85.**

Possibly the biggest challenge in lighting a parking area is the corridors created by the parked cars. To minimize these corridors, **experts recommend locating illumination from at least two, and preferably four, light poles that are at least 20 feet tall**. The optimum light level for an open parking lot is **3 or 4 foot-candles**. To gain an idea of how much light that is, a supermarket parking lots average **3.5 to 5 foot candles of light**. For the entrances and exits, the lanes within the lot, and any loading zones, the illumination level should be twice the level of either the lot itself or the adjacent street, whichever is greater.

While everyone wants a well-lit parking facility, too much lighting creates another problem. The intensely illuminated parking lots of quick service restaurants' and the like have prompted some nasty neighborhood battles. Too much light, although meant to create a safe environment, may actually result in a hazard as drivers' eyes adjust from nighttime conditions to the intense glare. These are sufficient reasons to get bids from outdoor lighting specialists to handle the task correctly.

There is one final point regarding how to utilize a parking facility. Depending on your service style and clientele, one of today's parking tends is to reserve (and specially mark) several close-in spaces for specialty use such as to-go pickups, senior citizens, and for guests with small children.

For entrances and exits, the lanes within the lot, and any loading zones, the illumination level should be twice the level of either the lot itself or the adjacent street – whichever is greater.

The Restaurant Entrance

With reference to the positive psychological impact of a pleasant environment, design the entryway to show potential guests exactly what to expect when they arrive. Keep in mind that not everyone who enters the space has already committed to eating there, so the entryway is where the customers will decide whether they are comfortable enough to stay. If your concept includes a lively bar, or an open kitchen, make sure it is visible from the waiting area or the host/hostess station. Offer a view of some of the dining tables too, and seal those tables first so the restaurant looks busy.

Although some restaurants have eliminated reception areas and waiting rooms as a way to same space and money, others use them for a variety of purposes.

- Free local publications
- Cash register and/or host/hostess stand
- In quick-service restaurants, the front counter is here
- Menus and daily specials are displayed here
- Waiting diners sit or stand here
- Wines or prepared desserts are displayed here
- Raw foods and/or prepared items are displayed, perhaps in glass cases
- If a waiting or serving line is the norm, make it very clear where this line begins and ends, with signs, railings, and partitions.

Whether the entrance is the prelude to an elegant dining experience or the start of a fast-food line, the waiting area should be very clean, properly lit, and temperature-controlled for the guests' comfort - and there are the diners waiting (sometimes impatiently) for a table. They say they want the "best table in the house." Then again, is that not what every diner wants?

Entrance space

The space allocated to an entryway is a function of the type of restaurant and the owner's overall feeling about the need for this space. For fast food, the entrance space is large for guests lining up, placing and paying for orders, and picking up food. On the other hand, table service restaurants have entryways that vary widely. All reflect the concept of the facility and provide a small waiting area for overflow crowds. For a casual dining restaurant allow 3 square feet for each dining room seat, and scale upscale restaurant entranceways to provide 5 to 6 square feet per seat.

- Take out space. Design a restaurant's take out space to keep customers moving and busy. Customers should order, pay, wait a bit, and they receive their food and leave.
- Speed. The faster you service "in" and "out" customers the better. Drive thru service is now the norm to the majority and requires a different design altogether.
- Space. How many people will be lining up at one time? Do you have room for two ordering, payment, and pickup stations for busy times? What can you do to guide people into lines?
- Menu. Offer only those items on a "to-go" menu that can be easily packaged and transported. Consider ways the guest can help themselves, such as soft drink and condiment selection, or reach-in refrigerators of pre-wrapped salads and desserts.

Dining Area

In terms of basic environmental psychology, most people would rather sit with some type of architectural fixture on at least one side of them - a wall or window or column - which helps them to define the space. Another design rule is to mix tables of different shapes and sizes to create visual harmony. How ‘close’ is ‘too close’ when determining table positions? The following tables provides spacing guidelines by restaurant segment.

The quick service restaurant does a large portion of it business via carry out orders. Thus guests ordering space is important. Diners typically do not linger in the facility for long periods thus; the space for ding is generally smaller than a casual restaurant.

During a normal visit to a restaurant, customers spend 25 percent of the time waiting. They wait to order, they wait for food to arrive, and so forth. They do not feel comfortable if the space is too crowded, and customers are equally uncomfortable if the space is too empty. In addition to the customers' need for space, for the purpose of safety, provide a 3 feet corridor for travel and access to fire exits. In larger spaces, separate your dining areas into smaller spaces (or spaces that appear smaller when things are slow).

Quick Service Restaurant Dining Spacing
(Space Range 10 - 12 square feet (.93 - 1.12 square meters)

Number of Seats	*Space per Seat 10sq. ft. (square feet/meters)*	*Space per Seat 12 sq. ft. (square feet/meters)*
Under 50	100 (9.3)	600 (55.8)
50 - 100	1000 (92.9)	1200 (111.5)
100 -150	1500 (139.4)	1800 (167.3)
150 - 200	2000 (185.9)	2400 (223.1)
201 - 250	2500 (371.8)	3000 (278.8)
251 - 300	3000 (278.8)	3600 (334.6)

**All figures assume the highest number within the range.

Casual restaurants are generally a step up from the quick service restaurants with the addition of table service and other amenities. Because the diners expect to enjoy their meal within the facility, there is more space in the dining room area of the restaurant. The various casual restaurant concepts consider themselves a cut above quick service and a viable alternative to the more expensive luxury operations.

Casual Restaurant Dining Room Spacing
(Space Range 13 -15 square feet ((1.21 - 1.39 square meters)

Number of Seats	*Space per Seat 13 sq. ft. (square feet/meters)*	*Space per Seat 15 sq. ft. (square feet/meters)*
Under 50	650 (60.8)	750 (69.7)
50 - 100	1300 (120.8)	1500 (139.4)
100 -150	1950 (181.2)	2250 (209.1)
150 - 200	2600 (241.6)	3000 (278.8)
201 - 250	3250 (302.04)	3750 (348.5)
251 - 300	3900 (362.5)	4500 (418.2)

Restaurateurs like to think that every seat is the 'best' of course. When designing the dining area, a well-planned scheme carefully shapes the customers' perception with these components.

- Table shapes, sizes, and positions
- The number of seats at each table
- Multiple floors plans, steps, elevated areas of seating
- Paintings, posters, murals
- Type and intensity of lighting
- Planters, partitions, or screens
- Attention to sight lines, to block any undesirable view (restroom, kitchen, service way)
- Muffling distracting noises (clattering dishes, outside traffic, or construction)
- Placement of service areas (coffee stations, dirty dish bins, and so forth)

Each of the preceding considerations plays a role in creating the flow pattern of the restaurant, the process of delivering food and beverages to customers. These are the logistics, the methods and routes used to transfer items from the kitchen, to the dining tables, and finally to the dishwasher. How well can the waiters manage full trays of food? What is the distance from the kitchen to the dining room? Where are the guest checks prepared for delivery to tables, and where do customers pay for the food?

The dimensions of a luxury dining room are more spacious than a casual dining operation allowing guests more space, greater privacy, and more aisle space for service personnel and guests alike.

Luxury Restaurant Dining Room Spacing
(Space Range 16 -20 square feet ((1.49 - 1.86 square meters)

Number of Seats	*Space per Seat 16 sq. ft. (square feet/meters)*	*Space per Seat 20 sq. ft. (square feet/meters)*
Under 50	800 (74.4)	1000 (92.9)
50 - 100	1600 (148.7)	2000 (185.9)
100 - 150	2400 (223.1)	3000 (278.8)
150 - 200	3200 (297.4)	4000 (371.8)
201 - 250	4000 (371.8)	5000 (464.7)
251 - 300	4800 (446.1)	6000 (557.6)

**All figures assume the highest number within the range.

In a “see and be seen” restaurant, the best spots will be quite different from those in a small, romantic bistro or a busy family-friendly café.

1. Assign the “best” or most convenient area to tables and chairs. “Best” means different things in different settings: Proximity to the parking lot, the best views, the least noise, the most foot traffic
2. People usually eat at mealtimes.
3. Most restaurants are busy only 20 to 25% of the hours they are open.
4. Provide ample aisle space and a comfortable number of square feet per guest so, no matter how crowded it gets, you do not want to annoy guests by bumping into them or forcing them to bump into each other.
5. In planning your seating area, be aware that your guest have some predetermined dining-out habits that influence the efficiency of various table sizes and groupings.
6. Especially at lunch, half of your customers will arrive as twosomes, another 30% will be singles or parties of three, and the remaining 20% will be parties of 4 or more.
7. Make adequate provisions in your layout so a waiting line will not interfere with other guests or the wait staff. Also, make plans to control the waiting line, so customers cannot ignore it and wander into the dining area to seat themselves at a table that cleared of dirty dishes and properly cleaned.

Does anyone have to move up or down stairs? How hard is it for customers to negotiate a path to their table during a busy meal periods? Is the host seating guests, or functioning more as a traffic director? **Remember the following basic space recommendations by restaurant segment to address space and service concerns**:

- **Luxury or table service** - 15 to 20 square feet per guest
- **Coffee shops and casual dining** – 12 to 17 square feet per guest
- **Cafeterias** – 10 to 12 square feet per guest
- **Counter service** – 18 to 26 inches per stool

Even though other facets of design can be out of the ordinary, when it comes to flow patterns, the simpler the better. Customer and employee safety should be a top concern. Remember that most of us tend to walk to the right of other oncoming people. Think of the room as a neighborhood and the flow as the major streets in that neighborhood. If you avoid traffic congestion, everyone will like living there. Consider the maximum number of seats allowed in the space as well as the average time you want customers to spend at a table. Generally speaking, the faster the turnover, the greater the need for clear flow patterns that do not cross. Conversely, if dining is to be leisurely, design the flow to make the wait staff seem as unobtrusive as possible.

Turnover

When determining the amount of seats to have, consider the seat turnover, or seat turn, which is the number of times customers’ occupy a seat during a mealtime. The amount of turnover depends on the restaurants’ type of menu, atmosphere, and even the availability and type of alcoholic beverages you will serve. The menu must lend itself to quick preparation. With regard to

atmosphere, you want the customer to relax but not sit for hours. Many European large city restaurants will specify the amount of time for your reservation. “Yes Mr. Jones, we have your reservation set from 7:30pm until 9:00pm and we look forward to seeing you then.” They, of course, will not ask you to leave, but now you understand how long the meal period should be.

A more practical approach to turning the table occurs with good service. As the appetizer is finished, the entrée arrives at the table. When the entrée is finished, the dessert arrives when the dinner plate leaves, and dessert is generally accompanied by the check unless after-dinner drinks are on order. In short, the restaurant sets the pace.

Slower Periods

Most of the planning goes into handling crowds, but in larger spaces, you might want to consider how to separate your dining area into smaller spaces (or spaces that appear smaller) when things are slow. A good guideline is to allow 15 square feet per seat. This figure includes aisles and wait stations – but not entryways and restrooms.

Seating and Tables

The successful layout of a dining area includes balancing multiple components: safety of guests, and employees, efficiency of service, aesthetics, and financial implications. The typical first thought of the operator would place the cost per square foot, and the potential revenue generated by each seat as the dominant considerations. In general, lower check averages require a greater density of seating, and higher check averages can translate into few seats, greater guest comfort, and slower turnover. However, the goal is not to fill an empty space with as many seats as possible. The true goal is to achieve balance between customer comfort and bottom-line profit, in a style that best suits the restaurant's concept and image. Create seating options for your guests, and give them a choice regarding seating preference.

Popular types of seating include chairs, stools, booths, and banquettes. Booths offer a certain feeling of privacy or intimacy, but tables and chairs are more adaptable since they can move around as needed. A banquette is an upholstered couch fixed to the wall, with a table placed in front of it. Banquettes are a hybrid of booth and table - more adaptable than a booth, but they still must hug a wall. Banquettes are fashionable, can be upholstered in any number of stylish fabrics, and maximize seating by filling up corners and allowing more guests to be seated than would fit at individual tables and chairs. Bar stools used for bars or at taller cocktail-style tables, are the most casual seating option.

Another important consideration when considering tables and seating for a restaurant involve financial implications. Can the restaurant be full with no available customer seating when, in fact, many of the seats in the dining area are empty? The answer is unfortunately 'yes.' Restaurateurs often fail to consider how guests arrive at the restaurant. The follow figures are restaurant industry averages of guest arrivals.

- 40 to 50% of all table-service restaurant customers arrive in pairs
- 30% of the customers come alone or in parties of 3
- 20% of the customers arrive in groups of 4 or more

When one considers such arrival patterns, the need to consider 'who' your customers are and how they will arrive at your facility becomes important not only in terms of dining area and table placement, but equally in terms of the number of customers a table can accommodate. From the data on ‘customer arrival’ it would be clear that most restaurants should provide an equal balance of two-top and 4- top tables, and appropriately configured booths or banquette areas to allow as many customers into the dining area at any given time. Operators must remember that customers typically patronize restaurants during lunch.

Banquet Space

To calculate banquet seating with standard rectangular tables, divide the square footage of the room by 8 to find out how many seats the area will accommodate. For example, a 500 square foot area will seat 62 to 63 people. When using round tables, divide by 10. You may decide it prudent to have an adjacent ‘finishing’ kitchen to the banquet dining area to ease the stress on your main kitchen. Banquets will generally occur when your restaurant patrons are dining.

Service Area

Small wait station (20 to 30 inches square or rectangle, for every 20 to 30 seats. Large wait station (8 to 10 feet long and 24 to 30 inches wide) for every 50 to 75 seats. One of the prime considerations for this space entails the type of service you intend to offer, as

well as the kitchen functions such as plating dessert, drink service, or other functions of the wait staff that may require electricity or refrigeration, or simply tray space.

- The need for a large wait station depends mostly on how far away it is from the kitchen and food pickup area.
- Placement of wait stations also depends on the availability of utilities, since they need electricity and water

Service Space For Basic Table Service- Limited Menu

Number of Seats	Meals per Day	Service Area Square Feet Square Feet (Meters)
Under 50	300	75 (6.9)
50 - 100	500	100 (9.3)
100 - 175	750	140 (12.9)
176 - 250	1,000	160 (14.7)
251 - 500	1,600	175 (16.1)
More than 500	2,400	200 (18.4)

**Included pass-through window

Beverage and General Areas

The space allocated to the bar depends on the importance of beverage sales to the total restaurant income.

- A single bar may serve both the dining area and a separate bar or lounge.
- Separate bars – one for dining and one with lounge seating.
- A full-fledged lounge with tables and chairs will take up a little less than 5% of the total restaurant square footage. Each seat will require 10 square feet of lounge space. Another consideration is the service of food. An additional amount of space and table sizes may be required to extend the bar into potential restaurant seating. It is also a good idea to provide an external entrance away from the dining room for bars of this nature. Remember that keeping the bar separate from the dining room maintains the ambience of both, but dong so in a way that allows the ‘see and be seen’ factor to exist is generally a wise idea to incorporate.

Restrooms

From the customers' perspective, a clean restroom consists of clean toilets, no stick floors, a clean area around the toilet, and no trash. Although customers do not spend more than a few minutes in the restroom, this short amount of time impacts the rest of their dining experience - after all, a clean restroom means a clean kitchen as the saying goes. Your guests’ expectations are simple: cleanliness, privacy, and comfort. You should pay attention to restroom decor in a similar way as the dining area. You can utilize plants or attractive wallpaper or artwork, or music reflecting your theme. Temperature control and lighting are critical as well. Select warm incandescent lighting or color-corrected fluorescents that are bright without being too harsh.

The restaurant operator should pay attention to amenities such as exhaust fans when the toilets are occupied, soap and handwashing and drying materials, diaper-changing areas in family establishments with wipes, and so forth. These extra touches go a long way in establishing your position in the minds of consumers. Attention to details normally transfer to all areas of the operation from the consumer perspective.

The size of the restroom will depend on the seating capacity of the restaurant. Some experts feel that they should be located near the entrance so that guests can freshen up before dining. Others think they should be nestled discreetly at the back of the dining area. This is a judgment call on the part of the restaurant operator. Situating restrooms in both locations is always an option. The location of restrooms directly relates to the location of plumbing lines, and these are generally located near the bar and/or the kitchen.

Restroom Facilities

Fixture	*Male Guests*	*Female Guests*
Toliet	1 for every 100	2 for every 100
Urinal	1 for every 25	
Wash basin	1 for every toilet or 1 for every 5 urinals	1 for every toilet

In the western United States, most local or state codes follow the Uniform Plumbing Code (UPC); in the eastern United States, they are more likely to follow the International Plumbing Code (IPC). You can find a current list of codes adopted by the various states on the Web site of the *American Restroom Association* (www.americanrestroom.org). The following table is a guideline for the number of restroom facilities needed per guest.

Two additional legal requirements govern restroom space. One is that, in most cities, places that serve alcoholic beverages must provide separate restroom facilities for men and women; typically, there is generally no allowance for unisex toilets where alcohol sales exceed 30 percent of total sales. The other, which is the American with Disabilities Act of 1990, which mandates accessibility measures and space requirements to accommodate guests with physical limitations.

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Storage Space

Depending on the amount of space available at a prime location, space available for dry and refrigeration storage can be a vital issue for consideration from the beginning. The next table deals with dry storage space allocation. For refrigeration, consider the menu, case sizes and items to be stored to arrive at a proper storage size.

Dry Storage Space Requirements

Type of Operation	Space in Square Feet (square meters)
Fast Food	50-125 (4.65-11.63)
Small Restaurant (75 seats)	100-150 (9.30-13.95)
Medium Restaurant (75-150 seats)	200-300 (18.60-27.90)
Large Restaurant (150-400 seats)	400-1000 (37.20-93.00)

Storage may have to occur on another floor or even at a different location if the prime location cost do not feasibly justify space usage in a way that does not contribute to bottom line profits. With regard to regard to coolers and freezers, one of the first steps involves your suppliers. How often will they deliver product to you? If the delivery schedule is once a week, then you must allow suitable space for product on hand for that period. However, if your suppliers deliver daily, or twice weekly, then you can reduce the amount of space allocated for storage because replenishment can occur at a faster rate.

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7.6: The Physical Location

Understand the complexity of adapting a facility into the restaurant you desire. The following checklist is useful in evaluating a prospective facility for all of basic elements needed to operate a foodservice establishment. The 'building' has to meet planned specifications of the operation or you must have the ability to make necessary changes to the structure. An additional way to assess the structure includes any 'protection' in place at the time of purchase or lease. This speaks directly to the insurance cost you will incur. A structure located in a marginal neighborhood will appear less safe to an insurance company and thus, your costs to insure will increase proportionately.

Most restaurants will require a combination of 110 volt and 220 volt three-phase connections. If three-phase power does not exist at the structure this is a difficulty. If this form of power were not available to the structure, this situation would be a 'deal breaker'. Generally, the rule of thumb for restaurant power needs is as follows; if the piece of equipment sits on a table or stand, it probably uses the 110-volt outlet. If it stands alone, it will probably require 220-volt three-phase power to operate properly. Always consider the 'type' of business occupying the structure prior to you. If the business was not a restaurant, the structure will probably be lacking in utilities, air conditioning, plumbing, and fire suppression equipment. The location of restrooms may also be of concern.

If you are uncertain about the 'permit' or 'operational' condition of the building, it is always best to walk the facility with the Health Department or Fire Marshall to become aware of possible changes you may have to make to operate. Change in laws are a factor in both instances. It is better to be aware upfront than to borrow money to make the structure operational only to find that health codes or fire requirements will require additional changes and costs. Use the following items as a 'checklist' when inspecting a potential location for its suitability and adaptability.

Facility Checklist

Important elements for inclusion in any site checklist begin with the building and land itself. Further, what utility connections exist? If the building was not operational as a restaurant by previous tenants, utility connections, the HVAC system, and fire suppression need to be top of mind for consideration. These elements are typically not powerful enough to sustain the facility in operational mode as a restaurant. Look closely at all aspects of the structure and its amenities, consult with the fire marshal, the department of health, and utility company providing service to determine what you will need to do in terms of changes, adaptations, or inclusion to move forward. If a facility is lacking in certain areas it does not mean that you cannot pursue the location. It is important to know up front what changes you must make and the costs you will incur to do so before you finalize funding.

Buildings and Land

- Location of buildings.
- Indicate type of construction
- Age
- Condition
- Obtain site plans or plant area layouts and photographs, if available
- Ownership of buildings. (If leased, what are terms?)
- Ownership of land. (If leased, what are terms?) Mortgages or other liens on buildings and land. Give details.
- Utilization of each building by activity.
- Land included in site or sites. Indicate percent not currently utilized.
- Housekeeping outside and inside of buildings.
- Description of area surrounding site or sites.
- Availability of land and buildings for expansion.
- Plant maintenance expenditure for each of last 3 years at each site.

Utilities and Services

Evaluation of requirements for and availability of utilities and services such as:

- Power
- Gas

- Light
- Telephone
- Heat
- Air Conditioning
- Water
- Public Transportation

Facilities Protection

- Adequacy of fire-fighting facilities.
- Unusual fire hazards.
- Flood hazards.
- Explosion hazards.
- Theft or burglary problems.
- Security measures required.

Description and condition of site equipment and services

Such as:

- Elevators
- Vaults or safes
- Cranes
- Compressed air supplies
- Parking facilities
- Lavatories
- Shipping and Receiving facilities
- Employee locker rooms
- Employee Recreation facilities
- Special equipment or services

General Evaluation of Facilities

1. Appraisal of utilization of facilities.
2. Improvements needed.
3. Adequacy of facilities to meet local community requirements.
4. If Company acquired, facility relocations contemplated.
5. Degree to which company's facilities meet our requirements.
6. Estimated value of facilities. Indicate basis of estimate.

Legal Regulations

There is no universal checklist for all of the necessary licenses, permits, inspections, postings, and signage for your new restaurant. These requirements vary greatly between states, cities, restaurant types, and even counties and neighborhoods. The experts that you hire to help you -- specifically your designer, architect, and contractor -- will help you get through everything, but you will need to be an active part of the process and take on responsibility as well. Here are nine best practices to ensure you obtain everything you need to open your restaurant legally from the beginning. It goes without say, **review your lease in detail**. Before you sit down with your team and put together a master list of action items, review your lease in detail so you have a clear understanding of what your property owner will be responsible for, as well as the duties that fall on you, the tenant. If your lease states that your property owner is responsible for trash removal, they may be required to post a decal showing which company they use and what the pick-up schedule is. Make this your first step to avoid confusion and help facilitate a healthy, productive, and accountable relationship between you and your property owner.

Draw on the experience of your team

Your contractor, designer, engineer, architect, and kitchen equipment vendor will be your most valuable allies in getting all of your licenses, permits, inspections, and postings completed properly. Gather this team and ask them to provide you with a list of everything that they know you will need, as well as areas of uncertainty so that you know where you will need to do focused research. You need to have a team established that has experience, otherwise you will experience a lot of surprises and unmet expectations throughout the process. For the person that's just going through this for the first time, it's going to feel like an infinite list and like there are so many people that have their hand out that need to get paid for some sort of application, license, or permit."

Learn your city

Some municipalities are much more organized than others are when it comes to providing practical, accurate information and resources to help you better understand what is required for you to open and operate your business. Cities like San Francisco and New York have relatively advanced online resources, while others may have nothing at all. Still, even the most sophisticated online tools are only a starting point. If your city does not have a centralized Internet resource for new businesses, they likely have an office you can call or visit to get the same information. Track down the information up front to avoid delays and surprises. Remember, investing a day at your municipal office early in the process can save you weeks or months of costly setbacks down the road.

Research the requirements of each individual city agency

Do independent research online. Call or visit the major city and state agencies you will need to obtain permits from, and by asking peers with similar concepts in your market what they needed to get their doors open. It is important to understand that city agencies do not communicate with each other. In New York City, for example, you need a Certificate of Occupancy from the Department of Buildings and from the Fire Department and there is no link between the two. Once you visit central websites, make sure you are then researching the requirements of each individual agency. For example, the New York City Department of Environmental Protection but also the Department of Health, Department of Sanitation, and Department of Buildings monitor Grease traps. They all have different rules that can trigger violations, so you need to understand the requirements of each.

Make a master list, assign responsibilities & follow up

Once you have consulted every available resource and done as much research as you can, sit with your team and compile a master list of every permit, license, inspection, and posting you will need. Delegate each item to a member of your team and assign due dates as necessary. In your weekly construction meetings, update each other on relevant progress, ask questions, and work together to get through inevitable setbacks and complications.

Get comfortable with the health code in your municipality

Department of Health (DOH) requirements vary greatly from state to state and city to city, and many DOH specifications will dictate parts of your restaurant design. Once you know where you are going to open a property, contact the Department of Health for your municipality and read the entire health code so that you do not get in too deep without knowing the regulations. Once they start pouring concrete and putting pipes in, it can be very expensive to retract the work. Even though many standards are consistent across the country, there are some things drastically different, like outdoor seating regulations. The Department of Health really drives much of the construction for your kitchen, back of house, and outdoor seating areas. You need to be coordinated with whatever the regulations are in your specific location.

Keep all of your finalized documents in a centralized location

Some permits and licenses will need posting in a place where they are visible to guests and employees, and others will need to reside on site and presented to inspectors before and after you open. Jennifer recommends keeping copies of everything in one centralized binder that the General Manager of the property has access to so there is no confusion when inspectors arrive. This will also make it easier to replace expired permits and keep track of renewal dates.

Calendar renewal dates immediately

As soon as you receive any type of license or permit, put a reminder on your calendar for the appropriate renewal date, as well as a reminder a few weeks or months before the actual date. Clearly delegate and note on the reminders who is responsible for each renewal and assign one person (probably your General Manager) to follow up as important dates approach.

Include health code and food handling safety in employee training

Some states require every employee on staff to go through food safety training, while others only require certain individuals to go through it. Even if your municipality does not demand that every person carry a food safety card, Jennifer recommends ensuring that every employee has some level of food handling and safety training. This creates a safer environment for staff and guests and helps to maintain your equipment. Employees are better equipped to understand when something is failing if have knowledge about their workstation, how to set up, and how equipment needs to function to align with code. This helps us avoid huge violations for the restaurant, as well as damage to major equipment. Even if the law does not require it, having a staff that is knowledgeable and responsible about food safety will help shield you from the liability of an unfortunate mistake and help you sleep at night, knowing your team knows the basics.

Set up service contracts right away

Before your contractor and subcontractors disappear, bring in your equipment service vendors and set up maintenance contracts. Preventative maintenance measures make sure you do not incur massive emergency service bills when equipment breaks. It is very expensive to call for service at night and on weekends, which are most restaurants' primary operating hours. In sum, negotiate service contracts, calendars the dates for their visits, and always follow up with them before and after they come in. Always keep in touch with them to make sure that they are holding up their end of the bargain. Too often contracts are in place, but no one really monitors work completion.

When it comes to licenses and permits necessary for operation, please heed the following takeaways to bring your facility on-line as quickly as possible.

- **Do your research.** Contact the people in your city and state and ask what you need based on your specific project. Get on top of scheduling critical inspections with long lead times right away.
- **Take advantage of your team's experience, but do not disengage from the process.** Surround yourself with people that have done this before and take an active role yourself.
- **Get (*very*) comfortable with Department of Health regulations in your municipality**. The Department of Health (DOH) dictates many aspects of construction including kitchen design, and even extending to how your 'service station' set up. Educate yourself on the requirements of your specific area and ensure that your general contractor and designer are on top of it, too.

Federal Agency	**Department of Treasury** – Alcohol permit **Internal Revenue Service** – Employment ID
State Agency	**State Liquor Authority** – On-premise alcohol **Department of State** - DBA certificate, New business registration, **Department of Taxation** – Certificate of authority
City Agency	**Department of sanitation** – Food Service Establishment permit, Resuscitation equipment, Safety Data Sheets, Food Protection Certificate, Signage, **Fire Department** - Open flame permit, Range Hood and Duct Inspection, Portable Fire Extinguisher Tags, Gas Authorization, Ansul Tags, Sprinkler System, Certificate of Occupancy/Place of Assembly, Fire Alarm Test.
Utility Company	Electric / Gas Service , Gas Authorization
Contractor, Architect *(In most cases, installation and performance of these items require professionals.)*	Certificate of Occupancy, Equipment Use Permits, Building Permit, Sign Permit, Emergency Lighting & Foot Candle Letter

As stated, licenses and permits necessary to open and operate a restaurant will vary from one city or state to another. The agencies and respective departments involved in the licensing and permit process appear below. Your state or municipality of choice may require more, or fewer, licenses and permits than the table contains.

Licenses and Permits

Whether opening a new business or taking over an existing business, restaurant owners are responsible for obtaining various licenses and permits to cover the local, state, or federal regulations regarding the renovation or construction of facilities, and general operation. The operator should contact local government agencies, architects, or contractors for any specific requirements. The following is a list of the typical licenses and permits required. Determining accessibility to licenses and permits must occur prior to signing a lease or buying the facility because the inability to acquire the appropriate licenses and permits could jeopardize your revenue potential. This may be a serious problem, even a deal breaker. You do not want to take control of the property only to discover you cannot operate at full potential.

Building permit/local permit

A building or local permit is normally needed for any new construction. You will need a permit to modify a building if a certain percentage of an existing building will change. A construction permit might require approval by the city planning and zoning commission. Building with historical value and those registered as historic buildings may be very limited as to what modifications are possible. Permits cover construction and additions, plumbing, electrical, and structural changes. Any local, reputable builder should be familiar with local codes and the requirements of the building.

Other building permits

Depending on the location of the building, a restaurant may need other permits to get started. New operators should always check with the local building code enforcement before starting any work. A sample listing of other permits that might be required as listed below.

- Demolition permit to remove structures
- Dumpster
- Building temporary or long-term scaffolding
- Elevators and dumbwaiter
- A tenant's change of use
- A sprinkler system
- Temporary walls or partitions
- Awnings
- Signs
- Patios/platforms

Certificate of Occupancy (CO)

The building inspector issues this certificate, which allows for public assembly in a building. After all inspections are completed, this certificate the overseeing agency issues the certificate. These inspection agencies re usually inclusive of electrical, plumbing, structural, fire, and health. In smaller communities, one person may inspect all of the building work.

Health permit

The overseeing health department at the local, regional, or state-level, depending on state regulations, issues a health permit. A thorough inspection of the facility usually occurs ‘prior’ to the issuance of this permit. A follow-up, working visit may also occur at some point after opening.

Liquor license

Laws and procedures for obtaining a liquor license vary from state to state. In some states, restaurant operators own the licenses as the licensing agency views them as business assets. In other states, the state issues the license and the restaurant must complete an application and send it to a state agency known as the state liquor authority, alcohol license control board, or a similarly name agency.

Requirements to obtain a these licenses vary and are sometimes controlled by local authorities. An additional consideration is the 'type' of alcohol the operator intends to offer their patrons. For example, the licensing agency may classify beer and wine as one category while the addition of hard liquor might change the license requirements. To obtain a liquor license, the restaurant owner must contact the controlling authority in the state or region. The license process may take several months.

Federal Employment Identification Number (FEIN)

You can obtain a FEIN from the federal Social Security administration. This number is mandatory, with few exceptions, to conduct business in the United States.

Sales and use tax license

Restaurant operators normally obtain the sales and use tax license from the state's department of taxation. The assignment of this license officially designates the owner as an agent of the state to collect and pay the appropriate agency the state and local sales tax on products sold.

Outdoor Seating

There are many ways to attract more customers to your restaurant, but during summer, spring and fall months, outdoor seating tops the list. No matter what kind of establishment you run, a simple deck or patio can increase revenue by up to 30 percent. Research shows that a modest investment can increase overall sales significantly — possibly more if your restaurant offers year-round outdoor seating.

What is it about outdoor seating that has such a large effect on your customer base? There are many factors involved, most of which revolve around comfort. Some guests say that an ‘alfresco’ dining experience makes the food taste fresher and better. Others simply enjoy gazing at the view as they share a meal with friends or family. There are many ways to go about it. The following highlights some of the most popular — and successful trends in outdoor seating today. **In addition to increasing revenue, outdoor seating allows you to expand your dining area without having to increase the size of the dining room.**

Sidewalk seating

One of the easiest ways to offer your customers the joys of an open-air dining experience is to add a sidewalk dining area with a few comfortable sets of tables and chairs that match your restaurant’s theme. Add some patio umbrellas and you will have a charming space that draws diners by the drove — not only your regulars, but also passers-by who are attracted by the sight of happy customers. Sidewalk seating gives you lots of flexibility as well. During lunchtime, diners will appreciate a casual dining experience as they watch pedestrians or sip a cold beverage while they enjoy the shade. At night, use candles or umbrella lighting to make the atmosphere more intimate and to create an attractive display for onlookers to enjoy. In addition, you can add your restaurant’s logo to your patio umbrellas, which is a great way to imprint your brand on both diners and bystanders.

Rooftop dining

If you lack the availability of outward space or wish to pursue additional seating there are additional options. Many restaurateurs choose to expand upwards. From London to Los Angeles, diners everywhere are talking about rooftop eateries. Why? Because the bird’s-eye view allows them to take in beautiful city skylines or wide-open landscapes as they dine.

Of course, there is more to rooftop dining than a few tables and an incredible view. In London, for instance, many of the most popular rooftop restaurants go the extra mile with beautifully manicured gardens and light displays that enliven the atmosphere at night. Pergolas and awnings are also popular features because they offer shade during the day and protect diners from rain.

Dining in the garden

One of the industry’s hottest trends is farm-to-table food - a trend combines easily with outdoor dining. To take advantage of this trend, it is less about the space - a sidewalk, deck, patio or rooftop - and more about what you grow in it. Some restaurants are landscaping their outdoor dining areas with the same fruits and vegetables that they are serving their customers. With the addition of a few raised beds, you can create a wonderfully relaxing environment for your guests while growing some of the lettuce, tomatoes, peppers and other fruits and vegetables that you will be serving.

Fire and water

This next trend is another that works well for just about any outdoor space. Diners love the atmosphere ‘fire and ‘water’ create. Among the more popular water features, you will find reflecting pools, fountains and even simple table settings with floating tea-light candles or flowers. When it comes to fire, fire pits top the list, followed closely by candle lighting, lanterns and torches. One of the reasons that this theme works so well is that these two elements convey everything that you want your guests to feel. Water adds a sense of cleanliness and freshness that enhances the environment and foods you serve. Fire, even in modest amounts

conveys a warm, comfortable feeling that encourages guests to linger over drinks and dessert. Combine these elements, and you will have a recipe for an outstanding dining experience.

There is no doubt that an outdoor dining area will enrich your customer's experience in addition to providing you with a high return on your investment. Your available space - whether a sidewalk, rooftop or private patio - is important, but what matters more is what you do with it. To maximize your investment, offer an attractive blend of the elements listed above. A little bit of shade, nice landscaping and a touch of atmosphere through the clever use of fire and water will ensure that your guests not only come back for more, but also bring their friends and family along, too.

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7.7: Classroom Preparation Assignments

Facilty Planning Exercise 7.7.1

1. Introductory paragraph
2. Décor and architectural design.
3. Location
4. Equipment and resources available
5. Management plan

Example

Respite

INTRODUCTION

In the past three concepts, I've been working on the logistical planning of a Nashville-based fast-casual restaurant that I have finally named Respite, as I'd like the food and the atmosphere of my restaurant to be a respite or an oasis for my guests, even for just a half hour. I had some difficulties planning a restaurant that combined the elegance of a full-service, made-to-order establishment with the accessibility and lack of pretense that a fast-food or a casual restaurant has. Most importantly, I wanted to serve seasonal foods to my guests without expecting them to pay for all the atmosphere and pretense of your typical restaurant that serves seasonal foods. I do not want my guests to feel obligated to tip, driving the cost of their meal up even more.

Fusing all these elements is a challenge, but through research, I have found a Los Angeles-based restaurant that seems embrace goals similar to mine. While they offer a more expansive menu, guests order and pay at the counter, and waiters provide food service to the tables.

This is exactly how I would like my operation to be set up - high quality food in a decent atmosphere at a reasonable price. Guests will order from a counter, take their seats, and we will take care of the rest.

LOCATION

The proposed location for Respite is 1000 Division Street in Nashville, Tennessee. This unit is a rented space currently in construction on the ground level of a condominium building—potentially, our customers will live right above us. It is located on Division Street, one block from 12th Avenue South, one of Nashville's integral stretches of road.

Division Street is a 4-lane road, and, while Respite will not provide a parking area for our guests, there are at least three parking garages and several parking lots in the vicinity. In fact, Respite is located next to a parking garage and across the street is a parking lot that offers free parking for one hour. In addition to these pay-to-park places, there is also street parking on some of the sub-streets a short walk from the restaurant. The nearby parking garages offer free secure parking for bicycles, so perhaps that would be a good point to advertise.

Logistics of Operation

Because the restaurant is a storefront style, deliveries will need to enter through the front door, meaning we will need to schedule deliveries only when the restaurant itself is not open. Because we are located in a storefront, we cannot use tall signposts, but we can just as easily make the exterior of our operation distinctive and noticeable to those who drive by, or those who walk by every day. Because Division Street is mostly for thru traffic, there should be limited noise coming from traffic; however, the neighborhood is still growing, and it is very possible there will be noise from construction until the area finishes developing. Because the unit is still in construction, we can have input on how the exterior of the building is landscaped and styled.

SIZE CONSIDERATIONS

I calculated the dining room size of my restaurant given that I would like 16 square feet per guest and that I would like to seat 70 guests at once at most, leaving me needing a dining room size of 1120 square feet. Our kitchen does not need to be luxurious, but we do need plenty of room to make sure everyone can work comfortably. I would like to allot 1000

square feet for the kitchen, and then round the whole facility off to a total of 2500 square feet, to leave some room for the entrance and restrooms.

The entire facility will be non-smoking. The dining room will feature a counter from which our guests will order; this counter will also function as the bar from which we serve local beers from Yazoo and Jackalope brewing companies, right down the street. Even if I do not want an open kitchen, where the line and the dining room are all one room, I would like to have a viewing window from the dining room into the kitchen. This creates a sense of transparency, and even a source of entertainment, for our guests, who can see exactly where their food is coming from.

DÉCOR AND ARCHITECTURE

Respite should be very clean and modern looking; I do not want it to look futuristic, but rather very open, clean, and comfortable. I would like to use a lot of natural lighting during the day, which should save on energy costs, at least marginally. I would like to use sealed wooden tabletops that clean easily. The order counter will be very natural looking too, with wood panels.

MANAGEMENT

I plan on taking the risk, and reaping the reward, of my restaurant being a sole proprietorship. For the time being, I plan on Respite being an independent unit with no plans on corporate ownership or franchising. In addition to the kitchen staff and dishwashers, I would like to hire a sous chef and a dining room manager.

EQUIPMENT NEEDED

Because our location is brand new, it does not come with any existing equipment. So, for the kitchen alone, I will need:

- Three compartment pot sink
- Autochlor dishwasher
- At least one convection oven
- Two 6-top gas ranges with ovens beneath
- A gas grill
- A two-compartment fryer
- Prep tables and surfaces
- A walk-in fridge
- A walk-in freezer
- A vacuum sealer

Layout Example and Thought Process

Equipment Layout and Justification

The easy and casual restaurant that I designed is a combination of two restaurants that I have personally worked at. I choose what I liked about both of them and formed them together.

One of the things that I liked the most about these restaurants is that they both have designated “in” and “out” doors. This makes it easy for the movement in and out of the kitchen to be fluid and prevent against people running into one another. When the wait staff enters the kitchen, the door leads them right into the dish room and the registers to ticket their orders. A waiter with dirty dishes can just walk in and drop it off, if not, then they are probably coming into the kitchen to record a sale and the registers are right there. I made sure that there was not only an AutoClor for the plates and silverware, but also a three-compartment sink for all of the pots, pans, and cooking equipment. I put a cabinet with all of the cleaning equipment in the same place so that everything for the dishes is available in the same place. Finally, in this section of the kitchen, I made room for drying areas and storage of all of the pots, pans, equipment, and utensils.

Along the back of the kitchen, I made room for a big walk in cooler, walk in Freezer, and Dry storage. I wanted to make sure that the freezer was separate from the cooler because I have been in a situation where someone did not close the freezer and it froze everything in the cooler. In the back, I also wanted to make room for a hotbox. We had one in the Bistro Kitchen and it was great to use for things that you can make in advance and held at a certain temperature throughout service. I also added an additional spice rack for all of the spices most commonly used in the kitchen since

we make many things in house. The reason for putting all of this main stuff in the back was to make sure that is was all located in the same part of the kitchen and made it easy for any part of the kitchen to get to it. This way the staff can walk to the back to get all of the stuff they need in one trip whether it be in dry storage, the cooler, or even the freezer.

Below is my suggested floor plan for a smart, casual restaurant that serves 160 covers.

(You can construct a floor in Excel. Set the row width to 2.73, which will produce 'square' cells with each representing one square foot.)

Since this restaurant offers soups and salads for appetizers I wanted to make sure that, they had their own prep space. I included three different large prep spaces, along with smaller prep counters on top of all of the reach in coolers throughout the kitchen.

I included two soup kettles for the two different soups served and made in house. By the kettles, I placed tilt skillets for large batches of sautéed items or use of homemade stocks. The kitchen will utilize gas stoves and grills to help lower the expenses. I placed the grill, stove, top, and fryers all side by side in the kitchen and prep tables for ease to getting the entrees together. I put reach ins on both side of this counter to hold items that need to be kept cool until they are to be prepared at the time the ticket is called.

From experience, I wanted to make sure that the bakers had their own side of the kitchen. They will be baking breads and desserts fresh and in house so I wanted to make sure that they had their own prep table. I gave them their own food window, with a cooler attached for all cool items and garnishes. Since all bread and desserts will occur from scratch I needed to include a proof box, stand mixer, oven, and speed racks. Under the prep tables and along the walls will include all sorts of storage for all of the assorted tools and equipment they will need.

The hot food window will be right at the front of the kitchen and right next to the "out" door. This way the servers can enter through the "in" door to drop off dishes, and then walk by the hot window to get any food before they walk back out into the dining room. Right in front of the hot window will be a counter with storage underneath for dinner plates, B&B's, and black serving trays. This makes it easy for whoever is the executive chef to grab a tray and have them lined up to go for the servers.

I placed hand sinks all over the kitchen in areas that I thought they would be most usable. I placed one by all of the exits and entrances, and one by all of the prepping tables. Large prepping sinks where also included in the design by the prepping tables. These are necessary in order to be able to thaw items or rinse off others.

In addition to all of the equipment that was provided in the layout, some other assorted small equipment will also be necessary. Large and small cutting boards of different colors for their different uses are also a necessity. Two different knife organizers will be appropriate in this kitchen. We will need butchering, chef, carving, and paring for most of the jobs needed done in the kitchen. A Robo Coupe or other type of food processor will be needed prep. For the soups, we already have the kettles, but an immersion blender could be useful for pureed soups. For the salad station, they will need of course a salad spinner and a blender for the in house made dressings. Lastly, all sorts of utensils will be necessary. For example, whisks, wooden spoons, medal spoons, tongs, etc. All of these items will house in the drawer attachments to the prepping tables.

? Discussion Questions 7.7.2

1. What factors of facility design does the menu directly affect?
2. Does the facility come first, or the menu? How should a restauranteur think about both elements?
3. Name the six elements that affect the successful capitalization of a foodservice facility.
4. What factors typically result in the selection of a 'bad' foodservice location?
5. What potential values does a restaurant location have?
6. When should the Department of Health and Fire Marshall first view a proposed lease site?
7. A prudent restauranteur considers the 'location' of a restaurant as the 'connection' between your target customer and your operating concept. Why is this true?
8. Name and discuss the two major considerations in deciding on an appropriate amount of space for a foodservice facility, which should be constant guides for decision-making.

9. What types of electrical connection does a restaurant require? How can you determine these connections?
10. Licenses and permits necessary to open and operate a restaurant will vary from one city or state to another. What agencies and respective departments are involved in the licensing and permit process?

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7.8: Chapter Glossary and Notes

Glossary

Menu and Facility. The menu has a tremendous influence on the design and success of a food operation. An operator must constantly frame his or her thinking of the menu as the primary or sole source of revenue for the operation that will cover the expenditures of the operation on a monthly or yearly basis, and provide the profits sought by the organization.

Concept development. The successful foodservice operation combines these elements of concept development: menu market, menu, money, management, and method of execution.

Space determinants. A complex menu requires more space to prepare items than a limited, or simple, menu because separate workstations and additional equipment are necessary. Depending on the amount of space available in a prime location, 'make' or 'purchase' decisions may well become practical considerations.
Space Accommodations. Remember the following basic space recommendations by restaurant segment to address space and service concerns: Luxury or table service - 15 to 20 square feet per guest; Coffee shops and casual dining – 12 to 17 square feet per guest Cafeterias – 10 to 12 square feet per guest, Counter service – 18 to 26 inches per stool.

Even though other facets of design can be out of the ordinary, when it comes to flow patterns, the simpler the better. Customer and employee safety should be a top concern. Remember that most of us tend to walk to the right of other oncoming people. Think of the room as a neighborhood and the flow as the major streets in that neighborhood. If you avoid traffic congestion, everyone will like living there. Consider the maximum number of seats allowed in the space as well as the average time you want customers to spend at a table. Generally speaking, the faster the turnover, the greater the need for clear flow patterns that do not cross. Conversely, if dining is to be leisurely, design the flow to make the wait staff seem as unobtrusive as possible.

Banquet Space. To calculate banquet seating with standard rectangular tables, divide the square footage of the room by 8 to find out how many seats the area will accommodate. For example, a 500 square foot area will seat 62 to 63 people. When using round tables, divide by 10. You may decide it prudent to have an adjacent ‘finishing’ kitchen to the banquet dining area to ease the stress on your main kitchen. Banquets will generally occur when your restaurant patrons are dining.
Service Area. Small wait station (20 to 30 inches square or rectangle, for every 20 to 30 seats. Large wait station (8 to 10 feet long and 24 to 30 inches wide) for every 50 to 75 seats.

Customer arrivals. Restaurateurs often fail to consider how guests arrive at the restaurant. The follow figures are restaurant industry averages of guest arrivals. Forty to 50% of all table-service restaurant customers arrive in pairs, 30% of the customers come alone or in parties of 3, and 20% of the customers arrive in groups of four or more.
When one considers such arrival patterns, the need to consider 'who' your customers are and how they will arrive at your facility becomes important not only in terms of dining area and table placement, but equally in terms of the number of customers a table can accommodate. From the data on ‘customer arrival’ it would be clear that most restaurants should provide an equal balance of two-top and 4- top tables, and appropriately configured booths or banquette areas to allow as many customers into the dining area at any given time. Operators must remember that customers typically patronize restaurants during lunch

Entrance space. The space allocated to an entryway is a function of the type of restaurant and the owner's overall feeling about the need for this space. For fast food, the entrance space is large for guests lining up, placing and paying for orders, and picking up food.

Exterior of the facility. This area included the parking lot, any public area that surrounds the business, patio seating, and sidewalk tables. The exterior of the facility is where initial customer experience impressions form. Restaurants located in malls or large office buildings will typically have to account for food-court-style seating will generally have to account for any seating or public area surrounding the facility.

Front of the house interior. This area includes the entryway into the facility, the dining area, wait stations, beverage service area, and restrooms. The customers' comfort should be very high on your list of space-priorities.

Back of the house interior. This space includes the hot-food preparation area, the cold-food preparation area, a serving and plating area, a bakery if one is included, and ware-washing area(s).

Kitchen auxiliary space. This space includes the receiving area, dry storage area(s), cold (refrigerated) storage, freezer, employee staging or break room, and office space.

American Disabilities Act. All spacing configurations and elevations must accommodate those patrons with disabilities. The act generally concerns, but is not limited to, the facility's entrance and exit areas and walkways, restroom accommodations, and aisle spacing for patrons with disabilities.
Dishwashing area. Complex menus require multiple plates, dishes, and utensils, so the dishwashing area and machine capacity will need to be greater than in the case of simple menus. A well-planned ware-washing arrangement could reduce the amount of plates, glasses and flatware necessary to the flow of service.

Location. The restaurant and the location must complimentary to each other. The physical restaurant represents a concept that threads throughout the furnishings, atmosphere, menu price, seat arrangement and spacing, and the type of service scheme offered. As a location changes its character, parts or all of the conceptual elements in place at that location change as well.

Location worth. This value derives from the worth of the surrounding properties or 'comparable' prices. Other factors that would add to the real estate worth of a property include improvements or upgrades to the building or grounds, ease of access, and so forth. The real estate value may be greater than the operational value. On the other hand, the lack of such amenities might reduce the worth of a location despite higher comparative prices.

Stage one Development. Involves no more than the selection of a major piece of equipment or the replacement of a small area of a foodservice facility. Typically, the completion of this stage comes to completion out under the direction of the owner, or a manager, with the help of an equipment dealer.

Stage two Development. Involves the renovation of a significant portion of an existing foodservice facility. A full complement of professionals is necessary at stage 2 because such projects are complex and require expertise in construction, engineering, and foodservice equipment layout and design.

Stage three Development. Projects involve the complete renovation of an existing foodservice facility or the design and construction of a new foodservice facility.

Stage four Development. Projects that involve the development of a chain or franchise prototype.

Building permit/local permit. A building or local permit is normally needed for any new construction. You will need a permit to modify a building if a certain percentage of an existing building will change. A construction permit might require approval by the city planning and zoning commission. Building with historical value and those registered as historic buildings may be very limited as to what modifications are possible. Permits cover construction and additions, plumbing, electrical, and structural changes. Any local, reputable builder should be familiar with local codes and the requirements of the building.

Certificate of Occupancy (CO). The building inspector issues this certificate, which allows for public assembly in a building. After all inspections are completed, this certificate the overseeing agency issues the certificate. These inspection agencies re usually inclusive of electrical, plumbing, structural, fire, and health. In smaller communities, one person may inspect all of the building work.

Health permit. The overseeing health department at the local, regional, or state-level, depending on state regulations, issues a health permit. A thorough inspection of the facility usually occurs 'prior' to the issuance of this permit. A follow-up, working visit may also occur at some point after opening.

Liquor license. Laws and procedures for obtaining a liquor license vary from state to state. In some states, restaurant operators own the licenses as the licensing agency views them as business assets. In other states, the state issues the license and the restaurant must complete an application and send it to a state agency known as the state liquor authority, alcohol license control board, or a similarly name agency.

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CHAPTER OVERVIEW

8: Ownership and Employees

8.1: Types of Business Ownership

8.2: Hiring Employees

8.3: How to Train Your Team

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8.5: Chapter Glossary and Notes

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8.1: Types of Business Ownership

Chapter 8 Learning Objectives

- To gain an understanding of different forms of ownership.
- Sole Proprietorship
- Partnerships
- Corporations
- To understand the advantages of each form of ownership.
- To understand the disadvantages of each type of ownership.
- Able to understand job functions and job descriptions
- Understand how to assemble and train a restaurant staff.

> *"By putting the employee first, the customer effectively comes first by default, and in the end, the shareholder comes first by default as well."*
> *Richard Branson*

Sole Proprietorship

In a sole proprietorship, one person owns and operates for their benefit. The owner may operate the business alone or with other people. All assets of the business belong to a sole proprietor, including, for example, computer infrastructure, any inventory, equipment and/or retail fixtures, as well as any real estate owned by the business. Subsequently, a sole proprietor has unlimited liability for all obligations incurred by the business, whether from operating costs or judgments against the business.

Partnership

General partnership

A general partnership is a partnership in which partners share equally in both responsibility and liability. In the commercial and legal sense, a general partnership (the basic form of partnership), refers to an association of persons or an unincorporated company with the following major features:

- Created by a legal agreement with proof of existence.
- Formed by two or more persons
- The owners are all personally liable for any legal actions and debts the company may face.

Partnerships have certain default characteristics relating to both (a) the relationship between the individual partners and (b) the relationship between the partnership and the outside world. The former can generally override the agreement between the partners, whereas the latter generally may not. The assets of the business are owned on behalf of the other partners, and they are each personally liable, collectively and individually, for business debts, taxes, or legal liability. For example, if a partnership defaults on a payment to a creditor, the partners' personal assets are subject to attachment and liquidation to pay the creditor.

By default, profits disperse equally among the partners. However, a partnership agreement will almost invariably provide for the manner in which partners share profits and losses. Each general partner is the agent of the partnership. Therefore, if that partner is apparently carrying on partnership business, all general partners are usually liable for his dealings with third persons.

By default, a partnership will terminate upon the death, disability, or even withdrawal of any one partner. However, most partnership agreements provide for these types of events, with the share of the departed partner usually purchased by the remaining partners in the partnership.

Each general partner has an equal right to participate in the management and control of the business. A majority of the partners, and disagreements of extraordinary matters decide disagreements, in the ordinary course of partnership business, and amendments to the partnership agreement require the consent of all partners. However, in a partnership of any size the partnership agreement will provide for elected individuals to manage the partnership along the lines of a company board.

Unless otherwise provided in the partnership agreement, no one can become a member of the partnership without the consent of all partners, though a partner may assign his share of the profits and losses and right to receive distributions and transferable interest (Smiddy and Cunningham, 2010).

Limited Partnership

A limited partnership is a form of partnership similar to a general partnership, except that in addition to one or more general partners (GPs), there are one, or more, limited partners (LPs). It is a partnership where only one partner is required to be a ‘general partner’.

The GPs are, in all major respects, in the same legal position as partners in a conventional firm, i.e. they have management control, share the right to use partnership property, share the profits of the firm in predefined proportions, and have joint and individual liability for the debts of the partnership.

As in a general partnership, the GPs have actual authority, as agents of the firm, to bind all the other partners in contracts with third parties that are in the ordinary course of the partnership's business. As with a general partnership, an act of a general partner, which is not apparently for carrying on the ordinary course of business, requires consent of all partners. The limited partnership's activities binds the limited partnership only if the act has the authorization of all the other partners.

Like shareholders in a corporation, limited partners have limited liability. This means they have no management authority and are only liable on debts incurred by the firm to the extent of their registered investment. The GPs pay the LPs a return on their investment (similar to a dividend), the nature and extent of which is evident in the partnership agreement. General Partners thus carry more liability, and in cases of financial loss, the GPs will be the ones, which are liable.

LP members are subject to the same alter-ego 'piercing' theories as corporate shareholders. However, it is more difficult to pierce the LP veil because LPs do not have a great many formalities to maintain. So long as the LP and the members do not co-mingle funds, it would be difficult to pierce its veil.

When the partnership comes together, or the composition of the firm is changing, LPs are generally required to file documents with the relevant state registration office. LPs must also explicitly disclose their LP status when dealing with other parties, so that such parties are on notice that the individual negotiating with them carries limited liability. It is customary that the notepaper, other documentation, and electronic materials issued to the public by the firm will carry a clear statement identifying the legal nature of the firm and listing the partners separately as general and limited. Hence, unlike the GPs, the LPs do not have inherent agency authority to bind the firm unless they are subsequently held out as agents (and so create an agency by estoppel); or acts of ratification by the firm create ostensible or questionable authority (Smiddy and Cunningham, 2010).

Limited partnerships are distinct from limited liability partnerships, in which all partners have limited liability. In some jurisdictions, the limited liability of the LPs is contingent on their not participating in management.

Corporation

A corporation is a separate legal entity that incorporate either directly through legislation or through a registration process established by law. Incorporated entities have legal rights and liabilities that are distinct from their employees, shareholders and members, and may conduct business as either a profit -seeking business or not-for-profit. Most jurisdictions now allow the creation of new corporations through registration. Registered corporations have legal personality and shareholder ownership whose liability is limited to their investment. Shareholders do not typically actively manage a corporation; shareholders instead elect or appoint a board of directors to control the corporation in a fiduciary capacity (Courtney, 2002).

In the United States, corporations form under laws of a state or the District of Columbia. Procedures vary widely by state. Some states allow formation of corporations through electronic filing on the state's web site or very quickly. All states require payment of a fee (often under 200 dollars) upon incorporation. Corporations receive a "certificate of incorporation" by most states upon formation. Most state corporate laws require the basic governing instrument to be either: the ‘certificate of incorporation’, or formal ‘articles of incorporation’. Many corporations also adopt additional governing rules known as bylaws. Most state laws require at least one director and at least two officers, all of whom may be the same person. Generally, there are no residency requirements for officers or directors (Pettet, 2005). Two corporation forms that are applicable to the hospitality operation.

C' Corporation

C corporation refers to any corporation that, under United States federal income tax law, is taxed separately from its owners. A class C corporation is distinguished from an S corporation, which generally does not pay a separate tax. Most major companies (and many smaller companies) are C corporations for U.S. federal income tax purposes.

'S' Corporation

S corporations are ordinary business corporations that elect to pass corporate income, losses, deductions, and credit through to their shareholders for federal tax purposes. The S corporation rules are contained in Subchapter S of Chapter 1 of the Internal Revenue Code (sections 1361 through 1379). S status combines the legal environment of C corporations with U.S. federal income taxation similar to that of partnerships.

Like a C corporation, an S corporation is generally a corporation under the law of the state in which the entity is organized. However, with modern incorporation statutes makes the establishment of a corporation relatively easy. Firms that traditionally run as partnerships, or sole proprietorships, often run as corporations with a small number of shareholders in order to take advantage of the beneficial features of the corporate form; this is particularly true of firms established prior to the advent of the modern limited liability company. Therefore, taxation of S corporations resembles that of partnerships (Pettet, 2005). S corporations are also useful to guard the rights of intellectual property and are often used within an LLC corporation.

Like partnerships, the income, deductions, and tax credits of an S corporation flow through to shareholders annually, regardless of whether distributions occur. Thus, income is taxable at the shareholder level and not at the corporate level. Payments to S shareholders by the corporation have tax-free distribution to the extent that the distributed earnings undergo previous taxation. In addition, certain corporate penalty taxes (e.g., accumulated earnings tax, personal holding company tax) and the alternative minimum tax do not apply to an S corporation. Unlike a C corporation, an S corporation is not eligible for a dividends received deduction and is not subject to the 10 percent of taxable income limitation applicable to charitable contribution deductions (Pettet, 2005).

In order to make an election for status as an S corporation, the corporation:

- Must be a liability entity (a domestic corporation which has elected to be taxed as a corporation).
- Must have only one class of stock.
- Must not have more than 100 shareholders.
- Must have shareholders that are U.S. citizens or residents, and must be natural persons, so corporate shareholders and partnerships are generally excluded. However, certain trusts, estates, and tax-exempt corporations, notably 501(c) (3) corporations, can be shareholders.
- Must have profits and losses allocated to shareholders in proportion to each one's interest in the business.

General Corporate Benefits

Protection of personal assets

One of the most important legal benefits is the safeguarding of personal assets against the claims of creditors and lawsuits. Sole proprietors and general partners in a partnership are personally and jointly responsible for all the liabilities of a business such as loans, accounts payable and legal judgments. In a corporation, however, stockholders, directors, and officers typically are not liable for the company's debts and obligations. They are limited in liability to the amount they have invested in the corporation. For example, if a shareholder purchased $100 in stock, no more than $100 can be lost. Corporations and limited liability corporations (LLCs) may hold assets such as real estate, cars or boats. If a shareholder of a corporation is personally involved in a lawsuit or bankruptcy, these assets should be under corporate protection. A creditor of a shareholder of a corporation or LLC cannot seize the assets of the company. However, the creditor can seize ownership shares in the corporation, as they are under personal asset consideration (Pettet, 2005).

Transferable ownership

Ownership in a corporation or LLC is easily transferable to others, either in whole, or in part. Some state laws are particularly corporate-friendly. For example, the transfer of ownership in a corporation incorporated in Delaware is not required to be filed or recorded (Courtney, 2002).

Retirement funds and taxation

Retirement funds and qualified retirements plans, such as a 401(k), are achievable more easily. In the United States, corporations are taxable at a lower rate than individuals are. In addition, they can own shares in other corporations and receive corporate dividends 80% tax-free. There are no limits on losses a corporation may carry forward to subsequent tax years. A sole proprietorship, on the other hand, cannot claim a capital loss greater than $3,000 unless the owner has offsetting capital gains (Courtney, 2002).

Raising funds through sale of stock

A corporation can easily raise capital from investors through the sale of stock.

Durability

A corporation is capable of continuing indefinitely. The death of shareholders, directors, or officers of the corporation does not affect its existence.

Credit rating

Regardless of an owners' personal credit scores, a corporation can acquire its own credit rating, and build a separate credit history by applying for and using corporate credit.

Limited Liability Company

Limited Liability Company (LLC). A limited liability company (LLC) is a flexible form of enterprise that blends elements of partnership and corporate structures. An LLC is not a corporation; it is a legal form of ‘company’ that provides limited liability to its owners in the vast majority of United States jurisdictions. LLCs do not need to organize for profit. In certain states, businesses providing professional services that require a state professional license, such as legal or medical services, may not form an LLC but required to form a very similar entity called a Professional Limited Liability Company (PLLC).

A limited liability company (LLC) is a hybrid business entity having certain characteristics of both a corporation and a partnership or sole proprietorship (depending on how many owners there are). An LLC, although a business entity, is a type of unincorporated association and is not a corporation. The primary characteristic an LLC shares with a corporation is limited liability, and the primary characteristic it shares with a partnership is the availability of pass-through income taxation. It is often more flexible than a corporation, and it is well suited for companies with a single owner (Courtney, 2002).

LLC members are subject to the same alter ego piercing theories as corporate shareholders. However, it is more difficult to pierce the LLC veil because LLCs do not have many formalities to maintain. So long as the LLC and the members do not commingle funds, it would be difficult to pierce this veil. Limited Liability Company members may in certain circumstances, also incur a personal liability in cases where distributions to members render the LLC insolvent. The following are some of the advantages and disadvantages of a limited liability company (Courtney, 2002):

LLC Advantages

- An LLC can elect to be taxed as a sole-proprietor, partnership, S corporation, or C corporation (as long as they would otherwise qualify for such tax treatment), providing for a great deal of flexibility.
- A limited liability company with multiple members that elects taxation as a partnership may specially allocate the members' distributive share of income, gain, loss, deduction, or credit via the company operating agreement on a basis other than the ownership percentage of each member so long as they meet certain Treasury regulations. S corporations may not specially allocate profits, losses and other tax items under U.S. tax law.
- Limited liability, meaning that the owners of the LLC, called "members", are not subject to some or all liability for acts and debts of the LLC depending on state shield laws.
- Much less administrative paperwork and record keeping than a corporation.
- Pass-through taxation (i.e., no double-taxation), unless the LLC elects to be taxed as a C corporation.
- Using default tax classification, profits undergo personal taxation at the member level, not at the LLC level.
- LLCs in most states are entities separate from their members.
- LLCs in some states can be set up with just one natural person involved.

LLC Disadvantages

Although there is no statutory requirement for an 'operating agreement' in most jurisdictions, members of a multiple member LLC who operate without one may run into problems. Unlike state laws regarding stock corporations, which provide for a variety of governance and protective provisions for the corporation and its shareholders, most states do not dictate detailed governance and protective provisions for the members of a limited liability company. Thus, in the absence of such statutory provisions, the members of an LLC must establish governance and protective provisions pursuant to an operating agreement or similar governing document.

- It may be more difficult to raise financial capital for an LLC as investors may be more comfortable investing funds in the better-understood corporate form with a view toward an eventual IPO (becoming a public company). One possible solution may be to form a new corporation and merge into it, dissolving the LLC and converting into a corporation.
- Many jurisdictions levy a franchise tax or capital values tax on LLCs. The franchise tax can be an amount based on revenue, an amount based on profits, or an amount based on the number of owners or the amount of capital employed in the state, or some combination of those factors, or simply a flat fee.
- Some jurisdictions consider LLCs to be taxable entities, thus eliminating the benefit of flow-through taxes by subjecting members to double taxation. Typically, LLCs will choose taxation as a partnership to avoid double taxation, which occurs in corporations. This allows companies to distribute their income among members who then report it on their personal tax returns.
- While start up expense is relatively similar to a corporation, renewal fees such as annual reports may be higher in certain jurisdictions.
- The management structure of an LLC may be unfamiliar to many. Unlike corporations, they are not required to have a board of directors or officers. (This may be an advantage to some.)
- Taxing jurisdictions outside the US are likely to treat a United States LLC as a corporation, regardless of its treatment for US tax purposes, for example, a US LLC
- doing business outside the US, or a resident of a foreign jurisdiction is a member of a United States LLC.
- The principals of LLCs use many different titles such as member, manager, managing member, managing director, chief executive officer, president, and partner. As such, it can be difficult to determine who actually has the authority to enter into a contract on the LLC's behalf (Courtney, 2002).

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8.2: Hiring Employees

How important is the employee hiring process? To begin, your restaurant is an organization. An ‘organization’ is indicative of many people coming together to achieve the vision and mission of the company. Said differently, it take more than one person to operate and grow the company. To define employees in a pragmatic way, they are generally the ‘sole contact’ the customer has with company. Given that role, they are in fact ‘the face of the company’ to the consumer. Back-of-the-house personnel produce the products they love. The service staff interaction creates the personal touch and ambience that makes customers feel at home and welcome. The management team gathers information about the consumer from the staff and keeps the operation on pace and growing. In all, every employee is important. You must hire individuals who can do what you need them to do. However, you first have to know what you need done, a ‘job description’, and the particular skills people need, a ‘job analysis’, to accomplish those tasks.

Job Description

A job description or JD is a list that a person might use:

- For general tasks, or functions
- Responsibilities of a position.

It may often include:

- To whom the position reports,
- Specifications such as the qualifications or skills needed by the person in the job, and
- A salary range.

Job descriptions are usually narrative, but some may instead comprise a simple list of competencies; for instance, 'strategic resource planning' methodologies may be used to develop a 'competency architecture' for an organization, from which job descriptions are built as a shortlist of competencies.

Human resources planning is a process that identifies current and future human resources needs for an organization to achieve its goals. Human resources planning should serve as **a link between human resources management and the overall strategic plan of an organization**. As defined by Bulla and Scott, human resource planning is ‘the process for ensuring that the human resource requirements of an organization are identified and plans are made for satisfying those requirements’. Reilly defined workforce planning as: ‘A process in which an organization attempts to estimate the demand for labor and evaluate the size, nature and sources of supply which will be required to meet the demand.’ Human resource planning includes creating an employer brand, retention strategy, absence management strategy, flexibility strategy, 'talent management ' strategy, recruitment, and selection strategy.

Talent Management

Talent management implies that companies are strategic and deliberate in how they source, attract, select, train, develop, retain, promote, and move employees through the organization.

Research done on the value of talent management consistently uncovers benefits in these critical economic areas: revenue, customer satisfaction, quality, productivity, cost, cycle time, and market capitalization. The mindset of this more ‘personal’ human resources approach seeks to hire the most qualified and valuable employees, with a strong emphasis on 'retention'.

Summary

A **job description** usually comes into focus by conducting a **job analysis**, which includes examining the tasks and sequences of tasks necessary to perform the job. The analysis considers the areas of 'knowledge' and 'skills' needed for the job. A job usually includes several roles. The job description can broaden to form a 'person specification'. The person/job specification can function as a stand-alone document, but in practice, it is usually included within the job description. A job description is often usable in recruitment by the firm's human resource department or hiring manager.

Roles and responsibilities

A job description may include 'relationships' with other people in the organization: supervisory level, managerial requirements, and relationships with other colleagues.

Goals

A job description need not be limited to explaining the current situation, or work that is currently expected; it may also set out goals for what might be achieved in the future.

Limitations

- Prescriptive job descriptions are a hindrance in certain circumstances:
- Job descriptions may not be suitable for some senior managers, as they should have the freedom to take the initiative and find fruitful new directions.
- Job descriptions may be too inflexible in a rapidly changing organization, for instance in an area subject to rapid technological change; other changes in job content may lead to the job description being out of date. The process that an organization uses to create job descriptions may not be optimal.

Position/Job Description (work, task, or both)

Example: one

For the job of a snow-cat operator at a ski slope, a work or task-oriented job analysis might include this statement: Operates Bombardier Sno-cat, usually at night, to smooth out snow rutted by skiers and snowboard riders and new snow that has fallen.

On the other hand, a worker-oriented job analysis might include this statement: Evaluates terrain, snow depth, and snow condition and chooses the correct setting for the depth of the snow cat, as well as the number of passes necessary on a given ski slope.

Job analysis methods have evolved using both task-oriented and worker-oriented approaches. Since the result of both approaches is a statement of KSAOs, neither can be considered the "correct" way to conduct job analysis. Because worker-oriented job analyses tend to provide more generalized human behavior and behavior patterns and less association with the technological parts of a job, they produce data more useful for developing training programs and giving feedback to employees in the form of performance appraisal information. In addition, the volatility that exists in the typical workplace of today can make specific task statements less valuable in isolation. For these reasons, employers are significantly more likely to use worker-oriented approaches to job analysis today than they were in the past.

Example: two

Outfielders - must cover large distances - speed, instincts, and quickness in reacting to the ball are key. They must be able to catch fly balls above their head and on the run. They must be able to throw the ball accurately over a long distance to be effective; they must also learn to judge whether to attempt a difficult catch and risk letting the ball get past them, or to instead allow the ball to fall in order to guarantee a swift play and prevent the advance of runners. Left fielders must also familiarize themselves with the varying configurations of different ballparks' foul territory, and prevent balls hit down the foul lines from getting past them into the left field corner. Amateur players may find it difficult to concentrate on the game, since they are so far from the action. Emphasizing the correct position will give outfield players something to concentrate on at each pitch. Hits to left field tend to curve toward the left field foul line, and left fielders must learn to adjust to that.

Of all outfielders, the left fielder often will have the weakest arm, as they generally do not need to throw the ball as far to prevent the advance of any base runners. The left fielder still requires good fielding and catching skills, and tends to receive more balls than the right fielder because right-handed hitters tend to "pull" the ball into left field. The left fielder also backs up third base on pick-off attempts from the catcher or pitcher and bunts, when possible. In addition, if a runner is stealing third base the left fielder must back up the throw from the catcher. Left fielders must also back up third base when a ball is thrown from right field and backup center field when a pop fly is hit into the pocket.

Knowledge, skills, abilities and other characteristics (KSAOs)

Regardless of which approach to job analysis is taken, the next step in the process is to identify the attributes—the KSAOs that an incumbent needs for either performing (1) the tasks at hand or (2) executing the human behaviors described in the job analysis.

- Knowledge: "A collection of discrete but related facts and information about a particular domain...acquired through formal education or training, or accumulated through specific experiences."
- Skill: "A practiced act".
- Ability: "The stable capacity to engage in a specific behavior"
- Other characteristics: "Personality variables, interests, training, and experiences"

Job/Work Analysis

Job analysis (also known as **work analysis**) is a family of procedures to identify the content of a job in terms of activities involved and attributes or job requirements needed to perform the activities. Job analysis provides information to organizations that helps to determine which employees are best fit for specific jobs.

Through job analysis, the analyst needs to understand:

- What the important tasks of the job are,
- How they are carried out, and
- The necessary human qualities needed to complete the job successfully.

The process of job analysis involves the analyst describing:

- The duties of the individual, then
- The nature and conditions of work, and finally
- Some basic qualifications.
- The mental requirements of the job.

The measure of a sound job analysis is a valid task list. This list contains:

1. The functional or duty areas of a position,
2. The related tasks
3. The basic training recommendations.

Subject matter experts (ownership) and supervisors for the position under analysis need to validate this final list in order to validate the job analysis. Job analysis is crucial for first, helping individuals develop their careers, and for helping organizations develop their employees in order to maximize talent. The outcomes of job analysis are key influences in:

- Designing learning for current and future positions,
- Developing performance interventions measures
- Improving processes as needs arise.

The application of job analysis techniques makes the implicit assumption that information about a job as it presently exists is usable to develop programs to recruit, select, train, and appraise people for the job, as it will exist in the future. Frederick Winslow Taylor and Lillian Moller Gilbreth began work analysis in the early 20th century. Since then, experts have presented many different systems to accomplish job analysis that have become increasingly complex over the decades. However, evidence shows that the root purpose of job analysis, understanding the behavioral requirements of work, has not changed in over 85 years.

Competency Compartments

Core Competencies

The Core competencies includes very general/generic competencies that all employees must possess to enable the organization to achieve its mandate and vision (e.g., Teamwork). These competencies describe in behavioral terms the key values of the organization and represent those competencies that are core to the organization’s principal mandate.

Job Family Competencies

Job Family competencies are those competencies that are common to a group of jobs. They often include 'General Job' competencies that tend to be required in a number of Job Families (e.g., Partnering), as well as 'Job Specific' competencies that apply to certain job families more than others. These tend to be related more to knowledge or skill required for certain types of jobs (such as accounting for jobs involving financial administration, or a background in food preparation or service techniques for back or front of the house).

Technical / Professional Competencies

The technical/professional competencies tend to be specific to roles or jobs within the Job Family, and include the specific skills and knowledge (know-how) to perform effectively (e.g. ability to use particular software; knowledge in particular professional areas such as finance, biochemistry; etc.). These competencies could be generic to a Job Family as a whole, or be specific to roles, levels or jobs within the family.

Leadership Competencies

These are the key competencies for roles in an organization that involve managing, supervising or influencing the work of others in some way. Some organizations view "leadership" to be a part of every job of the organization in that employees should contribute and offer new or better ways of working regardless of their level or role in the organization. Leadership is required in teams, project management, as well as at the managerial, executive and board levels. Consistent with the requirement for ease of use, organizations typically define a limit on the number of key / important competencies that are included in the profile for any job / role within the organization. As a rule of thumb, best practice organizations establish a limit on the total number of competencies included in any one profile in the range of 12 to 15.

Optimize labor efficiencies to cut costs

Between higher wages and new labor regulations, restaurants are facing a labor crisis — and their existing, outdated processes are doing anything but helping the problem. Outdated and inconsistent scheduling practices are running rampant in the majority of restaurants — and it is taking a toll on their bottom line.

According to Joshua Ostrega, 2015, co-founder and COO of Work Jam, more than 57 percent of restaurants rely on manual processes when scheduling hourly employees — leading to labor inefficiencies, schedule inconsistency and even worse, employee turnover. More than a third of restaurants report a quarterly turnover rate of at least 26 percent, and 33 percent claim that this rate has increased over the past two years. With the cost of replacing one minimum wage worker amounting up to $4,000, restaurants cannot afford to have their employees regularly jumping ship.

As restaurants face increasing challenges presented by higher wage requirements and new scheduling regulations, offsetting costs and improving labor practices is more important now than ever before.

Ways restaurants can optimize labor efficiency

Prioritize Shift Management

Creating schedules that work for both employers and employees is a complex issue. Sixty-eight percent of employers said the most difficult part about scheduling is setting shifts that align staff availability and business needs. With scheduling being such a cumbersome process, many managers leave it to the last minute – and in result, the majority of employees (56 percent) receive their schedules a week or less in advance. Such a tight timeframe leaves workers struggling to accommodate personal obligations such as education, childcare, elder care and/or other jobs. Due to conflicts, you will not fill some of the employee’s shifts, which ends up having a direct impact a restaurant workers economic well-being. When this happens often, there is little incentive for the worker to stay.

Rather than fall victim to the current problematic situation, managers must start making shift management a priority and seek out new employee-centric processes that give employees more say in their schedules. By accommodating employees’ preferred shifts and availability, restaurant managers will reap the benefits of having happier, more engaged employees with lowered absenteeism and turnover.

Streamline Communication

From phone calls to emails to handwritten notes, restaurant managers juggle a myriad of channels when communicating with their staff about availability and shift changes. Based off the 84 percent of employers who have processes in place for employees to share availability before constructing schedules, 43 percent of workers submit written requests, 31 percent have a conversation with their shift manager, and 11 percent submit availability via email. When managing these varying forms of communication, matching employee shift requests and availability becomes less of a priority and simply getting a set schedule becomes the most important thing to do.

By opting for an integrated communication channel that all employees can access autonomously, employers can cultivate consistency and alleviate the superfluous stress accrued from communicating across multiple channels. In fact, 65 percent of workers say they would try harder to find shift replacements if they had an easier way to communicate with coworkers, while 53 percent would be more likely to pick up open shifts. When restaurants are willing to implement efficient systems that allow employees to communicate across the company, they enjoy simpler, faster management as a result.

Eliminate Manual Processes

According to the Work Jam study, 67 percent of employers still use paper schedules and spreadsheets to create hourly workers' schedules, compared to the 31 percent that use online tools or shift management software. On top of this, 68 percent of employers still share staff schedules via physical charts posted in breakrooms or other communal areas.

With the majority of restaurant managers still using manual processes for scheduling, it is nearly impossible to meet every employee's scheduling needs. Regretfully, employees end up suffering. The study found only 29 percent of workers rarely receive consistent schedules and – despite nationwide pushes to stop 'clopenings' (back-to-back closing and openings shifts) – 48 percent of employers report their employees are frequently or sometimes scheduled to work these shifts.

These unstable and inconsistent practices often lead to understaffing, with 46 percent of employers reporting frequently or sometimes understaffing. This not only disrupts morale, but also hinders operations. In fact, the majority of employers claim that being understaffed compromises the customer experience — which can easily discourage restaurant-goers from dining there again. To combat the consequences of manual processes, restaurant managers must seek out more-efficient processes. Though technology can optimize efficiencies, these solutions must pair with transparent communication between managers and workers in order to be a success.

Recruiting the Right People

When you become sure about what people you are looking for, start finding candidates. Earlier is better than later. Thoughtful written job ads and the channels you choose to circulate them through will also service as 'filters' to include or exclude people.

Timing

Start your search for managers before you look for hourly employees. Key positions such as chefs and general managers should be brought on two to four months before opening day, meaning you will need to start posting job ads, planting seed with your peers, and working your network four to six months in advance.

The point of paying your two most expensive people before your doors open comes back to 'culture'. You need the opportunity to spend time together getting on the same page with the kind of restaurant you are are going to open and making sure the relationship is good and of importance – trustworthy. Hiring individuals at the top of your leadership structure is much more than just checking a box. Chefs and managers need to align with your brand, share your values, and believe in your vision. It is particularly important to find a chef early on so they have enough time to develop a menu you are both happy with, test that menu, and work with your design team on laying out the kitchen.

Hourly employees can come later in the game, but leave your new employees with time to give respectful notice to their current employer and be on board in time for pre-opening staff training. Bringing on a couple of servers or cooks to fill open positions is very from onboarding a new team from scratch. Starting early and being honest with candidates about the fact that your timeline may shift a bit is better than starting late and having to hire bodies rather than Individuals who are an ideal fit for your restaurant.

Job Advertisement

The ads that you post should include keywords describing your company culture as well as your restaurant's concept, style of service, opening date projection, and any relevant specifics regarding job description and schedule requirements. Incorporate the legwork you have done to define your brand and the types of person you are looking for to build ads that look and sound unique to your project.

Ads should be professional and with sharing through multiple channels, such as online job boards, and social media. Getting the word out among your network is also one of the most important ways of recruiting great employees. Let your friends in the industry know you are on the hunt for an awesome opening team and extend your outreach beyond your immediate market. People

in the restaurant industry are always on the move, and you want your entire rolodex to be aware that you are looking to meet great candidates. Once you start hiring your first team members, encourage them to invite their peers to apply – these introductions are great ways to find good people efficiently.

Putting a Team Together

Before you can identify the best candidates for your team, you first need to figure out what you are looking for. Organizational structure and the specific qualities that make a person a good "fit" will be different for every restaurant, but the best practices around the process are largely universal. Identify the soft skills that reflect your concept and brand, determine what skill sets you need to perform critical operational responsibilities, and define what your own role will entail. Then, develop a hiring strategy to find people that fit your criteria. Your employees are your biggest asset, and in our industry, they are often the scarcest resource. Developing and executing a hiring strategy will pay off in the long run by reducing turnover, ensuring great guest experiences, and promoting brand consistency.

Prioritize Soft Skills

What qualities must every member of your team possess to create the guest experience you have imagined? When you hire a team, you are not looking for bodies. You are looking for people that you can work with, that are like-minded, and that want to grow and develop. When you surround yourself with people that have the same mission as you, there is no limit to what you can do.

Every restaurant will have different priorities when it comes to soft skills. Keep in mind that some of the qualities you look for while selecting your opening team may be different from those you look for months or years down the road. Try to understand the type of environment that best suits the employee. If someone is open minded, has shown his or her ability to be a chameleon, and can take whatever curve balls are thrown at them, we know they're going to thrive during an opening." Candidates who need structure and consistency to do their best work are better hires when the restaurant becomes established.

Identify Roles & Responsibilities

Identify the roles and responsibilities you need your team to take on at a management level and an hourly level. If you are already familiar with the size, scope, and service style of the restaurant you are opening, you likely have a good idea of what your organizational chart will look like. If not, talk to peers who have concepts and hours of operation similar to yours about their organizational structures, do some market research, and make modifications based on the specifics of your restaurant to develop a working model.

One tool that can be helpful is a comprehensive list of the major responsibilities you expect each person to own. Then, factor in the time each person will need to spend on the floor or in the kitchen during service. Your goal is to strike a balance here: make sure your team has the bandwidth to meet your performance expectations without burning them out.

Specific tasks will vary greatly from restaurant to restaurant. This is a sample list of management responsibilities here to help spark your thought process:

- Scheduling
- Hiring
- New employee training
- Disciplinary action and termination
- POS maintenance
- Payroll
- Ordering (food, beverage, dry goods, dining room supplies)
- Private dining sales
- Private event execution
- Bar program
- Inventory
- Cash handling

Establishing responsibilities as well as the size, service style, and concept will help you understand what hourly positions you need to hire. For a fine-dining restaurant, you will likely have a more layered front-of-house structure, whereas a more casual, counter-

service concept may require only a few people who all have similar job descriptions.

When thinking about team structure, map out a typical guest experience and take note of the individual touch points necessary to provide great service. For example, let us say your typical guests are a group of four joining you for drinks and dinner. They will enter the restaurant to check in for their reservation, head to the bar for a cocktail, and then sit down for a multi-course dinner.

In this scenario, it is clear you will need a host and floor manager to ensure guests are greeted and directed to the right place, as well as a fully staffed bar team. Additionally, multi-course dinner service means many touch points with each table, which require support staff for your servers (think runners, bussers, and sommeliers) and your culinary team (expediters, polishers, and dishwashers).

By contrast, a counter-service concept might find many of these positions unnecessary. In a typical experience, these diners might simply enter and be directed by signage to a cashier to place their order. Once they have paid, they may receive a number to pick up their food from a window when it is ready and have no further interaction with the restaurant staff. In this scenario, unlike the previous, there is no need for much service or support staff, only cashiers, cooks, dishwashers, and a floor manager to facilitate.

There is no “one size fits all” guide to how to staff your concept, as each one varies. As a best practice, simulate service and ensure that each touch point with a guest is covered by a particular staff member equipped to deliver a great experience.

Define ‘Your’ Position

Be clear and honest about your strengths, availability, and the role you plan to fill at your restaurant. This is one of the most important steps in figuring out who needs to surround you. Irrespective of who you are and how much experience you have, there are things that you are good at and there are things that you are not. You need to be able to plug those gaps straight away.”

If you’re a chef but you don’t know much about the front of the house or running a business, your first priority will be to find a General Manager who is dedicated to your vision, is experienced in running a front-of-house team, and has strong business sensibilities. Do not assume you will be able to perform major functions that you have no experience in accomplishing. Conversely, if your strengths are business and operations, but your knife skills are not particularly notable, you will want to find a chef very early in the process.

The Hiring Process

Once you are clear on what you are looking for, start finding candidates. Earlier is better than later. Thoughtfully written job ads and the channels you choose to circulate them through will also serve as filters.

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legwork you have done to define your brand and the type of person you are looking for to build ads that look and sound unique to your project.

Ads should be professional presentations and shared through multiple channels, such as online job boards and social media. Getting the word out among your network is also one of the most important ways of recruiting great employees. Let your friends in the industry know you are on the hunt for an awesome opening team and extend your outreach beyond your immediate market. People in the restaurant industry are always on the move, and you want your entire rolodex to be aware that you are looking to meet great candidates. Once you start hiring your first team members, encourage them to invite their peers to apply -- these introductions are great ways to find good people efficiently.

Interviewing

Effective interviewing is the key to finding top performers for your restaurant -- do not rely on first impressions or gut reactions. Here are a few tips to keep in mind.

Develop a Core Set of Interview Questions

Assemble a thoughtful list of questions designed to determine whether a candidate shares your values and uncover details of their professional experiences. Often, the best way to do this is to work backwards. Figure out the five most important qualities you want a candidate to possess, then design questions that will allow them to demonstrate each one. For example, look for front-of-house employees who are passionate about food and drink. This may seem like an obvious quality to require, but for many restaurants, it actually is not a top priority for front-of-house employees.

Asking candidates questions about the role that food plays in their lives or having them describe favorite dishes and pairings is a great way to gauge interest. The content of their answer is much less important indicator than the emotion with which they deliver it.

If teamwork is a value that ranks high on your list, think of everyday situations that demonstrate teamwork and then come up with questions that provide candidates the opportunity to talk about those things. A good question to ask interviewees is what makes a shift feel fun and rewarding versus a shift that feels disappointing or frustrating. Usually, candidates who have a natural tendency towards teamwork will demonstrate that by telling you about busy nights in which everyone has to support each other to get through. Always ask candidates to give you specific examples so that you are more likely to get a real answer.

Ask candidates situational questions based on past-experiences as opposed to asking how they would deal with a hypothetical problem. People are way less inclined to try and work out what you want them to say when you're asking about the past and they are more likely to give you an answer that's representative of how you can expect them to behave.

Coming up with unique questions will help to determine 'fit' and increasing the likelihood that you are getting genuine answers from the people you're interviewing. An efficient interviewing process also demonstrates your level of professionalism to applicants and gives you more objective-criteria for evaluating them. If someone is a total 'rock star' when it comes to knowledge but comes across as selfish and not a team player, it is best that you pass and look for someone who more closely aligns with your mission and values.

Make Interviewing a Two-Way Street

Never forget that candidates are also evaluating you. Show up on time, read their resume beforehand, and dress appropriately -- it will go a long way in creating a strong impression of what they can expect if they come on-board. Always put your best foot forward so that when you come across great candidates, you are able to hire them. Giving every candidate the opportunity to interview his team first is one of the most important steps in their hiring process.

You want people to analyze your culture, your philosophy, the environment, the people that they'll be working next to, their superiors, so that you can ask them - is this an environment that you want to be in? Hiring someone for any position is a commitment and it is an understanding on both sides of what collective goals are.

Get More Than One Opinion

Passing over a great candidate can be as big of a loss as hiring a bad one, so consider more than one person's opinion. Managers should synchronize up between interviews to highlight any areas of concern for others to investigate further. That way you know

hiring managers all buy- in. Everyone who conducts interviews should take notes -- especially for an opening team, because you will be meeting with applicants constantly. It is easy to forget how you felt about someone or confuse him or her with a different person when you are in the throes of pre-opening onboarding.

Assembling Your Team

When it comes to assembling a team, diversity is your friend; this applies to knowledge, skill set, past experience, and personality. Pay attention to balance as you bring people on board, as a diverse and dynamic staff helps everyone to learn from one another. Be wary of hiring too many people from the same restaurant or company.

Create Balance

Having a team of great people will not do you any good if they are all great in the exact same way. You want to build a band, not a bunch of people that play the clarinet. Everybody has to be able to play in the sandbox together and that is key because there is a lot of intensity in an opening. Employees are not just adapting to their surroundings, they are adapting to each other, and you need to have people that can link arms going into it with a real sense of camaraderie.

Check References

Ask every candidate you under serious consideration to provide you with three professional references. Let the applicant know up front that you will need to hear back from at least two of them in order to move forward with the hiring process. No matter how great someone seems or how strongly you connected with him or her, do not skip this step. Hiring someone is a commitment to a relationship. Know what you are looking for and be clear with that person about your goals. Give them an opportunity to figure out if you have what they need to grow as an individual.

Each employee is a relationship, and relationships are hard. They can be tricky and they can be messy and they can be time consuming and they can be rewarding and they can be fulfilling and they can be rejuvenating and restorative, but they always take a lot of work. The process of building your team is all about ensuring that you are selecting people whom you are excited to work with.

Key Takeaways

1. Invest time in identifying what exactly you are looking for in prospective employees before you begin the hiring process. Know what values, character traits, and skills your team will need to have in order to make your vision a reality.
2. Prioritize soft skills when hiring. Teaching someone how to clear a table is easy, but teaching them to have a different attitude is usually impossible.
3. Define your role. Be honest about your areas of expertise and create realistic expectations around what you will be contributing to the restaurant on a day-to-day basis, then hire your leadership team based on the gaps you cannot reasonably fill.
4. Create a hiring strategy. Make sure that the recruiting, interviewing, and onboarding strategy is intentional, universally understood, and thorough.
5. Understand that employment is a relationship. It has to be a good fit for everyone involved, and both sides need to be working towards the same goal to be successful.

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8.3: How to Train Your Team

If the cost of labor, product, and lost revenue associated with pre-opening training makes you uncomfortable, think about how much money you will spend because of high turnover, botched guest experiences, and bad press -- all of which are the direct result of an underprepared staff.

Start Early

Begin planning staff training when you are building the pro-forma for your business plan. The costs of labor, food, beverage, printed materials, and other expenses associated with classroom training and soft opening events should be a part of your pre-opening budget so you do not find yourself three weeks away from opening with dwindling funds.

Designing an effective pre-opening training program is extremely time consuming, especially if you have never done it before, so make sure you start early and delegate projects appropriately. Gathering all of your employees before you even start generating revenue is a big financial investment, and you cannot afford to squander that by procrastinating on the planning front. Make this a priority ‘months’ in advance of bringing on staff, not ‘weeks’ (and certainly not days).

Classroom Training

Pre-opening training generally divides into two major sections: theory and practice. Classroom training generally takes five to eight days and teaches employees what they need to know about the restaurant, how to perform their specific job, in-depth product knowledge, details of the physical space, and team building.

Start by making a training schedule, which will be your road map through the process. It will help with your training plan organization, setting expectations for your management team, and determining what written materials you need to assemble for your staff. Most restaurant should include ten important topics:

Start with Why

On the very first day of training, discuss your restaurant’s “why” and lay the framework for the culture you hope to grow. Use anecdotes and include the staff in the conversation. Questions like, “What is good service?” and “What are we trying to achieve with this restaurant?” are often part of a focused discussion very early on. Use the same in order in each training session to ensure that ‘everyone’ is on the same page and pushing in the same direction right off the bat.

Stress the importance of starting with “why” and incorporating the company’s values and philosophy into training at every possible moment. That way, each employee is better prepared to make good decisions in unrehearsed situations. If an employee faces a new challenge, they can tie it back to a similar scenario or train of thought and feel comfortable handling it on their own because they understand our overall vision. The only way to build culture is to constantly talk about it and constantly work at it. If you don’t talk about it, it will never exist.”

Introduce Leaders

It seems obvious, but often forgotten: Introduce each member of your leadership team and allow them to speak briefly about themselves – and why they are proud to be a part of your restaurant. Prioritizing engagement, especially early in the game, is critical. Presence is everything. Depending on the size of your staff, giving the rest of your employees the opportunity to do the same sends a positive message and reinforces how much you value what each team member brings to the table.

Clean & Set Up

It is unlikely that your space will look like an operational restaurant on the first day of staff training. That is ok, and depending on how far off you are it can actually be a good thing. Stacks of unwashed plates, glassware, and silverware, storage areas unorganized, , the service stations that are barren with the exception of that box of cereal that you’ve been living off of for a week are all opportunities for your new team to dive in and make your restaurant their functional, beautiful home. Not only does allowing your staff to take on cleaning and organization remove some heavy lifting from your plate, it also creates a strong sense of buy-in and ensures that the location of equipment and service items makes sense to the people who will be using them the most.

Employee Handbook Review

Employees who have a clear understanding of what they should expect to give and to receive from their employer are more comfortable and confident, allowing them to do a better job. Even though it may not be the most stimulating material, an employee handbook is necessary - and simply handing it out and asking staff to read it and sign it isn't enough to be sure that they are absorbing its contents. This portion of training is not exciting. It is fair to say that almost nobody likes it, but it is important and so I try to do it in the middle of training. My goal is to get them excited, get them eating some food, get them through the dull compliance stuff and then get them excited again before they open a restaurant."

Product Knowledge

What you cover and how much time you devote to each subject will depend on your restaurant's concept. All of these topics provide a good opportunity to include the vendors, farmers, and distributors you have been working with; they will appreciate the chance to share their passion for their products, and staff will benefit from learning from different people. It is a good idea to bring in industry experts to train because staff education is at the core of a good operation.

These are the major categories to consider:

- Menu (ingredients, cooking techniques, presentation, allergens, substitutions)
- Cheese
- Wine
- House cocktails
- Classic cocktails
- Spirits
- Beer
- Coffee and tea

Tasting

Academic knowledge is important, but tasting is a key component of training for the entire team. Cooks need to understand how every component of every dish should taste, and your front-of-house team needs to feel excited about the menu and be able to guide guests through their dining experience confidently. Bring your kitchen staff in a week before your front of house because we want to get everyone tasting the food early, have plenty of time to explain it, and get them excited about it. There is no point in doing that if the food coming out of the kitchen is no good.

Service Standards

Pre-opening training is your best opportunity to define what is right and wrong when it comes to technical service. How do you want tables cleared? What is the proper way to transfer a bar check? It may feel tedious, but on your first busy night, you will be grateful that you are not wasting time explaining the same thing to 20 different people and being frustrated that they do not already know the "right" way of doing things. Your managers and employees will also be more comfortable if they have a clear understanding of your expectations.

POS Training

Sure, most of us have used every POS system under the sun, but none of these experiences has been in your restaurant. You do not want servers searching for a tomato salad button for five minutes in the middle of the first night of service, only to find that it was never initially included in the menu selections. Give your team time to familiarize themselves with the locations of functions and menu items in your POS. Make sure every menu item is in the computer in the right place at the correct price and printing where it's supposed to.

Staff-on-Staff Service

Before you dive into preview events, do some dress rehearsals just with your staff to work out some of the bigger kinks. Would you rather find out your expediting printer does not work before you have guests of any variety in your house? Organizing some "staff-on-staff" exercises in which one group serves while the other dines is a great way to make some early improvements and discoveries. What is the best place for trays to go in the service stations? How should the service bartender organize their tickets? These exercises should include the whole team — a well-practiced service team is useless without a well-practiced kitchen team.

Additional Considerations

Prioritize training around elements of your restaurant that are uniquely yours or that may be new to your team. To prepare his team for the opening, one restauranteur hired a tutor. Given the restaurant's focuses on French concepts, he wanted to be sure that his team was completely confident with French cooking techniques and pronunciation. Another restauranteur installed a number of large, eye- catching pieces of artwork throughout the restaurant dining room that each had an engaging story. She shared details of each piece in the restaurant's service manual and brought one of the artists on site during training to speak to the staff directly about his installation. She also trained her team to explain the restaurant's artwork confidently to guests who might want to know more.

Prepare Written Materials

Having a vision of what service should 'look' and 'feel' like is one thing, but being able to put that vision on paper and teach it to others is something else entirely. Creating written standards for your team implements one solid point of reference that can serve as a 'North Star' for all. By taking the time to write documents like a comprehensive service manual, you will give yourself an opportunity to edit your thoughts before teaching them to others and make sure they are cohesive. This exercise will also make new hire training dramatically more consistent and efficient before and after you open.

Training materials that you will want to consider putting in writing include:

Employee handbook

Regardless of your concept, you need one. An attorney with experience in labor law and restaurant operations should build this with you and review it before you give it to employees.

Service manual

This document should outline the restaurant's concept and the story behind it, bios of key players such as pertinent information about important partners like your designer or major vendors, and a detailed outline of steps of service. It is also helpful to include a quick summary of how to deal with guest complaints and a dedicated section for hosts and front door policies.

Menu descriptions

These should include menu item ingredients, allergens (and feasible modifications), preparation techniques, and a photo.

Beverage descriptions

These will vary depending on your concept and teaching style. Consider building templates that include the name of a cocktail or wine by the glass and then leaving specific fields (like ingredients or tasting notes) blank for your team to fill in during training classes.

Floorplan

Your front-of-house team will need to commit table and seat numbers to memory immediately. Give them a tool to start practicing on day one.

Build in Performance Measurement

Pre-opening training is a big investment, so it is critical that you are holding your team accountable for learning and retaining everything you are teaching them throughout the process. Daily written quizzes will ensure that employees are committing important information to memory and send a clear message about the level of dedication you expect. Incorporate verbal testing into daily training exercises and get everyone involved in hands-on training. It is incredibly important to weed people out. You have a responsibility to create the best team possible, so when you know that someone does not fit with your culture, be quick to fire.

Preview Events

Pre-opening events serve three essential functions: they are dress rehearsals for your entire team, they provide an exclusive first look of your restaurant to key players in your community, and they give you an opportunity to receive critical feedback and make changes before you open your doors to paying customers.

Your first few weeks of service are the most important ones you'll ever have, and losing the trust of your "early adopters," receiving negative reviews on social media, lacking support from the press, and discouraging your staff early in the game are all surefire ways

of damaging your short- and long-term success. Giving your team as many practical opportunities to interact, learn the voice of the restaurant, retain menu items and steps of service prevents your first paying guests from being your guinea pigs. You want to be your own ‘guinea pig’.

Friends & Family Meals

This type of pre-opening event should happen as close to opening day as possible and serve as a comprehensive dry run. Invite friends and family of the restaurant to dine in exchange for critical feedback and the right to make mistakes sans judgement. Typically, all or most of the food served at these meals is complimentary. This is the most important opportunity your staff will have to practice cooking your menu, mixing your cocktails, talking about your wine list, and going through steps of service before opening day, so structure it exactly the way you would a normal service.

Typically, invitations to these meals are pretty coveted, and you will have no shortage of volunteers. Above all, invite people you trust to be honest and whose opinions you respect. Another thing to keep in mind: If you have a few big hiccups on your first night, will the people you have invited understand and forgive or send a snide tweet to their 5,000 followers? Make sure it is the former.

Tips for getting the most out of it

Host at least two days of friends and family meals, but three or four days is ideal. You want the opportunity to receive critical feedback, make mistakes, and correct them before you open.

Control your cover counts. It is surprising how many friends and family members you have all of the sudden when you give away free meals at a hot new restaurant. Decide how many people you want to serve each night based on your budget and your operational capabilities, then stick to those numbers.

Involve your entire staff. This may mean giving servers smaller sections or having more cooks in the kitchen than you normally would, but the primary purpose is for everyone on your team to get some hands-on, real-time experience so they’re comfortable and confident going into day one.

Make feedback cards for your guests. Honest, critical feedback is a significant portion of your ROI for this type of event so getting your guests’ thoughts on paper and reviewing comments with your team every night is an absolute must.

Press Preview

Generate buzz by hosting a small event to give the press a first look at the restaurant when it is still a few weeks away from opening day. You can do ‘hard hat’ nights to allow the press to see the venue before it is fully completed. This gets them excited and gives them the chance to leak the story before anyone else knows details.” Going ‘above and beyond’ to show that they are important to you will help keep your restaurant’s name top of mind as others continue to open. Invite all of the major food writers in your community— magazines, newspapers, websites, and widely followed bloggers. For press events, focus on quality, not quantity. If you have too many people in your space, you will lose the feeling of exclusivity and lessen the likelihood of making a personal connection with everyone in attendance.

Tips for getting the most out of it

Make the invite personal. Depending on how many people you have on your list, sending a well-branded, thoughtful paper invite or making individual phone calls are the most appropriate ways of getting your press preview on their busy calendars.

Don’t mind the dust. An unfinished interior makes the experience feel a bit more exclusive. In addition, there will still be an element of surprise the next time they come in.

Provide some tastes of your menu and cocktails during the event. Taking a tour of the space is an essential part of the experience, but getting your future supporters and critics excited about the product you will be serving is just as important. Keep it simple — three perfect bites are better than 10 imperfect ones.

Work the room. Having a group of media heavy hitters in the same place at the same time is a tremendous opportunity. Embrace it! Your entire management team should be on the floor getting to know each person - and enter his or her information into your reservation system. That way you will know to take extra-special care of them when they come in to eat.

Send them home with something unique. A sweet treat with a branded recipe card or a bottled cocktail are examples of items that will make a lasting impression. Skip things like printed menus that are liable to continue to change as opening day approaches.

Other Pre-Opening Events to Consider

Opening Party. The best opening parties have a greater purpose than solely celebrating your restaurant's opening. Host a fundraiser for your favorite local charity, or turn your opening event into an appreciation party for the many people who helped build your restaurant.

Offer a Discount. After hosting friends and family meals, Will plans a period where regular guests (i.e. the public) dine at the restaurant with a 50% discount in order to give his team one last grace period to work out kinks before normal operations begin.

Guest Previews. Offer your future guests an exclusive preview of the restaurant. Sell tickets to VIPs, giving them a first peek at the restaurant, the opportunity to have a drink with you and members of his team, and a chance to book a table before reservations opened to the public. The outcome? Guests love it and bookings will begin before you even open the phone lines.

Key Takeaways

1. **Start planning staff training and pre-opening events early**. These big investments are critical to your restaurant's success, so build the expense into your capital requirements budget and plan them early to get the most out of them.
2. **Create a comprehensive training schedule that starts with company culture**. Other topics to include are product knowledge, steps of service, POS training, and tasting.
3. **Prepare written materials like an employee handbook, a service manual, food and beverage descriptions, and a floorplan** to provide your team with the tools they need to be successful.
4. **Plan pre-opening events like friends and family dinners to give your entire team the opportunity to get comfortable**, work through kinks, and practice what they have learned so that they go into opening day with confidence.
5. **Host a pre-opening event exclusively for key members of the press** to help build buzz before you open to the public.

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8.4: Classroom Preparation Assignments

Ownership and Employee Exercise 8.4.1

1. Determine the type of ownership best for you.
2. Conduct a ‘job’ analysis.
3. Develop ‘job’ descriptions.
4. Develop your training requirements – and determine the ‘what and how’ training will occur.
5. Consider your pre-opening. This is also a part of training and bringing a staff together.

Discussion Question 8.4.2

1. List the advantages of a sole proprietorship.
2. How do partnerships share profits?
3. Who controls the business in a partnership?
4. What is a limited partnership?
5. What are the advantages of a corporation?
6. How do “C” and “S” corporations differ?
7. What is a limited liability corporation? What advantages does it provide members? What are the liability?
8. What is a job description?
9. Why is a job analysis important?
10. What is the importance of establishing competency layer?
11. How can restaurants optimize labor efficiency?

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8.5: Chapter Glossary and Notes

Glossary

Sole Proprietorship. One person owns and operates for their benefit. The owner may operate the business alone or with other people. All assets of the business belong to a sole proprietor. Subsequently, a sole proprietor has unlimited liability for all obligations incurred by the business, whether from operating costs or judgments against the business.

General partnership. A general partnership is a partnership in which partners share equally in both responsibility and liability. The owners are all personally liable for any legal actions and debts the company may face.

Limited Partnership. A limited partnership is a form of partnership similar to a general partnership, except that in addition to one or more general partners (GPs), there are one, or more, limited partners (LPs). It is a partnership where only one partner is required to be a 'general partner'. As in a general partnership, the GPs have actual authority, as agents of the firm, to bind all the other partners in contracts with third parties that are in the ordinary course of the partnership's business. Like shareholders in a corporation, limited partners have limited liability.

Job Description. Lists the responsibilities and functions of the job.

Job analysis. (Also known as a work analysis.) is a family of procedures to identify the content of a job in terms of activities involved and attributes or job requirements needed to perform the activities. Job analysis provides information to organizations that helps to determine which employees are best fit for specific jobs.

Core Competencies. These competencies describe in behavioral terms the key values of the organization and represent those competencies that are core to the organization's principal mandate.

Job Family Competencies. These tend to be related more to knowledge or skill required for certain types of jobs (such as accounting for jobs involving financial administration, or a background in food preparation or service techniques for back or front of the house).

Technical / Professional Competencies. The technical/professional competencies tend to be specific to roles or jobs within the Job Family, and include the specific skills and knowledge (know how) to perform effectively.

Leadership Competencies. These are the key competencies for roles in an organization that involve managing, supervising or influencing the work of others in some way. Some organizations view "leadership" to be a part of every job of the organization in that employees should contribute and offer new or better ways of working regardless of their level or role in the organization.

Job Advertisement. The ads that you post should include keywords describing your company culture as well as your restaurant's concept, style of service, opening date projection, and any relevant specifics regarding job description and schedule requirements. Incorporate the legwork you have done to define your brand and the types of person you are looking for to build ads that look and sound unique to your project.

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CHAPTER OVERVIEW

9: Revenue, Costs, and Profit Analysis

9.1: Lenders
9.2: Income Statement
9.3: Balance Sheet
9.4: Classes of Ratios
9.5: Classroom Preparation Assignments
9.6: Chapter Glossary and Notes

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9.1: Lenders

Chapter 9 Learning Objectives

- Understanding the psychology of Menu Engineering
- Gain a working knowledge of menu engineering worksheet construction.
- Gain a working knowledge of menu engineering evaluation.
- Understand the importance of contribution margin.
- Understand 'menu engineering' usage for profitability.
- Learn to re-think menu costing based on consumer acceptance.
- Gain the ability to apply different classes of ratios to evaluate different elements of the operation.

> *"As much as you need to know your operations, if you do not understand the finance side and how to do the business, you're never going to be successful. So you might be the best operator or visionary, but if you do not understand the finance side... I'm successful because I know the finance side, but I also know operations; it's not an accident. "*
> *Tilman J. Fertitta*

> *"You can make a lot of mistakes and still recover if you run an efficient operation. You can be brilliant and still go out of business if you're too inefficient."*
> *Sam Walton*

The most important portion of your business model is your 'pro-forma' or projected profit or loss statement (P & L statement) and a balance sheet. The income statement indicates what you expect sales and expenses to be and subsequently your profitability. The **income statement** indicates weekly, monthly and yearly profitability from operation. However, it does not indicate overall profitability. If you indicate to the lender that you are making $11,000 per week, in essence that tells them nothing because your debt structure could be more than that figure. This is why you will need to submit a balance sheet to display your assets, debt, and owner's equity (financial investment into the business).

Lenders or funders will want information from you and will have many questions about the operation. Both of these elements are for answering one particular question. If your entire presentation fails to answer that question sufficiently, you will not receive the money you need to fund the operation. The concept alone will not excite the lender. **What seals the deal is a clear description of the main thing they want to know: how will you pay back the loan, and what will be source of the payments?**

This chapter begins with by detailing some of the information different lenders or management would want to know and management would want to ponder prior to meeting with a lender or investor. The chapter also present a typical loan package, common to banking institutions. How to prepare profit or loss statements with an example, and the components of a balance sheet follow. Finally, a section on different types of 'ratios' useful to evaluating your business presents helpful information in this area of analysis.

What Lenders Want to Know

Creditors

Creditors are ultimately concerned with a borrower's ability to make interest and principle payments. The types of questions they might raise include:

- What is the reason or cause for borrowing?
- What is the firm's capital structure?
- How much debt is currently outstanding?
- How well has debt been serviced in the past?

- How liquid is the firm?
- What will be the source of debt repayment?

Investors

Investors will usually attempt to arrive at an estimation of a company's future earnings stream. Typical concerns might be:

- How well has the company performed in the past?
- What are future expectations?
- What is its record with regard to growth and stability of earnings?
- How much risk is inherent in the firm's existing capital structure?
- What returns can an investor expect?
- How successfully does the firm compete in its industry?
- How well positioned is the company to hold or improve its competitive position?

Management

Management must consider financial statement analysis as it relates to a 'variety' of user groups including creditors, investors, employees, general public, regulators, financial press, and so forth. Management must always demonstrate an understanding of the company in terms of profitability and competitive advantage. Ongoing concerns of management would include:

- How well has the firm performed and why?
- What operating areas have contributed to success and which have not?
- What are the strengths and weaknesses of a company's financial position?
- What changes should we consider in order to improve in the future?

Management data for analysis would include:

- Auditor's report (unqualified or qualified)
- Management's discussion and analysis
- Supplementary schedules (i.e. segmental data)

Loan Package Outline

General Narrative

- The nature of the business
- The amount and purpose of the loan
- Repayment terms
- Equity share of borrower (equity/debt ratio after loan) (your share and loan need)
- Security or collateral (listed with market value estimates and quotes on cost of equipment to be purchased with the loan proceeds)

Personal information

On individuals owning more than 20% of the business

- Education and work history
- Credit references
- Income tax statements (last three years)
- Financial statement (no older than 60 days)

Business information

Whichever is applicable below:

1. **New business**
    - Business Plan
    - Life and Casualty insurance coverage
    - Lease agreement

2. **Business acquisition (buyout)**

- Information on the acquisition
- Business history (including seller's name, reasons for sale)
- Current balance sheet (not older than 60 days)
- Current profit and loss statement (past three to five years)
- Business federal income tax statements (past three to five years)
- Cash flow statements for last year
- Copy of sales agreement with breakdown of investors, fixtures, equipment, licenses, goodwill, and other costs
- Description and dates of permits already acquired
- Business Plan
- Life and Casualty Insurance

3. **Existing business expansion**

- Information on the existing business
- Business history
- Current balance sheet (not more than 60 days old)
- Current profit and loss statement (within 60 days)
- Cash flow statements from last year
- Federal income tax returns for past three to five years
- Lease agreement and permit data
- Business Plan
- Life and Casualty Insurance

Projections

- Profit and loss projection (monthly, for one year, and explanation of projections)
- Cash flow projection (monthly, for one year) and explanation of projections)
- Projected balance sheet (one year after loan) and explanation of projections

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9.2: Income Statement

Income Statement

An income statement or profit and loss account (also referred to as a profit and loss statement (P&L), statement of profit or loss, revenue statement, statement of financial performance, earnings statement, operating statement, or statement of operations) is one of the financial statements of a company and shows the company's revenue and expenses during a particular period. It indicates how the revenues (money received from the sale of products and services before removing expenses, also known as the "top line") are transformed into the net income (the result after all revenues and expenses have been accounted for, also known as "net profit" or the "bottom line"). It displays the revenues recognized for a specific period, and the cost and expenses charged against these revenues, including write offs (e.g., depreciation and amortization of various assets) and taxes. In sum, the oncome state is measure of revenue and expenses to arrive at a profit or loss figure. It is nothing more than:

> **Revenue – Expenses = Net Profit/Loss**

The purpose of the income statement is to show managers and investors whether the company made or lost money during the period of the report. One important thing to remember about an income statement is that it represents a 'period of time'. This contrasts with the balance sheet, which represents a 'single moment in time'.

The income statement can be prepared in one of two methods.

1. The **Single Step income statement** takes the simpler approach, totaling revenues (income) and subtracting expenses (expenses) to find the bottom line (profit).
2. The more complex **Multi-Step income statement** (as the name implies) takes several steps to find the bottom line, starting with the gross profit. It then calculates operating expenses and, when deducted from the gross profit, yields income from operations. Adding to income from operations is the difference of other revenues and other expenses. When combined with income from operations, this yields income before taxes. The final step is to deduct taxes, which finally produces the net income for the period measured.

Usefulness and limitations of income statement

Income statements should help investors and creditors determine the past financial performance of the enterprise, predict future performance, and assess the capability of generating future cash flows through report of the income and expenses.

However, information on an income statement has several limitations:

- They do not report items that might be relevant but not reliably measured (e.g., brand recognition and loyalty)
- They do not report some numbers depending on accounting methods used (e.g., using FIFO or LIFO accounting to measure inventory level).
- They do not report some numbers that depend on judgments and estimates (e.g., depreciation expense depends on estimated useful life and salvage value).

Guidelines for statements of 'comprehensive income' and 'income statements of business entities' are formulated by the International Accounting Standards Board (FASB). Names and usage of different accounts in the income statement depend on the type of organization, industry practices and the requirements of different jurisdictions. If applicable to the business, summary values for the following items should be included in the income statement:

Operating section

Revenue

Cash inflows or other enhancements of assets (including accounts receivable) of an entity during a period from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major operations. Every time a business sells a product or performs a service, it obtains revenue referred to as gross revenue or sales revenue. An operation would generally equate revenue to be sales minus sales discounts, returns, and allowances. This is an important calculation because revenue is taxable by federal state, and local governments. An operation should pay tax on the revenue it actually receives.

> **Revenue = sales minus discounts, returns, and allowances**

Expenses

Cash outflows or other using-up of assets or incurrence of liabilities including accounts payable during a period from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major operations.

Cost of Goods Sold (COGS) / Cost of Sales - represents the direct costs attributable to goods produced and sold by a business (manufacturing or merchandizing). It includes:

- material costs,
- direct labor
- overhead costs
- excludes operating costs (period costs) such as selling, administrative, advertising or R&D, etc.
- **Selling, General and Administrative expenses (SG&A or SGA)** - consist of the combined payroll costs. SGA is a major portion of non-production related costs, in contrast to production costs such as direct labor.
    - **Selling expenses** - represent expenses needed to sell products (e.g., salaries of sales people, commissions and travel expenses, advertising, freight, shipping, depreciation of sales store buildings and equipment, etc.).
    - **General and Administrative (G&A) expenses** - represent expenses to manage the business (salaries of officers / executives, legal and professional fees, utilities, insurance, depreciation of office building and equipment, office rents, office supplies, etc.).
- **Depreciation / Amortization** - the charge with respect to fixed assets / intangible assets capitalized on the balance sheet for a specific (accounting) period. It is a systematic and rational allocation of cost rather than the recognition of market value decrement.
- **Research & Development (R&D) expenses** - represent expenses included in research and development.

Expenses recognized in the income statement should undergo analysis either by **nature** (raw materials, transport costs, staffing costs, depreciation, employee benefit etc.) or by **function** (cost of sales, selling, administrative, etc.). If an entity categorizes by function, then additional information on the nature of expenses, at least, – depreciation, amortization and employee benefits expense – need disclosure. The major exclusive of costs of goods sold, are ‘operating expenses’ by classification. These represent the resources expended, except for inventory purchases, in generating the revenue for the period. Expenses generally fall into two broad sub classifications selling expenses and administrative expenses.

Non-operating section

- **Other revenues or gains** - revenues and gains from other than primary business activities such as: rent, income from patents, goodwill). It also includes unusual gains that are either unusual or infrequent, but not both (gain from sale of securities or gain from disposal of fixed assets)
- **Other expenses or losses** - expenses or losses not related to primary business operations, (e.g., foreign exchange loss).
- **Finance costs** - costs of borrowing from various creditors (interest expenses, bank charges).
- **Income tax expense** - sum of the amount of tax payable to tax authorities in the current reporting period (current tax liabilities/ tax payable) and the amount of deferred tax liabilities or assets.

Example

The following is a basic profit and loss projection for a three-year period. The purpose of the three-year projection is to allow a visualization of where sales and profits may be - given a small percentage change in revenue. A change in revenue will not affect fixed charges and will generally only affect ‘prime’ costs such as food and beverages. Thus, a ten percent increase in sales will influence profit substantially. The percentages to the right of the numbers indicate the percentage of gross profit the expense item represents. For example, an inventory expense of $75,000 represents a 39.3% cost based on gross sales. Thus, it is important to know not only your costs but also the percentage of gross revenue they represent. This knowledge helps you to adjust costs appropriately to increase profitability. Marketing represents 26.2% of gross revenue in the example. While this may seem high, if

you are new and unknown, this figure may be low in comparison to your marketing need. The location of the restaurant will greatly affect marketing costs. Therefore, the numbers are relevant to your operation and are generally 'location' specific.

Allon's Manger
Three Year Profit Projection
Sensitivity Analysis

	Projected Sales		110% of Sales		120% of Sales	
Food Sales	2,000,000		2,200,000		2,400,000	
Beverage Sales	200,000		220,000		240,000	
Gross Profit	**2,200,000**		**2,420,000**		**2,640,000**	
Sales Tax	176,000					
Gross Profit After Tax	2,040,000					
Operating Expenses						
Accounting and Legal	5,000	0.2%	5,000	0.2%	5,000	0.2%
Advertising	50,000	2.3%	50,000	2.1%	50,000	1.9%
Depreciation	10,146	0.5%	10,146	0.4%	10,146	0.4%
Employee Benefits	15,000	0.7%	16,500	0.7%	18,000	0.7%
Insurance	25,000	1.1%	25,000	1.0%	25,000	0.9%
Interest	132,000	6.0%	145,200	6.0%	158,400	6.0%
Inventory (food)	607,200	30.0%	774,400	32.0%	844,800	32.0%
Inventory (Beverage)	364,320	18.0%	435,600	18.0%	475,200	18.0%
Labor (Variable)	647,680	32.0%	647,680	26.8%	647,680	24.5%
Music and Entertainment	2,400	0.1%	5,400	0.2%	5,400	0.2%
Rent	24,000	1.1%	24,000	1.0%	24,000	0.9%
Repairs & Maintenance	8,000	0.4%	9,000	0.4%	9,000	0.3%
Replacement (china & glass)	3,000	0.1%	3,000	0.1%	3,000	0.1%
Supplies	36,000	1.6%	39,600	1.6%	43,200	1.6%
Utilities	13,800	0.6%	15,180	0.6%	16,560	0.6%
Taxes (Sales and Use)	176,000	8.0%	193,600	8.0%	211,200	8.0%
Other Expenses						
Total Expenses	2,119,546		2,344,306		2,491,586	
Net Profit Before Tax	120,311		153,611		186,911	
Income Taxes						
Net Profit After Tax						

This is another example of a profit and loss statement in a move expansive form. This example indicates a clearer picture of 'where' revenue is occurring. Note that food sales could also be indicative of the 'source' of the sales such as dining, takeout, catering,

delivery, proprietary food products for sale, and so forth. In and of itself, the profit and loss statement, to refresh, is nothing more than revenue minus expenses to arrive at a profit or a loss. The restauranteur has the freedom to expand the inclusions in any category to better explore a revenue or expense element. The depth of the income statement speaks to ‘decision power’ the statement can afford to the operator.

Sample P & L		
Category	**Annual Budget $**	**% of Sales**
Income		
Food Sales	$975,000	65.00%
Beverage Sales		
Liquor Sales	$183,750	35.00%
Wine Sales	$262,500	50.00%
Beer Sales	$52,500	10.00%
NA Bev Sales	$26,250	5.00%
Total Beverage	**$525,000**	**35.00%**
Sales Adjustment	$1,050	0.07%
TOTAL SALES	**$1,500,000**	**100.00%**
TOTAL INCOME	**$1,498,950**	**99.93%**
Cost of Goods Sold		
Food Cost	$292,500	30.00%
Beverage Cost		
Liquor Sales	$27,563	15.00%
Wine Sales	$78,750	30.00%
Beer Sales	$8,925	17.00%
NA Bev Sales	$5,250	20.00%
Total Beverage Sales	$120,488	23.00%
Labor Cost		
FOH	$209,853	14.00%
BOH	$254,822	17.00%
Other Costs		
Health Insurance	$10,500	0.70%
Worker's Compensation	$12,741	0.85%
Payroll Taxes	$82,442	5.50%
Payroll Fees	$17,987	1.20%
Total Other Costs	$123,671	8.00%
Total Labor Cost	**$614,570**	**41.00%**
TOTAL COST OF GOODS SOLD	**$1,027,557**	**69.00%**
GROSS PROFIT	**$471,393**	**31.00%**
Expenses		

Sample P & L		
Operating Expenses		
Restaurant Supplies	$9,743.18	0.65%
Kitchen Supplies	$11,991.60	0.80%
Decor	$3,747.38	0.25%
Tabletop	$8,993.70	0.60%
Uniforms	$2,248.43	0.15%
Laundry and Linen	$8,993.70	0.60%
Cleaning Supplies	$5,995.80	0.40%
Credit Card Fees	$52,463.25	3.50%
Gift Card Expenses	$899.37	0.06%
Reservation System	$5,246.33	0.35%
Music	$749.48	0.05%
Security	-	0.00%
Printing	$4,496.85	0.30%
Sales Tax	$2,248.43	0.15%
Total Operating Expenses	**$117,817**	**8.00%**
Occupancy Expense		
Rent	$37,474	2.05%
Insurance	$2,548	0.17%
Utilities	$19,486	1.30%
Repairs and Maintenance	$4,497	0.30%
Total Occupancy Expense	**$64,005**	**4.27%**
General and Administrative		
Marketing and Advertising	$37,474	2.50%
Research and Development	$1,049	0.07%
Legal Fees	$8,244	0.55%
IT Fees	$4,497	0.30%
Bookkeeping	$17,987	1.20%
Accounting	$11,992	0.80%
Licenses and Permits	$5,996	0.40%
Office Supplies	$3,747	0.25%
POS System	$2,248	0.15%
Computer Supplies	$2,248	0.15%

Sample P & L		
Bank Fees	$1,499	0.10%
Employee Appreciation	$749	0.05%
Total General/Administrative	**$97,732**	**7.00%**
TOTAL EXPENSE	**$279,554**	**19.00%**
NEW OPERATING INCOME	**$191,839**	**13.00%**

The following table represents restaurant industry ‘dollar’ percentages for sales and expenses one may incur in a restaurant operation. You can apply these percentages for each item to arrive at a reasonable amount of expense for that item based on the gross revenue you project for your initial year’s sales. These percentages will help you to calculate your ‘projected income statement’ for a lender.

The Restaurant Industry Dollar			
	Full Service Restaurants (Average check per person under $10)	**Full Service Restaurants (Average check per person $10 and over)**	**Limited Service Fast Food Restaurants**
Where it came from	As a Percentage of Total Sales		
Food Sales	89.6	78	95.7
Beverage Sales (alcoholic)	10.4	24	4.3
Where It Went	As a Percentage of Total Sales		
Cost of Goods Sold	32.2	30.0	28.4
Cost of Beverage Sold	3.2	7.8	1.2
Salaries and Wages	28.0	28.9	24.2
Employee Benefits	3.9	4.2	3.7
Direct Operating Expenses	7.0	6.5	6.7
Music and Entertainment	0.2	0.9	0.1
Marketing	2.3	2.5	5.7
Utility Services	3.2	2.3	2.8
Restaurant Occupancy Cost	5.2	5.3	7.4
Repairs and Maintenance	1.7	1.6	2.0
Depreciation	2.3	1.8	3.1
Other Operating Expenses (income)	0.3	0.2	0.4
General and Administrative	3.2	4.2	3.7
Corporate Overhead	2.7	1.4	8.8
Interest Payments	0.8	0.8	0.8
Other Expenses	0.2	0.3	0.3
Income before Income Tax	3.8	3.5	9.5

** All figures are weighted averages*

** All amounts are reflected as a percentage of total sales*

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9.3: Balance Sheet

In financial accounting, a **balance sheet** or **statement of financial position** is a summary of the financial balances of an individual or organization, whether it be a sole proprietorship, a business partnership, a corporation, private limited company. Assets, liabilities and ownership equity list as of a specific date, such as the end of its financial year. A balance sheet is a "snapshot of a company's financial condition". Of the four basic financial statements, the balance sheet is the only statement that applies to a single point in time of a business' calendar year.

A standard company balance sheet has two sides: assets, on the left and financing, which itself has two parts, liabilities and ownership equity, on the right. The main categories of assets usually list first and typically in order of liquidity. Liabilities follow assets. **The difference between the assets and the liabilities is 'equity', or the net assets or the net worth or capital of the company and according to the accounting equation, net worth must equal assets minus liabilities.**

Another way to look at the balance sheet equation is that total assets equals liabilities plus owner's equity. Looking at the equation in this way shows how assets were financed: either by borrowing money (liability) or by using the owner's money (owner's or shareholders' equity). Balance sheets are usually presented with assets in one section and liabilities and net worth in the other section with the two sections "balancing".

Types of Balance Sheets

A balance sheet summarizes an organization or individual's assets, equity and liabilities at a specific point in time. Two forms of balance sheet exist. They are the report form and the account form. Individuals and small businesses tend to have simple balance sheets. Larger businesses tend to have complex balance sheets, and these are presented in the organization's annual report. Large businesses also may prepare balance sheets for segments of their businesses. A balance sheet is often presented alongside one for a different point in time (typically the previous year) for comparison.

Personal

A personal balance sheet lists current assets such as cash in checking accounts and savings accounts, long-term assets such as common stock and real estate, current liabilities such as loan debt and mortgage debt due, or overdue, long-term liabilities such as mortgage and other loan debt. Securities and real estate values list at market value rather than at historical cost or cost basis. Personal net worth is the difference between an individual's total assets and total liabilities.

A small business balance sheet lists **current assets** such as cash, accounts receivable, and inventory, fixed assets such as land, buildings, and equipment, **intangible assets** such as patents, and **liabilities** such as accounts payable, accrued expenses, and long-term debt. **Contingent liabilities** such as warranties enter in the footnotes to the balance sheet. The small business's equity is the difference between total assets and total liabilities.

Public business entities structure

Guidelines for constructing balance sheets of public business entities are available from the *International Accounting Standards Board* and numerous other country-specific organizations and companies. The standard used by companies in the USA adhere to *U.S. Generally Accepted Accounting Principles (GAAP)*. The *Federal Accounting Standards Advisory Board* (FASAB) is a United States federal advisory committee whose mission is to develop generally accepted accounting principles (GAAP) for federal financial reporting entities.

Balance sheet account names and usage depend on the organization's country and the type of organization. Government organizations do not generally follow standards established for individuals or businesses. If applicable to the business, summary values for the following items should be included in the balance sheet: Assets are all the things the business owns. This will include property, tools, vehicles, furniture, machinery, and so on.

Assets

Fixed assets

1. Property, plant and equipment (cannot easily be converted into cash)
2. Investment property, such as real estate held for investment purposes

3. Intangible assets such as (patents, copyrights and goodwill)
4. Financial assets (excluding investments accounted for using the equity method, accounts receivables, and cash and cash equivalents), such as notes receivables
5. Investments accounted for using the equity method
6. Biological assets, which are living plants or animals. Bearer biological assets are plants or animals that bear agricultural produce for harvest, such as apple trees grown to produce apples and sheep raised to produce wool.
7. Loan To (More than one financial period)

Current assets

1. Prepaid expenses for future services that will be used within a year
2. Accounts receivable
3. Cash and cash equivalents (Cash equivalents are short-term commitments "with temporarily idle cash and easily convertible into a known cash amount")
4. Cash at bank, Petty Cash, Cash On Hand
5. Revenue Earned In Arrears (Accrued Revenue) for services done but not yet received for the year
6. Loan To (Less than one financial period)

Liabilities

1. Accounts payable
2. Provisions for warranties or court decisions (contingent liabilities that are both probable and measurable)
3. Financial liabilities (excluding provisions and accounts payables), such as promissory notes and corporate bonds
4. Liabilities and assets for current tax
5. Deferred tax liabilities and deferred tax assets
6. Unearned revenue for services paid for by customers but not yet provided
7. Interests on loan stock

Equity / capital

The net assets shown by the balance sheet equals the third part of the balance sheet known as the shareholders' equity. It comprises:

1. Issued capital and reserves attributable to equity holders of the parent company (controlling interest)
2. Non-controlling interest in equity

Formally, shareholders' equity is part of the company's liabilities: they are funds "owing" to shareholders (after payment of all other liabilities); usually, however, "liabilities" is useful in the more restrictive sense of liabilities excluding shareholders' equity. The balance of assets and liabilities (including shareholders' equity) is not a coincidence. Records of the values of each account in the balance sheet are maintained using a system of accounting known as double entry bookkeeping. In this sense, shareholders' equity by construction must equal assets minus liabilities, and thus the shareholders' equity is a residual. Regarding the items in equity section, the following disclosures are required:

- Numbers of shares authorized, issued and fully paid, and issued but not fully paid
- Par value (market value) of shares
- Reconciliation of shares outstanding at the beginning and the end of the period
- Description of rights, preferences, and restrictions of shares
- Treasury shares, including shares held by subsidiaries and associates
- Shares reserved for issuance under options and contracts
- A description of the nature and purpose of each reserve within owners' equity

Pro-Forma Balance Sheet Example The Porker - Annual Forecast				
ASSETS	**2016**	**2017**	**2018**	**2019**
CURRENT ASSETS				
Cash	$25,085	$31,639	$86,323	$149,933
Net accounts receivable	$0	$0	$0	$0
Inventory	$0	$58,064	$28,745	$32,440
Temporary investment	$45,150	$40,150	$45,000	$50,000
Prepaid expenses	$950	$1,100	$1,200	$1,250
Total Current Assets	**$71,185**	**$130,953**	**$161,268**	**$233,623**
FIXED ASSETS				
Long-term investments	$0	$0	$0	$0
Land	$45,000	$45,000	$45,000	$45,000
Buildings (net depreciation)	$90,000	$87,000	$84,000	$81,000
PLant & equipment (net)	$25,608	$23,047	$20,486	$17,925
Furniture & fixture (net)	$7,575	$7,575	$7,575	$7,575
Total Net Fixed Assets	**$168,183**	**$162,622**	**$157,061**	**$151,500**
TOTAL ASSETS	**$239,368**	**$301,150**	**$318,329**	**$385,123**
LIABILITIES				
Current Liabilities				
Accounts payable	$12,246	$14,587	$16,258	$17,277
Short-term notes	$0	$0	$0	$0
Current long-term notes	$0	$0	$0	$0
Accruals/other payables	$14,150	$15,140	$16,950	$17,546
Total Current Liabilities	**$26,396**	**$29,727**	**$33,208**	**$34,823**
Long-term Liabilities				
Mortgage	$108,000	$102,650	$99,780	$94,121
Other long-term liabilities	$0	$0	$0	$0
Total Long-term Liabilities	$108,000	$102,650	$99,780	$94,121

Pro-Forma Balance Sheet Example The Porker - Annual Forecast				
SHAREHOLDERS' EQUITY				
Capitol Stock	$0	$0	$0	$0
Retained earnings	$104,972	$168,773	$185,341	$128,944
Total Shareholders' Equity	$104,972	$168,773	$185,341	$128,944
TOTAL LIABILITIES & EQUITY	**$239,368**	**$301,150**	**$318,329**	**$318,329**

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9.4: Classes of Ratios

A **financial ratio** or **accounting ratio** is a relative magnitude of two selected numerical values taken from an enterprise's financial statements. Often used in accounting, there are many standard ratios used to try to evaluate the overall financial condition of a corporation or other organization. Financial ratios are useful to managers within a firm, to current and potential shareholders (owners) of a firm, and to a firm's creditors. Financial analysts use financial ratios to compare the strengths and weaknesses in various companies. If shares in a company trade in a financial market, the market price of the shares is useful in certain financial ratios.

Ratios are useful to examine and display the 'liquidity' or amount of cash, accounts receivable, or other forms of assets that can be converted to cash quickly if the need arises. In the restaurant industry, how quickly or slowly the perishable food, paper, and other items we stock is used are replenished is always of major concern to the operation. The 'turnover' rate calculation occurring weekly, monthly, or quarterly, is indicative of how well we are projecting the restaurant's product demand, and how well we are controlling storage costs and physical space allocations. Solvency ratios examine the status assets and liabilities, and profitability ratios give us a way to discuss and display how well the operation is conducting business. The basic 'four' different classes of ratios we will discuss are:

1. Liquidity
2. Turnover
3. Solvency
4. Profitability

We should first define the term 'ratio'. In mathematics, a ratio is a relationship between two numbers indicating how many times the first number contains the second. For example, if a bowl of fruit contains 'eight' oranges and 'six' lemons, then the ratio of oranges to lemons is eight to six (that is, 8:6, which is equivalent to the ratio 4:3). Thus, a ratio can also be a fraction as opposed to a whole number. In addition, in this example the ratio of lemons to oranges is 6:8 (or 3:4), and the ratio of oranges to the total amount of fruit is 8:14 (or 4:7). The numbers compared in a ratio can be any quantities of a comparable kind, such as objects, persons, lengths, or spoonful amounts. A ratio is written "a to b" or 'a : b' or sometimes expressed arithmetically as a 'quotient' of the two.

Liquidity Ratios

The **current ratio** is a liquidity ratio that measures whether or not a firm has enough resources to meet its short-term obligations. It compares a firm's current assets to its current liabilities. The current ratio is an indication of a firm's liquidity. Acceptable current ratios vary from industry to industry. In many cases, a creditor would consider a high current ratio to be better than a low current ratio, because a high current ratio indicates that the company is more likely to pay the creditor back. Large current ratios are not always a good sign for investors. If the company's current ratio calculates too high it may indicate that, the company is not efficiently using its current assets or its short-term financing facilities.

> **Current Ratio = Current Assets / Current Liabilities**
> Example: $2,600,000 / $2,500,000 = 1.04

If current liabilities exceed current assets, the 'current ratio' will be less than one. A current ratio of less than '1' indicates that the company may have problems meeting its short-term obligations. Some types of businesses can operate with a current ratio of less than one however. If inventory turns into cash much more rapidly than the accounts payable become due, then the firm's current ratio can comfortably remain less than one. Inventory is valued at the cost of acquiring it and the firm intends to sell the inventory for more than this cost. The sale will therefore generate substantially more cash than the value of inventory on the balance sheet. Low current ratios can also be justified for businesses that can collect cash from customers long before they need to pay their suppliers.

The 'acid test' or 'quick ratio' or 'liquidity ratio' measures the ability of a company to use its near cash or quick assets to extinguish or retire its current liabilities immediately. Quick assets include those current assets that presumably can quickly convert to cash at close to their book values. A company with a quick ratio of less than 'one' cannot currently fully pay back its current liabilities. It is

the ratio between quick or liquid assets and current liabilities. The normal liquid ratio is 1:1. It has a better and more reliable ranking as a tool for assessment of liquidity position of firms.

> **Quick Ratio = (Current Assets – Inventory) / Current Liabilities**
> Example: $2,600,000 - $150,000 -$50,000 = .96

Working capital (abbreviated WC) is a financial metric, which represents operating liquidity available to a business, organization or other entity, including governmental entity. Working capital is the difference between the current assets and the current liabilities. Along with fixed assets such as plant and equipment, working capital is a part of operating capital. Gross working capital equals to current assets. Working capital calculation is 'current assets' minus 'current liabilities'. If current assets are less than current liabilities, an entity has a **working capital deficiency**, also called a **working capital deficit**.

> **Working Capital = Current Assets – Current Liabilities**
> Example: $2,600,000 -$2,500,000 = $100,000

A company can be possess with 'assets' and 'profitability' but be short of 'liquidity' if its assets cannot readily be converted into cash. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash. The basic calculation of the working capital utilizes the 'gross current assets' of the firm.

Current assets and current liabilities include three accounts that are of special importance. These accounts represent the areas of the business where managers have the most direct impact:

1. Accounts receivables (current asset)
2. Inventory (current assets), and
3. Accounts payable (current liability)

The current portion of 'debt' (payable within 12 months) is critical, because it represents a short-term claim to current assets and often uses long-term assets as security. Common types of short-term debt are bank loans and lines of credit. An increase in net working capital indicates that the business has either increased current assets (that it has increased its receivables or other current assets) or has decreased current liabilities - for example has paid off some short-term creditors, or a combination of both.

A positive working capital cycle balances incoming and outgoing payments to minimize net working capital and maximize 'free cash flow'. For example, a company that pays its suppliers in 30 days but takes 60 days to collect its receivables has a working capital cycle of 30 days. This 30-day cycle usually needs funding through a bank operating line, and the interest on this financing is a carrying cost that reduces the company's profitability. Growing businesses require cash, and being able to free up cash by shortening the working capital cycle is the most inexpensive way to grow. Sophisticated buyers review closely a target's working capital cycle because it provides them with an idea of the management's effectiveness at managing their balance sheet and generating free cash flows.

As an absolute rule of funders, each of them wants to see a positive working capital. Such situation gives them the possibility to think that your company has more than enough current assets to cover financial obligations. The same is not always true about negative working capital. A large number of funders believe that businesses cannot be sustainable with a negative working capital, which is a wrong way of thinking. In order to run a sustainable business with a negative working capital it is essential to understand some key components.

Approach your suppliers and persuade them to let you purchase the inventory on 1-2 month credit terms, but keep in mind that you must sell the purchased goods, to consumers for money. Effectively monitor your inventory management, make sure that refilling occurs on a consistent and timely basis to maintain fresh product with the help of your supplier, and to adequately stock and utilize your warehouse spacing.

In addition, big companies like McDonald's, Amazon, Dell, General Electric and Wal-Mart are using negative working capital.

Activity Ratios

Inventory Turnover = Cost of Goods Sold / Inventories
Example: $500,000 / $110,000 = 4.55 times
Average Inventory = beginning inventory + Ending inventory
2

The average days to sell the inventory calculation is:

Average days to sell the inventory = 365
Inventory Turnover Ratio

In accounting, the **Inventory turnover** is a measure of the number of times the restaurant's sells or uses its inventory using a week, month or year calculation. The equation for inventory turnover equals the cost of goods sold or net sales divided by the average inventory. Inventory turnover is also known as: **inventory turns; merchandise turnover; stock turn; turns,** and **stock turnover**.

A low turnover rate may point to overstocking, obsolescence, or deficiencies in the product line or marketing effort. However, in some instances a low rate may be appropriate, such as where higher inventory levels occur in anticipation of rapidly rising prices or expected market shortages.

Conversely, a high turnover rate may indicate inadequate inventory levels, which may lead to a loss in business, as the inventory is too low. This often can result in stock shortages. **Some compilers of industry data (e.g., Dun & Bradstreet) use sales as the numerator instead of cost of sales**. 'Cost of sales' yields a more realistic turnover ratio, but it is often necessary to use sales for purposes of comparative analysis. Cost of sales is more realistic because of the difference in which one records sales and the cost of sales. **Record sales at market value, i.e. the value at which the marketplace paid for the good or service provided by the firm**. In the event that the firm had an exceptional year and the market paid a premium for the firm's goods and services then the numerator may be an inaccurate measure. However, the firm should record cost of sales at what the firm actually paid for the materials available for sale.

Additionally, firms may reduce prices to generate sales in an effort to cycle inventory. Generally, the terms "cost of sales" and "cost of goods sold" are synonymous. **An item whose inventory is sold (turns over) once a year has higher holding cost than one that turns over twice, or three times, or more in that time**. Stock turnover also indicates the briskness of the business. The purpose of increasing inventory turns is to reduce inventory for three reasons.

1. Increasing inventory turns reduces holding cost. The organization spends less money on rent, utilities, insurance, theft and other costs of maintaining a stock of good for sale. Reducing holding cost increases net income and profitability as long as the revenue from selling the item remains constant.
2. Items that turn over more quickly increase responsiveness to changes in customer requirements while allowing the replacement of perishable items. This is a major concern in the restaurant industry.
3. When making comparison between firms, it is important to take note of the industry, or distortion in the comparison will occur. Making comparison between a supermarket or restaurant and a car dealer will not be appropriate, as supermarkets and restaurants sell fast-moving goods such as meals, sweets, chocolates, soft drinks therefore the stock turnover will be higher. However, a car dealer will have a low turnover due to the item being a slow moving item.

Asset turnover is a financial ratio that measures the efficiency of a company's use of its assets in generating sales revenue or sales income to the company. Companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover. Companies in the retail industry tend to have a very high turnover ratio due mainly to cutthroat and competitive pricing.

'Sales' is the value of 'Net Sales' or 'Sales' from the company's income statement 'Average Total Assets' is the average of the values of 'Total assets' from the company's balance sheet in the beginning and the end of the fiscal period. The calculation adds up the assets at the beginning of the period and the assets at the end of the period, then dividing that number by two. Alternatively, "Average Total Assets" can be ending total assets.

Asset Turnover = Sales / Total Assets
Example: $4,805,000 / $9,225,000 = .52 times (generating .52 cents per dollar)

Fixed-asset turnover is the ratio of 'sales' (on the profit and loss account) to the value of 'fixed assets' (on the balance sheet). It indicates how well the business is using its fixed assets to generate sales. In general, the higher the ratio, the better, because a high ratio indicates the business has less money tied up in fixed assets for each unit of currency of sales revenue. A declining ratio may indicate that the business is over-invested in plant, equipment, or other fixed assets.

Fixed Asset turnover = Sales / Fixed assets
Example: $4,805,000 / $6,500,000 = .74 times (generating .74 cents per dollar)

This calculation allows the operator to know what the total revenue per hour would be will a 'full' dining room at a given average ticket price. It is the 'optimum' calculation. Example: If the restaurant has 150 seats, an average ticket price for lunch of $15.00, and a one- hour turnover, the total revenue potential would be $2,250.00 per hour. The total revenue potential for lunch then centers on the number of hours the restaurant serves lunch.

REV Pash (revenue per avg. seating hour) = Total Occupancy x Average ticket price per hour.

This calculation is the point of comparison to the 'REVPash' total occupancy calculation. The dining room may not be full which would reduce the revenue for the meal period. In essence, you are calculating real income and comparing that figure to 'optimum' income to assess your current potential.

REV Posh (revenue per occupied seating hour) = Occupancy rate x Average ticket price per hour.

Average food check = Food Revenue / Number of customers

Solvency Ratios

For example, a company with $2 million in total assets and $500,000 in total liabilities would have a debt ratio of 25% (percentage of assets financed). Total liabilities divided by total assets or the debt/asset ratio shows the proportion of a company's assets which are financed through debt. If the ratio is less than 0.5, most of the company's assets are using equity financing. If the ratio is greater than 0.5, most of the company's assets are using debt to finance. Companies with high debt/asset ratios are 'highly leveraged' by description. The higher the ratio, the greater risk will be associated with the firm's operation. In addition, high debt to assets ratio may indicate low borrowing capacity of a firm, which in turn will lower the firm's financial flexibility. Like all financial ratios, a company's 'debt ratio' should use industry average or other competing firms as their points of comparison.

Debt to Assets Ratio = Total liabilities / Total assets

In a general sense, the ratio is simply debt divided by equity. However, what receives a 'debt' classification can differ depending on the interpretation used. Thus, the ratio can take on a number of forms including:

- Debt / Equity
- Long-term Debt / Equity
- Total Liabilities / Equity

In a basic sense, 'Total debt to Equity' is a measure of all of a company's future obligations on the balance sheet relative to equity. However, the ratio can be more discerning as to what is actually a borrowing, as opposed to other types of obligations that might exist on the balance sheet under the liabilities section. For example, often only the liabilities accounts that the operation labels as

actually labeled as "debt" on the balance sheet appear in the numerator, instead of the broader category of "total liabilities". In other words, actual borrowings uses bank loans and interest-bearing debt securities, as opposed to the broadly inclusive category of total liabilities that, in addition to ‘debt-labelled’ accounts, can include accrual accounts like unearned revenue.

> **Debt to Equity Ratio = Total liabilities / Stockholders’ equity (Total Equity)**
> Example: $5,500,000 / $3,725,000 = 1.48 or 148%

Profitability Ratios

Profit margin is calculated with selling price (or revenue) taken as base times 100. It is the percentage of selling price that becomes profit, whereas, "profit percentage" or "markup" is the percentage of cost price that one gets as profit on top of cost price. When selling something one should know what profit percentage one will get on a particular investment, so companies calculate profit percentage to find the ratio of profit to cost.

> **Net Profit Margin = Net profit / Total Revenue**
> Example: $1,092,000 / $4,805,000 = .227 or 22.7% (of every dollar in the form of earnings)

The profit margin is useful mostly for internal comparison. It is difficult to compare with accuracy the net profit ratio for different entities. Individual businesses' operating and financing arrangements vary so much that different entities are bound to have different levels of expenditure, so that comparison of one with another can have little meaning. A low profit margin indicates a low margin of safety: higher risk that a decline in sales will erase profits and result in a net loss, or a negative margin. Profit margin is an indicator of both a company's pricing strategies and how well it controls costs. Differences in competitive strategy and product mix cause the profit margin to vary among different companies. Examples follow:

1. If an investor makes $10 in revenue and it costs, $1 to earn it, when he or she take costs away he or she has a 90% margin. A 900% profit on a $1 investment.
2. If an investor makes $10 in revenue and it costs, $5 to earn it, when he or she take costs away he or she has a 50% margin. A 100% profit on a $5 investment.
3. If an investor makes $10 in revenue and it costs $9 to earn it, when you take the cost away, the investor is left with 10% margin, an 11.11% profit on a $9 investment.
4. On the other hand, **profit percentage** calculates as follows: Suppose that you buy something for $50.00 and then sell it for $100.00.

Cost price = **$50**
Selling price (revenue) = **$100**
Profit = **$100 − $50 = $50**
Profit percentage (profit divided by cost) = **$50/$50 = 100%**
Return on investment multiple = $50 / $50 (profit divided by cost)

If the revenue is the same as the cost, profit percentage is 0%. The result above or below 100% can be calculated as the percentage of return on investment. In this example, the return on investment is a multiple of 0.5 of the investment, resulting in a 50% gain.

Return on Investment (ROI) is the benefit to an investor resulting from an investment of some resource. A high ROI means the investment gains compare favorably to investment cost. As a performance measure, ROI is useful to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. In purely economic terms, it is one way of considering profits in relation to ‘capital’ invested.

> **ROI** (return on investments) (assets) = **Total Revenue (Net income) / Total assets**
> Example: $1,092,000 / $9,225,000 = .118 or 11.8%

Purpose

In business, the purpose of the "return on investment" (ROI) metric is to measure, per period, rates of return on money invested in an economic entity in order to decide whether, or not, to undertake an investment. It is also useful as an indicator to compare different project investments within a project portfolio. The project with best ROI assumes priority.

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9.5: Classroom Preparation Assignments

Cost Exercise 9.5.1

1. Introductory paragraph
2. Pro-forma Income Statement
3. Analysis of fixed and variable costs
4. Investment requirements
5. Financing plans

Discussion Questions 9.5.2

1. What is the prime concern for creditors?
2. Investors see an operation from a different point of view. What is important to them?
3. Management must consider financial statement analysis as it relates to a variety of user groups. Name six potential users.
4. What four ways might management use financial statements internally?
5. What does an income state show?
6. What does a balance sheet contain?

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9.6: Chapter Glossary and Notes

Glossary

Income statement. This financial statement indicates what you expect sales and expenses to be and subsequently your profitability. The income statement indicates weekly, monthly and yearly profitability from operation.

Financial statements and Creditors. Creditors are ultimately concerned with a borrower's ability to make interest and principle payments.

Financial statements and Investors. Investors will usually attempt to arrive at an estimation of a company's future earnings stream.

Financial statements and Management. Management must consider financial statement analysis as it relates to a 'variety' of user groups including creditors, investors, employees, general public, regulators, financial press, and so forth. Management must always demonstrate an understanding of the company in terms of profitability and competitive advantage.

Income statement or profit and loss account (P&L), statement of profit or loss, pro-forma, revenue statement, statement of financial performance, earnings statement, operating statement, or statement of operations) is one of the financial statements of a company and shows the company’s revenue and expenses during a particular period. It indicates how the revenues (money received from the sale of products and services before removing expenses, also known as the “top line”) are transformed into the net income (the result after all revenues and expenses have been accounted for, also known as “net profit” or the “bottom line”). It displays the revenues recognized for a specific period, and the cost and expenses charged against these revenues, including write offs (e.g., depreciation and amortization of various assets) and taxes. In sum, the oncome state is measure of revenue and expenses to arrive at a profit or loss figure. It is nothing more than:

Revenue – Expenses = Net Profit/Loss

The purpose of the income statement is to show managers and investors whether the company made or lost money during the period of the report. One important thing to remember about an income statement is that it represents a ‘period of time’.

Single Step income statement. Takes the simpler approach, totaling revenues (income) and subtracting expenses (expenses) to find the bottom line (profit).

Multi-Step income statement. Takes several steps to find the bottom line, starting with the gross profit. It then calculates operating expenses and, when deducted from the gross profit, yields income from operations. Adding to income from operations is the difference of other revenues and other expenses. When combined with income from operations, this yields income before taxes. The final step is to deduct taxes, which finally produces the net income for the period measured.

Revenue. Cash inflows or other enhancements of assets (including accounts receivable) of an entity during a period from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major operations. Every time a business sells a product or performs a service, it obtains revenue referred to as gross revenue or sales revenue. An operation would generally equate revenue to be sales minus sales discounts, returns, and allowances. This is an important calculation because revenue is taxable by federal state, and local governments. An operation should pay tax on the revenue it actually receives.

Revenue = sales minus discounts, returns, and allowances

Expenses. Cash outflows or other using-up of assets or incurrence of liabilities including accounts payable during a period from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major operations.

Cost of Goods Sold (COGS) or Cost of Sales. Cost of sales represents the direct costs attributable to goods produced and sold by a business (manufacturing or merchandizing).

Balance sheet or statement of financial position. A summary of the financial balances of an individual or organization, whether it be a sole proprietorship, a business partnership, a corporation, private limited company. Assets, liabilities and ownership equity list as of a specific date, such as the end of its financial year. A balance sheet is a "snapshot of a company's financial condition". Of the four basic financial statements, the balance sheet is the only statement that applies to a single point in time of a business' calendar year.

Standard company balance sheet. This sheet has two sides: assets, on the left and financing, which itself has two parts, liabilities and ownership equity, on the right. The main categories of assets usually list first and typically in order of liquidity. Liabilities follow assets. The difference between the assets and the liabilities is equity, or the net assets or the net worth or capital of the company and according to the accounting equation, net worth must equal assets minus liabilities.

Personal balance sheet. lists current assets such as cash in checking accounts and savings accounts, long-term assets such as common stock and real estate, current liabilities such as loan debt and mortgage debt due, or overdue, long-term liabilities such as mortgage and other loan debt. Securities and real estate values list at market value rather than at historical cost or cost basis. Personal net worth is the difference between an individual's total assets and total liabilities.

Small business balance sheet. Lists current assets such as cash, accounts receivable, and inventory, fixed assets such as land, buildings, and equipment, intangible assets such as patents, and liabilities such as accounts payable, accrued expenses, and long-term debt. Contingent liabilities such as warranties enter in the footnotes to the balance sheet. The small business's equity is the difference between total assets and total liabilities.

Financial ratio or accounting ratio. A relative magnitude of two selected numerical values taken from an enterprise's financial statements. Often used in accounting, there are many standard ratios used to try to evaluate the overall financial condition of a corporation or other organization. Financial ratios are useful to managers within a firm, to current and potential shareholders (owners) of a firm, and to a firm's creditors. Financial analysts use financial ratios to compare the strengths and weaknesses in various companies.

Ratio. A relationship between two numbers indicating how many times the first number contains the second. For example, if a bowl of fruit contains ‘eight’ oranges and ‘six’ lemons, then the ratio of oranges to lemons is eight to six (that is, 8:6, which is equivalent to the ratio 4:3). A ratio is written "a to b" or ‘a: b’ or sometimes expressed arithmetically as a ‘quotient’ of the two.

Current ratio. A liquidity ratio that measures whether or not a firm has enough resources to meet its short-term obligations. It compares a firm's current assets to its current liabilities.

Acid test’ or quick ratio. Measures the ability of a company to use its near cash or quick assets to extinguish or retire its current liabilities immediately. Quick assets include those current assets that presumably can quickly convert to cash at close to their book values.

Working capital. A financial metric, which represents operating liquidity available to a business, organization or other entity, including governmental entity. Working capital is the difference between the current assets and the current liabilities. Along with fixed assets such as plant and equipment, working capital is a part of operating capital. Gross working capital equals to current assets. Working capital calculation is ‘current assets’ minus ‘current liabilities’.

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CHAPTER OVERVIEW

10: Designing the Restaurant Menu

10.1: Designing the Menu

10.2: Menu Strategies

10.3: Classroom Preparation Assignments

10.4: Chapter Glossary and Notes

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10.1: Designing the Menu

Chapter 10 Learning Objectives

1. Gain a working knowledge of the different forms of menus.
2. Gain a working knowledge of menu layout.
3. Gain a working knowledge of menu wording.
4. Understand the importance of menu illustrations and graphics.
5. Understand appropriate menu typefaces.
6. Understand the importance of menu covers, paper, and colors and their importance to concept.
7. The ability to apply menu-writing strategies.
8. Comprehend the physical components of a menu.

> *"You know, for 300 years it's been kind of the same. There are restaurants in New Orleans that the menu hasn't changed in 125 years, so how is one going to change or evolve the food?"*
> *Emeril Lagasse*

> *"I like a restaurant called Bruci, and there's some really nice people who work there and good food. They change their menu a lot, so maybe that's what keeps me coming back. I never know what I'm going to get."*
> *Paul Dano*

The Restaurant Menu

The menu is one area of concept development that seldom receives the attention it deserves. The menu is indicative of the food the operation will serve – but the thought process behind the menu goes much deeper. In essence, the menu is actually a major portion of your marketing process and assumes the chief role of 'bill payer' and 'profit generator' for the operation. The menu must be able to provide funds to cover the cost structure the operation and provide an adequate profit as well – while appearing attractive to the consumer in terms of food and value.

Types of Menus

Based on a restaurant theme or concept, there are various ways of presenting a menu that is inviting to customers and best accomplishes your marketing and positioning goals.

Day part menus

This menu pricing method focuses on a particular meal period. For example, a restaurant might consider separate menus for each day part: breakfast, lunch, dinner, high tea, snack, late night, and so forth. This is also a very effective way of addressing or targeting different demographic profiles or market needs.

Cycle menus

These menus repeat themselves according to some predetermined pattern. Broad cycles could be used to change and invigorate a menu on a seasonal basic to take advantage of season items and, or, lower price points based on product availability. Another example for consideration would be to offer specific specials each day, so that, say, each Wednesday pasta is served, every Thursday salads are highlighted, and so on. Cycle menus can be very important if your target market is a captive audience. For example, if a restaurant is located near a school, industry, business center, or shopping district, in many cases, customers look forward to a particular entree on each day of the week. An added advantage of cycle menus lie in the repetition that creates familiarity and the expectation for that same food on a particular day - diners form habits regarding what and when they purchase food, a behavioral trait.

Another possibility is to create different day part menus running on different cycles weekly. If the restaurant marketplace is tight, this provides a restaurant the opportunity to attract the same customer for a different experience during a different day part. Creativity can be profitable.

Daily menus

Given the ease and efficiency of desktop publishing, a restaurant can conceivably print a different menu each day. This can also be a sizable marketing tool for single unit operations that could print menus that contain mostly the same items every day, but offer their customers change in the form of highlighted specials - similar to the way many fresh seafood houses merchandise their daily catches or wine bars merchandise the wines of the day or week. This form of menu creation provides a single unit foodservice operation an effective way of competing with major well-known restaurants that cannot change menu items without corporate approval. Additionally, this menu method allow a small restaurant to be proactive in terms of product freshness and availability while keeping the menu new and exciting.

A`la carte menus

This term references a menu of items priced and ordered separately, a menu form common in the operation of restaurants. These menus list a price for every menu item, so that the guest pays a separate price for each dish ordered. There are no "combo" meals or "value" meals. Menu items traditionally bundled together are separated out, putatively giving the consumer greater choice at lower cost.

'Prix fixe' menus

These are sometimes referred to as "bundled," fixed price," "all-inclusive," or "table d'hôte" menu. These menus are the opposite of a` la carte menus because there is one price for a set meal or a set combination of items. Many restaurants in the United States convert their menus to prix fixe only certain holidays such as Thanksgiving. Generally, this practice is limited to holidays where entire families dine together, such as Easter and Thanksgiving, Christmas, or on couple-centric holidays like Valentine's Day. Customers often associate these menus with value. Such menu structuring is also very effective when guests are cost conscious.

In France, table d'hôte refers to the shared dining (sometimes breakfast and lunch) offered in a vacation named chambre d'hôte (similar to "bed and breakfast"). Every guest of a chambre d'hôte can join this meal, cooked by the hosting family. It is not a restaurant, there is only one service, and the price is fixed and usually included in the vacation. Everyone sits around a large table and makes small talk about the house, the country, and so on.

What is closer in French to the meaning of table d'hôte in English is a menu ("lunch special" or "fixed menu"). It usually includes several dishes to pick in a fixed list: an entree (introductory course), a main course (a choice between up to four dishes), a choice between cheese or dessert, bread, and sometimes beverage, typically wine, and coffee, all for a set price fixed for the year (typically between 15 and 50 euro). The menu du jour, a cheaper version with less choice, and only a side dish and with a set main course, the plat du jour ("dish of the day") changed every day, is usually ranges from nine to 15 euro.

Downtime menus

These menus were created to bring in guests during the slower restaurant day periods. These are usually limited menus with lower prices, offered during normally slow periods of the day with the intention of boosting sales revenue. Examples of downtime menu would include the 'early-bird' special menus, late night menus, and mid-morning break menus offered by restaurants that are open 12 to 14 hours a day.

Casual Menus

These are sometimes referred to as 'limited ' menus. They are similar to the downtime menus, however, they are not priced as low, and they typically offer a slightly larger item selection scheme. A limited menu is useful if you have a small kitchen, but a large dining room and lounge, where speed is essential. Having fewer menu items helps to remove much of the stress on the back of the house, which allows you to turn tables more quickly.

Cafe menus

These are menus used by high-end restaurants wanting to offer patrons a choice between the regular (higher-priced) menu offerings in the main dining room, and a more limited (lower-priced) selection in a separate area of the restaurant. These are similar to the

type of menu offered in a country club or hotel grillroom as compared to its offerings in the formal dining room. The idea is to broaden your market, gain more exposure for your operation, and perhaps convert some cafe` customers to main dining room customers at some point in the future. With technology, the only limits to the look and changeability of the modern menu is the originator's imagination.

Interactive menus

Some operations allow guests to mix and match their orders. For instance, Macaroni Grill allows guests to create their own pasta dishes. The guest does this by checking off different options on a card and then handing the card to the food server. Some caters have several lists of food and beverage items, each of which is individually priced. The client picks menu items from the caterer's lists and eventually arrives at a personalized menu for the event.

This concept also works for the beverage menu. An emerging trend find the operator inserting the sine list into a computer program that then allows the guest to pair food order with the wine order. When a guest at Aureole restaurant in Las Vegas asks for the wine list, the sommelier brings an IPad computer to the table and instructs the guest on how to use it. The guest can sort wines by color, price, dryness, and so on. The guest can also ask the program to recommend appropriate wine and food pairings. The integration of technology into the selection process has proven to be a winner with guests who enjoy the choice interaction as well as the manager of the operation who can make wine menu revisions instantaneously. Another advantage for the operator is the eliminated printing and related costs of keeping menus current. One drawback: guests tend to play around a lot with the technology thereby slowing table turns (the amount of time the guest remains in the restaurant). Consequently, based on the cost of this technology and the necessity for more rapid customer table turnover, this option may not be feasible unless you run a high-priced operation.

Tabletop displays

These can be used effectively to promote your profitable menu items or specials, but only if you minimize the amount of copy. Customers typically do not usually read them in depth. You have to let pictures tell the story in most cases or larger font size if you use table displays to supplement your menus.

Catering menus

Those restaurants that offer catering, whether on or off-premise, usually have some version of a separate catering menu. Some operations do not want to use a separate menu, preferring to build each party from scratch - that is, they develop a custom menu for guests who would like to incorporate their personal preferences in to the menu. If printed menus are used, keep in mind that customers may review them in their homes or offices, where you will not be present to guide their choices and sell the event. By the time you meet with the customer, their initial choices may have already been made. Therefore, the menu itself, and other related materials you dispense to the public must inform and convince customers that your property is a good choice for their event. Proper packaging is vital in such cases. These materials must contain enough information to sell the even without you around. To do this, make sure that you highlight any awards, testimonials, favorable reviews, chef's credentials, and the like. Tandem marketing is equally a good idea. Include your catering department on your other restaurant menus and any supplemental promotional materials.

Drink lists

In some cases, it might be a good idea to have a separate wine list, drink list, waters list, and so on. These have great merchandising appeal, and they can free up space on the food menus, making them more attractive to view and easier for guests to handle. They also afford servers the opportunity to interact with guests, thereby giving them the opportunity to up-sell and increase the average check. Another practical consideration is the need for change. Separate menus allow for easy replacement more rapidly and inexpensively. An additional advantage is increased sales resulting from item placement. A separate un-cluttered menu allow for more descriptive and enticing wording. A menu is a sales tool that often must act on its own. Always give your menu the opportunity to help sell the restaurant's products.

Beverages are a significant portion of a restaurant's profitability in most cases. Most alcoholic beverages represent 18% food cost items. You can pair wine 'suggestively' with menu items and other alcoholic beverages can be offered before or after dinner. Soft drinks and tea are extremely profitable beverage items. For many years, water traditionally was served free to each guest upon seating. In the twenty-first century, water is a suggestive sell item that come with a cost. "Did you want artesian, spring - or tap?" is the typical question a guest must field from their waiter in the current marketplace. Why a cost for water? First, a charge for all water items is a profit center that can increase profit, or offset costs for other menu items, or simple defray the expense of water

service. Said differently, the cost of water service is not the water but rather the expense of the chemicals and electricity to clean the glass. In a full service high volume restaurant these cost can ultimately be extensive. The need for viewing water service as a profit center or as an expense brings home the importance of cost controls and an eye toward profitability needed in today's marketplace.

Dessert menus

In addition to wonderful selling tools with space for pictures and descriptions, these menus also offer great up-selling opportunities. They work better, when, instead of a printed menu, you have a dessert cart or tray that can be useful to display the products. Desserts are a good example of customers eating with their eye first.

Which is the best menu form for me?

There are numerous type of menus to choose from - so which is best? This is not really the best question to ask as it traps one into thinking that a single choice must me made - that is not the case. Think of your menu as a vital instrument that informs your existing, and potential customers, of what you are offering. In most cases, it is the initial sales contact with the guest, it suggests, it guides, it does not apply pressure that customers resist - it should entice their desire to try something new, and appeal to their wants. Why should any operation be limited to one type of menu? As the aforementioned information suggests, different menu types accomplish different needs. This is why it is important to understand your customer.

A practical look at menu use: a restaurant might use an extensive menu with descriptive elements to inform and entice the guest, including an a1 la carte section. For the more cost conscious customer, a prix fixe separate menu could be place at the table as well offering an appetizer, entree and dessert selection at a special set price. A nicely appointed beverage list of alcoholic drinks, wine by the glass, coffee drinks, and so forth could help guests with drink choices and act as a reference for the waiter to inform or up-sell. At the end of the meal, the customer can review the dessert menu pre-placed at the table to quietly suggestive sell the customer as the meal progresses. *Remember, the items on the menu are primarily what you have to offer your clientele. Use them in varied way to present your products and services in the best light possible and in ways where each profit center gets the most attentio*n.

Menu Layout

When designing a menu, one should avoid a cluttered look. There should be roughly 40 to 50 percent blank space on any type of menu of menu board, so that it does not appear crowded. In addition to the blank space, one should utilize wide margins and sufficient space between menu items. A crowded menu is difficult to read, which could confuse or frustrate your guest. From a more practical standpoint, a crowded menu design also makes it more difficult to highlight the more profitable items you want to promote - the menu is one of your best marketing tools.

Course headings

The menu should follow the customers' logical or ordering sequence. Course headings should divide the menu into various categories, such as appetizers, salads, entrees, desserts, and drinks. These headings should be in a larger and/or bolder type than the rest of the menu.

Categories

A category should fit on one page. It should not carry over to the next page or overlap another category. Guests will usually review a category only down to the bottom of the page or to the next course heading if the category is less than a page long.

Menu items

Menu items should stand out. They should be bigger than the descriptive wording that accompanies them, but smaller than the course headings. If you use descriptive wording (food ingredients, preparation methods, and so forth) for each menu item, be certain that it is clear and to the point. Avoid rambling descriptions; let the servers fill in any additional comments should the guests ask for more information about a selection.

Center menus symmetrically for aesthetic appeal. Symmetry is pleasing to the eye and tends to allow enough blank space to be attractive, as opposed to filling the page with print and illustrations.

Restaurant name

Your name should always be clearly visible on your menu. Be sure to include, in a prominent position on your menu, the name of the restaurant, address, phone number, e-mail address, and other appropriate contact information.

Menu boards

If the restaurant utilizes a menu board, it should be both visually attractive and succinct. You must keep it up-to-date and maintain it properly. Missing letters, outdated photographs, or taped-over prices will make people think twice about patronizing your operation. A menu board must capture the guests' attention quickly. Most customers will not read the entire board until after they place their order. It is important to use as much visual stimulation as can be afforded to direct the customers' attention. One of the best menu boards is the digital, moving display. Any movement is better than no movement. However, this might be too costly for the typical restaurant operator. On the other hand, an attractively lit marker or chalkboard can be very effective to inform and entice your clientele.

Menu Copy

It is extremely important to remember that the menu is an extension of the 'positioning' scheme that helps create and maintain the restaurant's image in the customers' minds.

Item descriptions

Descriptions of the menu items should generate interest and sales. The copy mist speak to guests in their own language. Be concise regarding the menu's verbiage, but make your points. Said more concisely: get your message out as efficiently in terms of wording as possible. This might seem to fly in the face of visualizing a 'theme ' in the minds of customers, but you could for example created a short passage about "the beauty of Spring" if the items represent a seasonal offering. Create the springtime visualization, say, in the item name - but the efficient wording of the item description.

Copy

The copy should be enticing through the use of written imagery such as "hot," "fresh," "crispy," "succulent," or flaky," as exemplars. Use descriptive wording carefully. For example, the phrase "cooked to perfection" is becoming quite redundant in addition to waste of wording to state what should be the obvious - the item should always be 'cooked' perfectly. Avoid overused phrases, but do tend toward the use of descriptive language to avoid blandness. Instead of listing "assorted cheeses," utilize more creative wording such as: "an array of creamy Brie, tangy Muenster, and sharp Cheddar cheeses."

Clarity

Avoid clichés, such as 'the best-kept secret.' 'Chef's special,' and 'as you like it.' Also, avoid words such as 'rich,' 'heavy,' and 'think,' which unnecessarily worry weight-conscious customers. Additionally, it goes without says that one should always use words that actually describe the menu item; for example, what is a "surprise omelet?" It is human nature for people to avoid what is not clear so if they are unsure, the lack of clarity equals "no." Another important reason for using clear descriptions is the need to create clear understandings in the minds of customers regarding what the item will be and how it will taste. There is not much worse than a situation where the customers receives something they did not envision or expect.

Descriptions are important

Good description and clarity is paramount for successful copy. A study published in the Cornell Hotel and Restaurant Administration Quarterly found that menu descriptions evoking favorable feelings could boost restaurant sales by close to 30 percent. Furthermore, study participants considered these menu items to be of higher quality and value in comparison to the perceptions of persons who consumed the same items without benefit of the descriptive wording. Thus, the message is to be consistent in your writing style. Avoid using casual phrases with dignified statements that tend to confuse guests. Re-read your wording. Does it comply with the image and positioning you are attempting to create in the minds of your customers?

Well-written copy can assist guests in making the proper choices. It can also steer them toward ordering the more profitable menu items. It can prevent confusion about dishes, and it will be especially helpful to guests who may not devote too much time to reading the menu because they are involved in conversation with others at the table.

Copy as opportunity

If the menu does not include copy that touts on premise, or off-premise, catering offerings, party platters, take-out options, deliver, and so on, you are missing a stellar opportunity make additional sales and profits. You might consider printing separate menus for these products and services, one that addresses guest inquiries. It is important to remember that menus are absolutely accurate and thorough because guests usually put more deliberation into catering decisions. Additionally, decisions of this usually involve than one person whereas decisions made on the spot at the restaurant tend to be much more impulsive.

Compliment customer knowledge

The copy should not overestimate the customer's knowledge. It may be necessary to explain menu items, ingredients, preparation methods, and so forth, which are not clearly understandable or easily to remember. For instance, young customers today may not be familiar with Veal Oscar. Further, if you use foreign terms, French for example, provide an American translation as well, or, the ingredients and method described in a way that allows the customer to understand what the item is and how it will be prepared.

It is a matter of opinion whether an operation should include menu copy that describes the operation, its history, and other details. Although this may do little to drive sales and profits, it certainly can help create an identity for the restaurant. The big issue with this type of copy occurs when revision does not occur regularly. The operation should always keep such information current and contemporary.

Illustrations/Graphics

Menus should incorporate at least some graphics and illustrations that add a great deal of visual appeal and can stretch the customers' imagination. They are also very effective in highlighting the most profitable menu items. While it is possible to minimize the use of illustrations and graphics on a restaurant menu where server interaction can overcome a lack of visual imagery, in contrast, a catering menu needs such inclusions to aid in customer sales and selection decisions.

Free, high-quality clip art is available on many Web sites, or inexpensive CD's or special software programs that contain a wide variety of art for menu use are also available. The ultimate graphic element is the professionally done photograph, but this can be an expensive option. Pictures of activities are more effective than pictures of inert objects, such as a photograph of your facility, and they work especially well on catering menus. Prospective catering clients can project themselves into the setting depicted in the photo, which might persuade them to select your operation for their events.

If you plan to use food in the photographs, it would be best to use close-ups of finished products, rather than simply raw ingredients. Avoid overdone, common photos, such as a shot of a smiling chef standing next to a buffet table or working an open kitchen. Strive for a fresh approach. Be unique. There is no point in spending a great deal of money for generic photographs that customers will ignore. Bad photographs are worse than no photographs. The best quality and most expensive is the four-color (full-color) photo. When you are looking at a four-color picture, you are actually seeing an assemblage of colored dots. The dots are thicker where the colors are darker. The color separation done during the printing process determines the final quality of the photograph.

Menu Typeface

There are hundreds of different typeface styles and sizes from which to choose. Use those that make the menu easy to read and conform to your restaurant's overall theme. Typically Times New Roman is the standard font used on Window-based PC's and is part of the Times family of fonts. There are extended families, such as Goudy, Century, Swiss, Gill, and Garamond. Use extended font families because they work well together - not only for menus, but also for other things you may want to print, such as nameplates, place cards, and party announcements. As such, based on consistency, its best to stay with the same family using the following variations:

Plain lowercase
PLAIN CAPITALS
Bold lowercase
Italic lowercase
ITALIC CAPITALS

Bold italic lowercase
BOLD ITALIC CAPITALS

A font size smaller than 12 point is not suitable for restaurants. If your target market is senior citizens, you should use a larger font. Avoid the Courtier font, which looks like the old-fashioned typewriter font. It does not have a modern, professional appearance. Fonts are useful to draw attention to your most profitable menu items. For instance, consider using a unique font to highlight menu specials or an unusual font to describe the non-food products you sell, such as logo merchandise and other kinds of souvenirs.

Menus must be user-friendly and easy to read, for example, ALLCAPITALS CAN BE DIFFICULT TO READ. Menus that are difficult to read can irritate customers. Customers tend
to scan quickly and discard catering menus that are difficult to read. Desktop publishing can offer the flexibility needed to incorporate several fonts. It also offers the ability to change menus quickly, easily, and inexpensively. Although desktop publishing is a useful process when done by someone who has sufficient knowledge to do it attractively and professionally, menu software is also available.

Menu Covers and Paper

You can print menus separately for insertion into a reusable cover or holder. The two-panel 9-inch by 12-inch cover is a popular format. It is convenient for guests to handle, and it will easily accommodate the standard eight and a half by eleven-inch stationary, which allows for frequent change and updating. This size will also fit snugly into a standard business-mailing envelope, which is a plus for catering menus.

If you stray too far from this standard-sized bi-fold menu cover, you will have to pay more for the finished product. Having stated the most obvious cost consideration, there are marketing opportunities available with a unique size and/or shape can be a highly recognizable signature that can enhance customer awareness and drive sales revenue.

Paper stock

As the menu is a continuation of your theme or concept, use a good quality paper stock, consistent with the type of restaurant you have and the image you want to project. With professionally printed materials, about 40 percent of the cost is for paper. The two basic choices are cartridge paper, which has a matte finish, or coated paper, which has a shiny finish. The one you choose is typically considers the initial cost as well as the appearance of the color you have selected on each type of paper. The paper's shelf life may also factor into your decision. Coated paper is very attractive but it tends to crack when folded.

The heavier the paper, the better the impression you will make. Parchment has a lush texture and conveys elegance. However, while you may want your menus to have a classical look, you may unintentionally signal to guests that your operation is overly expensive because you are spending too much money on fancy menus. There is a fine line between elegance and wastefulness. Create a balance, do not use paper that is too cheap or of poor quality. For example, computer paper would be unacceptable for most restaurant operations. To the other extreme, even something like coated paper could be inappropriate because, unless a professional printer handles it, it does not absorb ink well. Bear in mind that the menu is one of your primary marketing tools - create and construct your menu for effectiveness in this regard.

Menu Color

The purpose of color is to add interest and variety to the menu. It can also be effective to highlight course headings as well as the operation's most profitable menu items. However, production costs tend to increase in proportion to the colors added to the printing process. The most cost effective method is to print with two colors: the paper color and one additional ink color. Dark ink on white or light-colored paper makes the best contrast and is easier to read.

Faxing menus

If the operation intends to fax the menu, dark ink on white paper is the best choice to insure that the recipient will be able to read the menu easily. It would be a good idea to check with your printer to be certain that an appropriate color combination is in use. As a test, fax a copy of the menu to your own operation before ordering a big printing job.

Test color and paper

Before committing to a large printing order, look at a sample of the color choice on the paper stock selected because the type of ink chosen will usually look different on various types of paper. Provide the printing company with a sample of the color you want, they can determine the best types of ink to use with your preferred paper stock.

Color equals concept

As with the paper stock, select colors that reflect the type of restaurant and any theme. For a fine-dining establishment, select classic colors for the menu covers, such as deep royal purples, rich dusky blues, dark greens, and chocolate to mahogany browns. These colors convey elegance, reliability, and a sense of permanence. Frivolous colors, such as lime green or hot pink, create a faddish appearance. For the paper, a rich cream color will impart a more cultured look than a stark white finish. It is important that the print color ‘jumps off the page’. It is impossible for a color-blink customer to read red print on a dark background. Likewise, older guests may have special vision problems. Consider the customer when choosing the color scheme.

Truth in menu laws

Dating back to their 1977 report, Accuracy in Menus, the National Restaurant Association noted eleven categories of menu misrepresentations that to avoid.

Quantity

Portion size must accurate in addition to product specifics. For example, if your menu states that large eggs are a part of menu item, then you must include that product. ("Large" is one of six federal government sizes used in the grading of fresh eggs.) The largest problem with quantity is the typically the misleading terminology that sometimes finds its way onto the menu. If the operation offers a "large" bowl of soup, or a "supersized" soda as exemplars, it might be wise to add descriptors that note the actual serving weights of the each item.

Quality

A restaurant cannot advertise a level of quality that it does not provide to the customer. For example, the menu cannot state that an item contains crabmeat when the item contains imitation crab. The federal government has established quality grades for many of the foods and beverages restaurants use. Check that the proper grade is included on the menu. For instance, the word "prime" to describe beef offerings is not suitable on the menu unless the operation is actually purchasing and serving this quality-grade of meat.

Price

The restaurant must disclose all relevant charges. If there is a charge for, say, all white-meat chicken or for beverage refills, clearly identify this on the menu. A restaurant has freedom to select an appropriate price for the items it serves however, the consumer has the right to accurate pricing information and where charges will occur. Most customers will not revisit an operation that "baits and switches" prices (advertising one price but charging the customer a different or higher price).

Brand name

Similar to the 'quality' rule, a restaurant cannot imply that it serves a brand-name product if, in fact, it is using a substitute item. For example, a food service establishment cannot serve a customer Pepsi if the customer specifically asks for Coke. The main problem with brand names is that many of them are just not so obvious - like the name Jell-O. Many operations casually refer to any type of gelatin product; however, Jell-O is a brand name and suitable only if you serve that product.

Product identification

The federal government has established several "standards of identity." These standards define what a food product must be in order for you to call it by its standard name. For instance, orange juice is not the same as orange-flavored drink, maple syrup differs from maple-flavored syrup, and pure vanilla extract is not the same as vanilla flavoring. These would be simple mistakes to make and, as such, they often occur on foodservice menus. The stand of identity also applied to the ingredients included in a particular item. Sodium can be an issue for some customers, shellfish allergies, peanut allergies, to name a few. A clear description of the item can avoid a potential health issue for a customer.

Point of origin

This is another area of concern - operations tend to toss terms around without giving them a second thought. The term "Maine" lobster sounds quite appealing and denotes quality but can only be usable if the lobster harvest comes from the state of Maine. The "Idaho" potato is another example of a more generally utilized term as opposed to the actual point of origin of the potatoes purchased by the restaurant.

Merchandising terms

Sometimes an operation can create problems by using too much trade hype to describe menu items. It would not be appropriate to use the term "made from scratch" if, in fact, the preparation uses some canned ingredients. Equally, the term "center-cut" filet mignon would be inappropriate if the whole tenderloin was usable for that particular item.

Preservation

A foodservice operation much be careful with the term "fresh." This term implies that the food ingredients you use have never been frozen, canned, bottled, or dried. It might be possible to skirt the law saying that a menu item is "freshly prepared" or "prepared to order," but it is advisable not to push such a point. There will be days when you just cannot get a fresh ingredient and have to settle for a frozen one. There will also be times when you have to prepare items ahead of time, even though you prefer preparing them to order. Be as honest as possible with your customers because if they trap the operation in a lie, irreparable damage to the company's reputation can occur.

Means of preparation

Guests often make item selection decisions based on the preparation method used. Health conscious customers might prefer broiled chicken to fried chicken, or steamed vegetables rather than those prepared with a butter sauce. Whether or not an item was roasted, braised, fried, grilled, stewed or steamed can be an important point of choice or concern for customers these days.

Illustrations/graphics

Restaurateurs often place photos of finished food products on the menu, and especially like to show these on menu boards, or in common via the use a dessert cart. This is an appropriate practice but one must be careful to insure that the finished products from the menu resemble these photographs. Guest develop expectations on these pictorial representations and what they envision is what they expect with the menu item arrives at the table.

Nutrition

Dating back to 1994, restaurants in the United States are required to verify any health, nutrition, or dietary claims made on menus and in other forms of advertising. A restaurant must also follow appropriate guidelines when using standardized terminology such as "light" or "lite" which denotes food servings that are at least one-third fewer calories and less fat by at least fifty-percent. Proper nutrition is a forefront concern in the twenty-first century. An associated concern is childhood obesity with parents and healthcare professionals taking greater interest in portion sizes, calories included, and balanced nutrition in general. Customers are generally in search for healthier menu choices and this provides an opportunity for foodservice operators to inform their clientele about healthy menus.

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10.2: Menu Strategies

Menu Writing Strategies Checklist

What technique(s) are usable to meet and overcome the competition, to be profitable, and to expand or grow?

All of these involve marketing decisions to create the appropriate 'bundle' of resources:

1. Product,
2. Price,
3. Promotion, and
4. Place (placement?)

The menu is (not only) a major 'communications and selling' tool, and control mechanism but also a potential research and experimentation device that are usable to increase restaurant profits. Information on popularity and profitability of items can give a restaurateur important information on future menu decisions.

Menu Location and Sequence

Menu organization makes a difference.

1. **Eye motion patterns** – example single-fold menu the area just above and to the right is the best place for profitable items.
2. **Menu should follow the meal sequence** (both food and beverages)
    a. Appetizers, soups, salads, entrees and desserts
    b. Cocktails, wines & beers, after-dinner drinks
3. **The top item on any entrée listing has the best chance of selection** (as well as top group – i.e. steaks, seafood, poultry, etc.)
4. **Multiple menus or one?**
    a. **Specials:** house specialties or limited time offers
    b. Larger, bolder type
    c. Longer description
    d. Place in special boxes or panels
    e. Color or illustrations

Additional information is provided in the 'data analysis' chapter.

Menu Content

Think of your menu as an extension of your marketing efforts which should be 'seamless' in approach. The menu content has to be clear and concise, appealing to the customers tastes, indicate value and affordability for the customer. Studies show that if for example, pricing for appetizers and desserts seem 'conspicuously higher' in relation to the main courses, customers feel a lack of value and will not return. In sum, pricing for either appetizers or desserts that does not make sense to the customer is a deal breaker no matter the value your main courses create. Some restauranteurs try to edge out more profit in these areas to disastrous ends. Important considerations and elements follow.

1. **Menu type – A la carte, Table d'hote, Prix fixe**
2. **Listings**
3. **Variety**
    a. Temperature
    b. Cooking methods
    c. Texture
    d. Shapes and sizes
    e. Color
    f. Balance
    g. Price

4. **Composition** – make-up of the plate or meal itself

Writing the Menu

Writing the actual menu is an important step in the menu creation process. The terminology you use and accurate description of your menu inclusions are very important elements. Customers read the menu item and form an impression of what it will look like and how it will taste. Pay attention to the following aspects of description and accuracy.

1. **Descriptive terminology**
    a. **Explaining**
    b. **Signaling quality or value**
    c. **Selling**
        - Do descriptive labels increase sales?
        - Do descriptive labels make customers believe the food tastes better?
        - Do descriptive labels influence customers' attitudes toward a restaurant and their intent to return?
    d. **Basic findings when given descriptive labels** (Wansink, Painter & van Ittersum, 2001):
        - Sales increased by one-fourth
        - Food consistently rated higher in quality and better value by customers
        - Customers formed more positive attitudes about the restaurant
        - Believed the restaurant was keeping up with trends
        - Increased likelihood that customers would purchase those items again on return visits
        - Did not influence willingness to pay more money for these items
        - Descriptive menu labels can stimulate first-time consumption and encourage repeat sales
        - Words of caution – if food is of only average or below-average quality – descriptions may have little or negative effect. Descriptions may raise customer expectations about the quality of menu items (Findings in Cornell Hotel & Restaurant Quarterly, December 2001).
    e. **Types of descriptive labels:**
        - Geographic labels (e.g., Cajun or Italian)
        - Affective labels (e.g., home-style or grandma's)
        - Sensory labels (e.g., tender or silky)
        - Methodology (e.g., broiled, smoked, etc.)
        - Quality or branding (e.g., Certified Angus Beef, USDA Prime, etc.)
    f. **Negative Terminology – refrain from using it**
2. **Accuracy in Menus**
    a. Be certain you can substantiate your written and spoken words with product, invoice, or label.
    b. Representation of quantity – double martinis = 2 times normal size, jumbo eggs are recognized egg size, etc.
    c. Representation of quality – federal and state standards are used and stated, exception prime rib – meaning: primal ribs rather than USDA Prime grade.
    d. Representation of price – any additional charges are brought to the immediate attention of the customer (e.g., bottled water charge, service charge, extra charge of white meat only, etc.)
    e. Representation of brand names – Coca-Cola, Tabasco, etc.
    f. Representation of product identification – e.g., maple syrup vs. maple-flavored syrup
    g. Representation of points of origin – e.g., Louisiana Crawfish Etouffee using Chinese crawfish
    h. Representation of merchandising terms – "World's Best Jambalaya", Mile-high Ice Cream Pie", vs. "we use only the finest beef" or "homemade"
    i. Representation of preservation –frozen vs. fresh
    j. Representation of food preparation – baked, broiled, etc.
    k. Representation of verbal or visual presentation – should portray actual contents with accuracy

l. Representation of dietary or nutritional claims – “heart healthy” (specific guidelines by AHA), salt-free or sugar-free, low calorie must be supportable. Restaurants are generally exempt from providing nutritional information on menus but are currently under attack by a segment of the population.

- Absolute claim – low-fat or calorie-free
- Relative of comparative claim – light or reduced (reference can be made to the restaurant’s regular product, another restaurant’s product, a value obtained from a reliable data source, a national/regional average, or market-based norm.
- Implied claim – implies that a nutrient is present or absent (this area is gray one decided on a case-by-case basis)

Additional examples and ideas are available at: <https://designschool.canva.com/blog/...hology-design/>

Physical Components of the Menu

1. **Menu Cover**
    - Padded, custom designed, insert-type, laminated, paper
2. **Menu Layout**
    - Categories, subheadings, using prime space, clip-on
    - Using leftover space – stories, history, etc.
3. **Desktop publishing** or outsourcing
4. **Type of paper** – this depends on the theme or the restaurant and length of use.
5. **Color** – lighting, image, theme, contrast between type and paper colors.
6. **Type** – old style, modern, etc.
7. **Artwork** – some parallel the restaurant theme and positioning also with sparking interest.
8. **Menu Aesthetics Checklist** – follows theme, branding, pricing.

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10.3: Classroom Preparation Assignments

The Menu Exercise 10.3.1

1. Introductory paragraph
2. Menu information
    a. Layout
    b. Printing considerations
    c. Descriptions
    d. Nutrition considerations
    e. Truth-in-menu considerations
    f. Artwork
    g. Beverage menu – listing and pricing (method?)
    h. Narrative of considerations

Example of menu and thought process

352Basilico

The Menu

Introduction

In the following pages, I have provided a sample menu for Basilico. Our menu will consist of an a la carte menu that will have set items as well as “specials of the day”. The “specials of the day” will be determined based upon what is in season at the time. The specials of the day can also be determined by if a good enough deal has been made on an entrée. A good deal means that a good price has been established without sacrificing the wanted quality. As any restaurant, any of the set menu items are susceptible to change depending on how well each item is selling.

Lunch vs. Dinner

Our lunch menu will be a lite version of our dinner menu. Our main focus will be our dinner menu. The lunch menu will consist of items like our margherita and prosciutto pizzas, bruschettas, carbonaras, risottos, etc. Our lunch menu will consist of simple but flavorful dishes that can be produced with little to no issue. Our dinner menu will carryover most if not all of our lunch items. It will include our signature dinner menu items like Osso Bucco, Mussel Linguine, Chicken alla Mattone, etc.

Style

The menu will be a la carte. “A la carte” means that guests are not limited by a set menu and can choose from a wide array of menu choices. We will offer set menus for reserved dinners as requested. The a la carte menu will consist of everything offered that night from the antipasto to the dolce. A separate menu will list all the beverages, wines, and spirits that we offer.

Servers will be able to describe in detail all of the dishes to guests if requested. If someone wants to order the Osso Bucco, but still have questions about the menu description, then the server will be able to describe the Osso Bucco as if the entrée were right in front of them. This skill amongst our servers is necessary because the names that will appear on our menu can be foreign to most.

Basilico

Antipasto

Basil and Watermelon Salad ~ 12
Watermelon that has been vacuum packed with basil and simple syrup for 24 hours. Served with arugula, crumbled feta cheese, sliced beets, and a lime ginger dressing.

Bruschetta ~ 8
Heirloom tomatoes tossed in balsamic dressing paired with fresh mozzarella and basil on top of toasted slices of French bread.

Roasted Cauliflower ~ 10
An entire head of cauliflower that has been roasted, topped with sea salt, and paired with whipped feta, olive oil, and spice mixture

Primi

Gulf Shrimp Carbonara ~ 18
Sauteed pancetta and gulf shrimp, combined with eggs to make a creamy sauce, and tossed with spaghetti noodles and parmesan cheese.

Wild Mushroom Risotto ~ 14
Risotto with porcini, button, and crimini mushrooms

Ravioli ~ 12
Ricotta cheese ravioli topped with house-made marinara sauce

Secondi

Osso Bucco ~ 28
Braised pork shanks with a honey mustard glaze that is dusted with a juniper and sugar mixture on top of a sweet potato and toasted barley risotto

Chicken alla Mattone ~ 26
Chicken roasted with thyme and paired with asparagus, Meyer preserved lemons, and new potatoes

Mussels & Calamari Linguine ~ 30
Seafood pasta made with locally caught mussels and calamari and made with our home-made marinara sauce

Dolci

Crème Brulee ~ 14
Rich custard topped with a caramelized sugar crust, powdered sugar, and berries

Tiramisu ~ 10
Popular Italian coffee flavored layered dessert with ladyfingers, whipped cream, and mascarpone cheese

White Almond Gelato Sundae ~ 16
House-made white almond gelato topped with whipped cream, vanilla syrup, and an almond macaron

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Pricing Objectives

Our pricing choices reflect not only how much it costs to produce the item, but the overall experience as well. The beautiful architecture of the restaurant is just one factor of the overall experience of Basilico. Another factor is our staff training to be able to treat our patrons with the utmost respect. Our prices also reflect how high-scale of a restaurant that we aim to become.

Labor Requirements

Our goal of high quality standards requires a greater labor cost than most. This means that all staff have to go the extra mile to make sure that their service exceeds all expectations. The bright side is that most of the prep work for these dishes is doable before service. There will be sous vide, low boys, and steam tables provided.

Other Factors

Our restaurant is sure to stand out in the community because of its upscale nature. From the inside to the out, it will feel like a ‘5 star’ dining experience. Our motto is that we always try to achieve perfection even though perfection is impossible.

Standardized Recipes

Basilico prides itself in consistency. Standardized recipes are just one way that we serve our best quality product at the standard our patrons have for us. Standardized recipes are also a great way to lower food costs. It is a way for us to know for certain that this many ingredients can produce this many servings without a doubt.

Projected Menu Mix

The following table shows the presumed number of plates of each the Antipasto, Primi, Secondi, and Dolci options based upon an average Friday night. The menu mix will assume that we served 150 people. Included is the projected food cost, menu mix, and profit per plate. The average amount of gross profit predicted is $4,735.65.

Antipasto	**Price**	**Food Cost per Plate**	**FC%**	**Profit per Plate**	**#Sold**	**Gross Profit**	**Menu Mix**
Basil and Watermelon	$12.00	$6.45	53%	$5.55	50	$277.50	33.33%
Bruschetta	$8.00	$4.25	53%	$3.75	65	$243.75	43.33%
Roasted Cauliflower	$10.00	$5.30	53%	$4.70	35	$164.50	23.33%
Average:	$10.00	$5.33	53%	$4.67	150	$685.75	100%
Primi	**Price**	**Food Cost per Plate**	**FC%**	**Profit per Plate**	**#Sold**	**Gross Profit**	**Menu Mix**
Carbonara	$18.00	$8.00	44%	$10.00	75	$750.00	50.00%
Risotto	$14.00	$6.25	45%	$7.75	30	$232.50	20.00%
Ravioli	$12.00	$5.45	45%	$6.55	45	$294.75	30.00%
Average:	$14.47	$6.57	44.67%	$8.10	150	$1,277.25	100%
Secondi	**Price**	**Food Cost per Plate**	**FC%**	**Profit per Plate**	**#Sold**	**Gross Profit**	**Menu Mix**
Osso Bucco	$28.00	$14.75	53%	$13.25	68	$901.00	45.33%
Chicken	$26.00	$12.50	48%	$13.50	53	$715.50	35.33%
Linguine	$30.00	$16.85	56%	$13.15	29	$381.35	19.33%
Average:	$28.00	$14.70	52.33%	$13.30	150	1,997.85	100%
Dolci	**Price**	**Food Cost per Plate**	**FC%**	**Profit per Plate**	**#Sold**	**Gross Profit**	**Menu Mix**
Crème Brulee	$14.00	$5.85	42%	$8.15	40	$326.00	40%
Tiramisu	$10.00	$4.50	45%	$5.50	20	$110.00	20%
Gelato Sundae	$16.00	$7.53	47%	$8.47	40	$338.80	40%
Average:	$13.33	$5.96	44.67%	$7.37	100	$774.80	100%

Conclusion

This concept gives you a good idea of my vision for the menu aspect of Basilico. Any tips are welcome so that the people of the River Ranch region have a great experience.

Discussion Questions 10.3.2

1. What is the major advantage for the use of a ‘day part’ menu?
2. What is a ‘cycle’ menu?
3. Explain the flexibility of a ‘daily menu’.
4. How do a’ la carte and ‘prix fixe’ menus differ?
5. What is the difference between a ‘casual’ menu and a ‘café’ menu?
6. Should a ‘dessert’ menu be separate from the main menu? What are the pros and cons?
7. What would be the most practical use of menus for a foodservice establishment?
8. What are the physical components of a menu?

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10.4: Chapter Glossary and Notes

Glossary

Day part menus. This menu pricing method focuses on a particular meal period. For example, a restaurant might consider separate menus for each day part: breakfast, lunch, dinner, high tea, snack, late night, and so forth. This is also a very effective way of addressing or targeting different demographic profiles or market needs.

Cycle menus. These menus repeat themselves according to some predetermined pattern. Broad cycles could be used to change and invigorate a menu on a seasonal basic to take advantage of season items and, or, lower price points based on product availability.

Daily menus. Given the ease and efficiency of desktop publishing, a restaurant can conceivably print a different menu each day. This is also a marketing tool for single units that could print menus that contain the same items every day, but offer customers change in the form of highlighted specials - similar to the way many fresh seafood houses merchandise their daily catches or wine bars merchandise the wines of the day or week. This form of menu creation provides a single unit foodservice operation an effective way of competing with major well-known restaurants that cannot change menu items without corporate approval. Additionally, this menu method allow a small restaurant to be proactive in terms of product freshness and availability while keeping the menu new and exciting.

A` la carte menus. This term references a menu of items priced and ordered separately, a menu form common in the operation of restaurants. These menus list a price for every menu item, so that the guest pays a separate price for each dish ordered. There are no "combo" meals or "value" meals. Menu items traditionally bundled together are separated out, putatively giving the consumer greater choice at lower cost.

'Prix fixe' menus. These are sometimes referred to as "bundled," fixed price," "all-inclusive," or "table d'hôte" menu. These menus are the opposite of a` la carte menus because there is one price for a set meal or a set combination of items. Many restaurants in the United States convert their menus to prix fixe only certain holidays such as Thanksgiving.

Downtime menus. These menus were created to bring in guests during the slower restaurant day periods. These are usually limited menus with lower prices, offered during normally slow periods of the day with the intention of boosting sales revenue. Examples of downtime menu would include the 'early-bird' special menus, late night menus, and mid-morning break menus offered by restaurants that are open 12 to 14 hours a day.

Casual Menus. These are sometimes referred to as 'limited ' menus. They are similar to the downtime menus, however, they are not priced as low, and they typically offer a slightly larger item selection scheme. A limited menu is useful if you have a small kitchen, but a large dining room and lounge, where speed is essential. Having fewer menu items helps to remove much of the stress on the back of the house, which allows you to turn tables more quickly.

Cafe menus. These are menus used by high-end restaurants wanting to offer patrons a choice between the regular (higher-priced) menu offerings in the main dining room, and a more limited (lower-priced) selection in a separate area of the restaurant. These are similar to the type of menu offered in a country club or hotel grillroom as compared to its offerings in the formal dining room. The idea is to broaden your market, gain more exposure for your operation, and perhaps convert some cafe` customers to main dining room customers at some point in the future.

Interactive menus. Some operations allow guests to mix and match their orders. For instance, Macaroni Grill allows guests to create their own pasta dishes. The guest does this by checking off different options on a card and then handing the card to the food server. Some caters have several lists of food and beverage items, each of which is individually priced. The client picks menu items from the caterer's lists and eventually arrives at a personalized menu for the event.

Tabletop displays. These can be used effectively to promote your profitable menu items or specials, but only if you minimize the amount of copy. Customers typically do not usually read them in depth. You have to let pictures tell the story in most cases or larger font size if you use table displays to supplement your menus.

Catering menus. Those restaurants that offer catering, whether on or off-premise, usually have some version of a separate catering menu. Some operations do not want to use a separate menu, preferring to build each party from scratch - that is, they develop a custom menu for guests who would like to incorporate their personal preferences in to the menu. If printed menus are used, keep in

mind that customers may review them in their homes or offices, where you will not be present to guide their choices and sell the event.

Dessert menus. In addition to wonderful selling tools with space for pictures and descriptions, these menus also offer great up-selling opportunities. They work better, when, instead of a printed menu, you have a dessert cart or tray that can be useful to display the products. Desserts are a good example of customers eating with their eye first.

Notes

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CHAPTER OVERVIEW

11: Pricing Decisions

11.1: Arriving at the Correct Menu Price

11.2: Other pricing concerns

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11.1: Arriving at the Correct Menu Price

Chapter 11 Learning Objectives

- Understand the factors that affect pricing decisions.
- Understand how consumers react to pricing.
- How to consider the consumer's environmental influences.
- Understand the aspect of price as perceived value.
- Understand the various strategies for item markup.
- Comprehend demand-based pricing.
- How to determine the appropriate price based on cost factors.
- Understand price difference, duration control and price fences.
- Understand the importance of the 'purchasing' function.

> *"Everyone has a price," she said. But clearly not everyone has a soul,"*
> *Ruta Sepetys*
>
> *"Don't tell me what you value, show me your budget, and I'll tell you what you value."*
> *Joe Biden*
>
> *"There can be no value in the whole unless there is value in the parts."*
> *Bertrand Russell*
>
> *"Price is what you pay and value is what you get."*
> *Warren Buffett*

Restauranteurs need to be adept at various pricing methods but first, and foremost; they need to be aware of the new factors that come into play when determining how to price items for sale. First, the good news. Food prices, with few exceptions, have stabilized over the past few years. Now for the bad news. The price of pretty much everything else has gone up. Food cost was the highest cost in the past. Now, the current order is occupancy cost, followed by labor cost, followed by food cost. That makes managing the cost of what goes on the plate even more crucial to turning a profit.

There are various methods available to determine the pricing strategy organizations will use to attract a clientele. Pricing is one of the most important functions of the restaurant operation. Pricing has direct links to both value and profitability. It is also a tool to direct and channel customer patterns and usage. To consider the pricing function as simply 'what the operation charges for the products we sell' is to miss interpret the 'value' function of what pricing accomplishes and thus, as a result of such narrow thinking, the profitability mark of the operation's offerings would usually be missed as well.

Price is an important component of the four major components of the marketing mix. While the other three components of the mix – promotion, product, and distribution - create value and are recognized on the operations income statement as expenses, pricing is the organization's tool to create value, and it directly affects the revenue section of the income statement. Pricing is actually the easiest of the marketing mix components to change or adjust and again, has that direct link to revenue. In the twenty-first century marketplace, a great deal of effort must go into the formulation of pricing strategies. The restaurant operation must always remember that every product and service has two valuations - the one created by the organization and the value placed on the operations offerings by the actual consumers. If the respective definitions of value differs to some extreme based on cost, or some other circumstance that adjusts the consumers opinion of worth, then the customers view and support for the operation, and thus profitability, can become problematic.

Factors That Affect Pricing Decisions

The pricing decision has historically been a critical component of the marketing mix and the positioning of a product or service. Pricing is a continual process that requires a firm understanding of the market and its environments. In the twenty-first century, the dynamic nature of any marketplace has heightened rather than subsided which creates formidable challenges for even the most

experienced managers. Therefore, the best tactic is to pursue a systematic approach to pricing that includes establishing pricing objectives consistent with the overall objectives of the firm, assessing consumer price sensitivity, and monitoring the external environment. The days of economic consistency are past.

Pricing Objectives

While the possible pricing objectives are numerous, they usually fall into four overarching categories based on an organization's goals related to: financial performance, amount of volume, competition, and desired image. All pricing objectives should closely relate to the company's organizational objectives. Thus, pricing, in many ways, is a large part of the means to the end.

Financial performance objectives

These objectives focus on financial areas of the restaurant operation such as the company's level of profitability, desired rates of return on sales and equity, and cash flow. Most large companies continually monitor these performance measures and, over time, find it prudent to use these measures as benchmarks or objectives. The closer one observes performance measures, the more clearly they can see the impact of price on financial performance outcomes.

Volume objectives

These objectives focus on sales and market share. These measures can be based either on the number of units sold or on the dollar amount of the units sold. The sales measure looks at the firm in term s of individual accountability, while the market share views the company relative to the competition. Volume objectives are particularly common in the early stages of the product life cycle, when companies are willing to forgo profits in exchange for building long-term sales and market share. It would also be wise to see that price competition stays strong in the maturity stage in an attempt to hold market share.

Competition objectives

Competition objectives focus on the nature of the competitive environment. A firm may want to maintain competitive similarity with the market leader, widen the gap between itself and market followers, or simply survive. If strong competitive forces or economies of scale are at play. There is typically a great deal of head-to-head competition in the hospitality and tourism industry. A change in price by one organization in the market generally sees reciprocation by other organizations in the marketplace.

Achieving image objectives

These objectives focus on the organization's overall positioning strategy. Often, a restaurant operation's position in the market is a direct result of its 'price-quality' relationship as perceived by consumers. Price is the main segmentation factor useful to the restaurant to distinguish quick service (QSR), casual, upscale, and luxury categories.

Consumer Reaction to Price

An important moderating factor in setting prices is ‘consumer price sensitivity’, or how consumers react to changes in price. There are numerous ‘situation’ factors affecting consumer price sensitivity, and these factors can actually vary from one purchase decision to another. For example, a married couple with children may be less price-sensitive when choosing a restaurant for a special occasion than they would be if they were having a normal meal after work. Some of the more common perceptions affecting consumer price sensitivity follow.

The price-quality connection

In many situations, consumers use price as an indicator of a product's quality, especially when they do not have much experience with the product category. In such cases, consumers be less sensitive to a product's price to the extent that they believe higher prices signify higher quality. An example would be travelers who often use price as a gauge of quality because they lack familiarity with the travel products in a different city. This pertains to all components of the travel product, such as hotels, restaurants, car rentals, and tourist attractions. This lack of information is one of the main reasons that consumers would use price as a signal of quality, along with the perceived risk of making a bad choice and the belief that quality differences exist between brands. Pricing perceptions related to the trading area is an important consideration.

Unique- value relationship

Consumers will be less price-sensitive when a product stays unique and does not have close substitutes. If a firm successfully differentiates its products and services from those of its competition, it can charge a higher price. Consumers must remain aware of the differentiation and convinced of its value in order to pay the higher price. In essence, the organization's strategy is to reduce the presence of substitutes in the mind of consumers, thereby eliminating the consumer's reference value for the product. Many fine-dining restaurants use this approach and differentiate themselves on attributes such as the chef, the atmosphere, and menu.

How customers see substitutes

Customers will become more price sensitive when comparing a product's higher price with the lower prices of substitutes for that product. The prices for substitutes help consumers' forma reference price, or a reasonable price range for the product. The restaurant operator should always be aware of the number of substitutes that consumers are aware of for different dining options. Substitutes tend to put downward pressure on price resulting in a relatively narrow acceptable range of prices for each different type of restaurant category. As such, price differentials were instrumental in creating the different restaurant categories so it is not surprising that there is little significant price difference between products in quick=service, casual and fine-dining categories.

When comparisons are difficult

While consumers may be aware of competitive substitutes, at times, the differences between competitors can become difficult to discern. At this point, consumers tend to be less concerned with price differentials. Thus, when it becomes harder for consumers to compare different brands price sensitivity goes down. Therefore, many organizations try to differentiate themselves from their competition on those attributes that are historically difficult for customer comparisons. As an example, restaurants may serve food and drink in different quantities and packaged configurations from their competition, to make direct comparisons more difficult. In general, the competitive winner will typically be the strongest brand. Rather than spend the time and effort t make comparisons, many consumers are content simply choosing a brand that they perceive as satisfactory. Franchise operations are strong beneficiaries of this consumer action because they focus on providing consistent products and services under a recognizable brand name. Even though consumers have avoided direct comparisons and not familiarized themselves with all of the alternatives, consumers still feel safe in choosing one of these well-known brands.

Shared cost

Consumers are generally less concerned with price if another organization or individual is sharing in the cost of a product. Typically, the smaller the portion of the price paid by the consumer, the less concerned the consumer will be about price. This sharing could be in the form of a tax deduction, a business reimbursement, or some type of sales promotion such as a coupon or a rebate. When business travelers eat at restaurants, they tend to be less concerned about price because their organizations' pay for most of their travel expenses. A usual tactic for hospitality organizations is to charge higher relative prices for their products that target business companies. The exception would be an organization that targets business travelers with lower prices to obtain a larger portion of that potential revenue segment.

Income and price concern

As a rule of thumb, consumers tend to be more concerned with price in direct relation to the amount of the total expenditure. This amount is measurable in terms of the individual purchase, or as a percentage of income. For instance, a consumer purchasing a vacation package for $5,000 will be more sensitive to the cost of the package that the price of a meal in a restaurant. The cost of the vacation is a relatively large travel expenditure, whereas the cost of a meal in small in comparison. However, a consumer with an income of $500,000 a year will be less concerned about the cost of the vacation that the consumer who earns $50,000 per year. Further, consumers with higher incomes tend to place a greater value on their time and may decide to accept higher prices without evaluating alternative products.

The value of meal components

A product may represent only one portion of the total desired benefit. Consumers tend to evaluate the desired end benefit of their purchase and their price concerns for something that contributes to that end benefit. Specifically, in the restaurant industry, consumers are more price conscious when the cost of component (say an appetizer or dessert), represents a larger portion of the total cost than they perceive is fair. For example, while $20 might be acceptable for a pasta entree, $7.95 for onion rings and $9 for

a slice of chocolate cake may appear high given the cost of an onion and cake mix. Said differently, although the restaurant operator has justification for charging certain prices, the consumer is under no obligation to agree with a restaurant's pricing structure. Income is an important consideration regarding price and end benefits from the consumers' perspective. The use of packages, or bundles, by resorts and restaurants in tourist destinations is an attempt to pair the end benefits desired by consumers with a high perception of value.

The Consumers' Environment

Environmental factors drive many consumer-pricing decisions over which they, or the restaurant, have little control. Restaurant operators' must stay abreast of existing and developing events and situations pertinent to the consumers in their marketplace. While these events generally uncontrollable by either consumer or restaurant operator, such events can nonetheless affect pricing decisions because they affect an organization's costs, the demand for its products, and the competition. The components of the external environment would include the economy environment, the social changes, the governmental issues, technological advances, and the competition.

Economic factors

Constant changes occur in the state of the economy and it is measurable by indicators such as business growth, inflation, consumer spending, unemployment rates, and interest rates. If the organization is to compete and earn an acceptable profit, their pricing strategies should reflect changes in the economy. Organizations that compete in international markets must consider the state of the economy in the foreign markets as well as the domestic markets. On the local level, many items sold as part of the product mix are international in origin. Food products from various nations find their way into even local restaurants and wine from different parts of the world are now common. In each case, exchange rates and economic climates come into play. Foreign exchange rates can affect an organization's income statement drastically and influence the future of the firm. Prices change in accordance with changes in consumer income, resulting spending patterns, as well as with variations in the organizations product costs resulting from changes in the domestic environment (possibly a drought), or in foreign markets (warring factions, religious ideology, transportation costs, and so forth).

Consumer preferences - social change

Consumers’ tastes often change over time and organizations that do not adapt find it hard to survive in the marketplace. On a broad scale, changes in cultures and sub-cultures throughout the world are affecting many societies. The natural tendencies of consumers are not the same. Different cultures have different spending patterns and saving practices. For instance, many Asians tend t same more of their incomes than other nationalities do, but they also tend to purchase name brands that are associated with high quality. As such, Asians are more concerned with quality than price. Further, as cultures, come together, they influence the eating habits of others. Consumers in the United States are eating more sushi and drinking more tea than in the past. Culture now fuse in many more ways than before.

Political aspects - local to global

Each level of government can have a highly significant impact on the operations of hospitality and tourism organizations throughout the country and beyond. The effects of a change in the minimum wage could touch the cost structure in virtually all areas of a restaurant operation due to the labor-intense nature of the industry - and its suppliers. Changes in tax laws related to business expenses could negatively affect the demand in restaurants. Restaurant management must consider the political environment and possible changes that may result from new and changing laws when menu pricing is under consideration.

In tourist locales such as New Orleans and Las Vegas, an increase in city amusement taxes could easily have a detrimental effect on the restaurant environment as cost become too severe for travelers - and locals cannot afford to purchase in that trading area. A government's taxing authority is by no means the limit in terms of potential harms that could occur as the result of political decision-making. In addition, governments impose many fees on businesses, and organizations operation in international markets must contend with still additional fees, tariffs, and operation costs. On the other hand, some cities are quite sensitive to the needs of the hospitality industry and attempt to ameliorate market conditions where possible. Pricing must absorb and move beyond such costs and expenses.

Advancing technology

While the pace of changes appears to move faster and faster each day, restaurant operations must constantly be concerned with keeping up not only with advances in technology, but also with how such advances could be utilized in the operation to improve products and services, as well as an operation's competitive edge. Many new technologies designed for the hospitality and tourism field intend to improve operational efficiency and thereby reduce cost factors. For example, with the advent of the new hand-held terminals to place orders, servers no longer need to enter the kitchen or move to a stationary terminal in another location. These new point-of-sale (POS) systems also enable organizations' to track costs and demand for particular food items. This type of information can be invaluable in both setting prices and in gauging the customer reactions and resulting purchase decisions.

Competitive reactions

Organizations must stay abreast of their competitions' impressions, anticipated changes, and moves toward innovation. New organizations entering the market will naturally change the overall supply of the trading area, thereby changing the market structure and enacting downward pressure on market prices. Competitors will also engage in promotional consumers' perceptions of value. Campaigns offering price discounts or free merchandise that will affect consumers' perceptions of value. Short-term price wars in the quest for additional market share are normal in the restaurant industry at all business segment levels.

Price as Perceived value

What customers can afford

Before setting prices for individual menu items, catering events, or other merchandise, gather as much information as possible to determine how much your typical customer is most likely to spend when visiting your restaurant. Said differently, what is the most likely average check you can expect to obtain, given the type of business you have and the customers you service? This type of information comes about from past sales records if the restaurant is part of an existing operation, or, if opening a new business, you can get a good idea of this dollar amount by reviewing your initial competitor analysis of the trading area. Keep in mind that your menu is generally your only means to cover your expenses and produce a profit. Of course, you would like for pricing to be as high as possible but the need for revenue must always maintain a balance with the consumers' ability to spend. This is one of the reasons we begin any project by scrutinizing the city. If consumer income is low, their ability to spend is equally low and thus decisions to spend become based on 'need' to buy versus 'nice' to buy. Table 1 above provides pricing options to consider.

If you determine that the average lunch check is $10; that is, you anticipate that each guest will spend $10 per lunch visit. If that is the case, you need to determine the best way to arrive at a $10 lunch meal. For instance, if you develop and price entrees at about $9.95, your typical guest would be unlikely to order anything else, such as a beverage, appetizer, or dessert. At that point, in the mind of the consumer, you are 'too expensive.' Always remember that consumers tend to use phrasing that can be too extreme - and worse, their friends trust their opinion. But, if you price entrees at $6.95 to $7.95, the guest will more than likely order a beverage, a dessert 9 possibly shared with someone), or some other item. Consumers naturally perceive a greater value when they can purchase several products for that $10 rather than only one. It is important to know and understand your customers as much as possible because, as this scenario would tend to indicate, the process of developing prices, as in other areas of your business, requires that you think like your typical guest.

Some operators prefer ` a la carte' pricing while others prefer to use a bundling approach as usually price everything. Fine-dining operations and cafeterias usually price everything ` a la carte. On the other hand, restaurant categories such as quick -service, family-style, and casual-dining restaurants typically offer some sort of bundling. As a rule of thumb, businesses with lower average checks and more value-conscious customers should offer guests some bundling opportunities.

Table 1: Pricing Objectives & Typical Actions to Achieve Them

Objective	Possible Action
Survival	Adjust price levels so that the operation can increase sales volume to match organizational expenses both fixed and variable.
Profit	Identify price and cost levels that enable the operation to maximize profit.
Return On Investment	Identify price levels that enable the operation to yield a determined return on the money invested (ROI) in the operation.
Market Share	Adjust price levels so that the operation can maintain or increase sales relative to competitors' sales.
Cash Flow	Set price levels to encourage rapid sales.
Status Quo	Identify price levels that help stabilize product demand and sales.
Product Quality	Set prices to recover research and development expenditures and establish high-quality image.

In a fine-dining restaurant, consumers are accustomed to paying individually for every little thing they order, even for such items as bread and water. Cafeteria patrons are also accustomed to this form of pricing structure. ` A la carte' pricing tends to work well in these situations. In quick-service operations, however, offerings such as 'value meals' are very important; consumers who frequent these operations expect them. Quick service, family-style, and casual-dining restaurants typically offer a combination of ` a la carte and bundling pricing methods. They also may have a few all-you-can eat, or free soft drink, specials.

Value is often in the eye of the beholder. You need to maintain a firm handle on your clientele's value perceptions, although it is not always easy and requires constant vigilance. Although you feel that you do understand the needs and concerns or your guests, everything can easily change tomorrow; you need to focus on this issue constantly.

While 'value' is a theme that spans all areas of marketing, it closely relates to quality, price, and service. There is a direct relationship between quality and price; guests expect higher quality to accompany a higher price. The same relationship exists between service and price; more service and better service costs more. The trick is to find out how far guests are willing to go. What appeals to them? How much will they pay for added benefits? What are their priorities? Although the list seems endless, eventually the operation will develop a feel for what its guests want. Then it is up to the operator to monitor their needs and modify the restaurant's pricing strategy accordingly.

Pricing Daily Specials

Many restaurants consider it wise to offer one or two specials for each part of the day. This is a good way to provide variety to guests without moving to a complete menu revision. Ordinarily, you would price these menu items the same way you would any other regular menu item. Typically, you do not want to price them any lower. An operator may get a good deal on a food product, have leftovers to utilize, or attempt to test future menu products at an inviting price to obtain feedback. In these cases, a restaurant operator may choose to run a special with a bargain price. However, be careful with this strategy because it can reduce your bottom line. If customers who normally purchase more expensive menu item suddenly take the bargain special, the gross profit (in the way of contribution margin) for those guests plunge.

On the other hand, if , say, you have very costly leftovers such as an expensive protein that is on the verge of losing its quality, cannibalization of the more expensive item may be acceptable on occasion - preferably not on a consistent basis which would tend to indicate other difficulties. Although you may reduce your contribution margin if a guest is distracted from an expensive menu item to the daily special, you might make up the difference by avoiding the need to toss out some expensive food.

Pricing All-you-can-eat Menu Items

Should you offer one or two all-you-can-eat (or drink) options on the menu, they should be priced in the same way as any other item on your regular menu. The primary difference is that, when costing out these menu items, 'average' cost figures are more effective in lieu of exact cost figures. With the initial offered of the item, the operator will have to estimate the average cost. Since

this can be a bit tricky, it is best to offer only a few of these many items and only those that are inexpensive (such as soft drinks) and have the potential to draw customers who are likely to buy other things from your operation.

Once you have introduced one of these items as part of your regular menu, keep close track of how much of the food or beverage you use in the first week or two. This will help an operator to gather enough cost and usage information to adjust the menu prices, if necessary, to bring them into line with your pricing requirements. Take a beginning inventory, add in your purchases of the relevant ingredients during this initial period, and then subtract the ending inventory from this amount. This will give you the actual amount of food and beverage used during this timeframe. Cost this out and divide the total cost by the number of guests who ordered this many item, which will give you the average cost per guest. While this cost figure is not as accurate as you might like it to be, it is better than guessing.

Should you prefer a less formal approach, contact the purveyor of the particular food or beverage item and asked for a best guesstimate on cost factors. For instance, the soft drink vendor who services many restaurant outlets probably knows of a few restaurants that offer similar menu items and might be willing to share product cost and/or product usage information with your operation.

If you offer an all-you-can-eat buffet, salad bar, and/or breakfast bar option along with a regular menu, use the same approach to calculate the average cost per guest. This can be a little trickier when doing calculations for several such items, because, typically, there is considerably more waste. Options such as free soft-drink refills, or all-you-can-eat pasta or fried foods would allow you more control. Food bars require special handling; you have to keep up their appearance, you have to rotate the items, and you usually discard things now and then that might still be edible but have passed their peak of quality or food safety limits.

Merchandise Pricing

Logo merchandise can generate extra revenue, most of which is pure profit. If you are a unique or well-known restaurant such as the Hard Rock Cafe, you may actually generate more sales and revenue selling T-shirts than by selling menu items.

Risks involved

Selling merchandise is not risk free. Two of the main drawbacks are the up-front charges the operation must pay to develop the products and the large minimum quantity purchase requirements and storage costs to get the best possible deals. For example, the logo-imprinted bottled waters you see for $2.95 each may cost you less than 30 cents per bottle. However, you have to pay several hundred to several thousand dollars up front to develop the proprietary label. In addition, you are usually required to purchase several pallets, each one containing several cases, to get the 30-cent-per-bottle purchase price.

If your operation can absorb the up-front charges and the large amount and variety of inventories you must have on hand, consider buying and selling various kinds of merchandise. Guests love logo products – but it is not unusual for them to get upset if you run out of a particular item that they made a special trip to obtain. Further, other potential customers may see the logo are decide to try your concept. Continuous sight leads to familiarity in the eye of the consumer.

There are two typical ways to price these items. One is to include the product's cost when costing out a food or beverage menu item. For instance, use a very high multiple price for specialty drinks if you let guests keep the glasses or cups. The other way is to price them separately, after seeking the vendor's guidance. Vendors often have a sixth sense when it comes to pricing such merchandise. Over time, they have learned what customers are willing to pay. Oddly enough, they also seem to know instinctively when an operator is becoming too greedy.

Sales Promotion Pricing

Many restaurants prefer to offer pricing specials in order to generate more customer traffic. The idea is to get people to visit during normally slow periods or draw customers who will buy other, more profitable things. It can also be an effective strategy to help spread out your fixed costs over a wider customer base.

Discount pricing

Two-for-one sales, early-bird specials, happy hours, and other forms of discount pricing are usually attempts to bolster business during times when you are open but have few customers (such as Monday evenings or from 4 p.m. to 6 p.m. on weekdays). If you

can get guests interested in one of these deals, then you have a chance to sell them something else. As such, discount pricing is an additional tool for value creation.

The popularity of discount pricing among restaurant operators is controversial. In some competitive environments, it may be the preferred pricing method. However, even though it may generate customer traffic, what type of custo0mer are you getting? This become an important question in direct relation to overall profitability. Are you getting the customers with limited financial resources who are looking just for the deal and nothing else? Are these customers more problematic than the amount they spend in your operation? Do they irritate your service staff, by tipping only on the discounted dollar amount instead of the full value? Do they irritate your steady customer base? Ultimately, the deal-breaking question surfaces: Do they harm your reputation in any way?

In many instances, customers who are continuously attracted to your operation solely for the special deal are generally of the mindset that they are paying what the product is worth and that all the other guests are overpaying. Furthermore, these customers are not loyal to your operation, nor can you expect to build loyalty among them. They are price-sensitive and therefore loyal only to special deals - and thus to whomever offers it.

Discount pricing can have many ramifications - one good, and the rest less so. If your restaurant starts down that road do it with your eyes wide open and be ready to commit to this strategy for the long haul. Once a patron becomes accustomed to the discount price, from a psychological standpoint, this guest will never pay any more than that. The guest will visit you only when you are offering discounts. If you try to reverse the discount strategy, your business will drop. Once you get involved with discounting, the basic human nature of consumers makes it hard to turn back guests using coupons or visiting only during off-price times can also create security problems. If their coupons have expired or if the happy hour ends just as they come in the door, they will not be happy. They can become aggressive, want to argue, and put you on the defensive. Since it is never appropriate to argue with a guest, you might be force to cave in and give them the discounted prices. Sooner, or later, a coupon's expiration date and the happy-hour timeframe may become meaningless.

Marginal pricing

If you feel the need to offer pricing promotions, you need to decide first on the items to promote, as well as the times during which the promotion prices are valid. You could then use the 'marginal' pricing method allowing you to earn a small profit based on the cost of the product and other related variables expenses, plus a small profit markup.

This technique requires the operator to determine the cost the food or beverage product plus the cost of any other variable expense associated with selling that menu item. These other variable costs can take some thought and are not always easy to compute since not many of the associated costs, like the labor or utility cost per item, are readily available. Still, these costs are manageable with a little thought, for example, if you already have staff in place; the labor cost would be ‘fixed’ rather than ‘variable’ for the purposes of the calculation.

To arrive at this calculation, a good rule of thumb to use is to cost out the menu item and add a small markup to cover other variable costs needed to prepare and serve it. For instance, if you cost out a pasta dish at $3, add at least ten percent, giving you a total variable cost of $3.30. This out-of-pocket cost is the lowest price you should charge if you expect to break even on that menu item. The price to charge the customer should be somewhere between $3.30 and what the price would be if you used the normal price structure. If the normal selling price for the menu item is $12 then the discounted price to your customers should be somewhere between $3.30 and $12, say $9. The customer receives a discount and your operation remains profitable. You could also occasionally utilize a two-for-one deal and effectively price the item at $6.

The idea is to price the promotions in such a way that you never go below your variable costs. It is one thing to offer a discounted price, on which you make a small profit; it is something else to offer discounts for which you actually have an out-of-pocket expense. If the operation makes a small profit, there should also be something built in to the operational scheme that can be used to help defray the large amount of fixed costs all restaurants will typically experience.

If everything works to plan, the operation's overall income statement will show a bit more profit. The fact that you are creating extra business even though it is not as profitable as one would like it to be, nevertheless give the operator an additional modest income stream. The key word is *extra* business. If your pricing promotions merely reward existing customers who would normally pay the full price, your operation could be heading for trouble. Should you suspect this to be happening, the promotions should be

stopped (if you can), go back to the drawing board, and research other possibilities that do not result encourage existing customers to engage in lower spending patterns.

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11.2: Other pricing concerns

As previously stated, pricing should create value in the minds of consumers. It should also be complimentary to other aspects of the restaurant operation. Pricing of one form of product or service should not result in a competitive environment for all products and services. Pricing should channel consumers and aid their decision process in a fruitful way for the restaurant. A few other concerns need attention.

Daily specials

If you offer daily specials that servers recite at tableside, make sure to present them in an enthusiastic way and tell guests the prices. You do not want them to be surprised when the check arrives at the table. Another important reason for making the customer clear about cost is the fact that many customers budget their disposable income. If they are uncertain regarding the cost of the special, they may shy away from it when in fact they could have afforded that meal. Always give customers the best chances to make a purchase.

Side Items

If your operation offers a menu item that in most restaurants customarily included a side dish (such as a hamburger and a side of fries), but you want to price the side dish separately, make sure that the servers bring this to the guests' attention. For example, train servers to suggestive sell the side item in a way that helps the customer understand that the dish is not free but it is still a reasonable purchase. For example, 'can I bring a basket of fries for the table to share? It would only cost $2.50’.

Menu price spread

For every menu item category listed on your menu, attempt to keep a reasonable spread between the highest and the lowest prices. Maintain a spread of no more than 100 percent. If, for example, the lowest-priced appetizer is $4.95, the highest-priced one should be no more than $9.95. If the operator wanted to sell an appetizer that has to have pricing a great deal higher than $9.95, try to reduce its cost so that you can add it to the menu without throwing the category off balance and possibly scaring away customers. If that is not possible, list it on the menu at 'market price.' This would allow the restaurant to serve it, but without advertising the price.

Items for take-out

If some of the operation's regular items are popular with take-out customers, it might be necessary to raise the prices a bit on these items. If you operate a quick-service operation, where take-out and drive-through business is standard, then the regular menu prices already consider this. However, if you have a table service restaurant, it can be more costly to offer take-out, especially for items requiring expensive packaging. The expense of a phone ordering system may also need to factor into the cost, and there may be extra labor involved.

On the other hand, take-out customers do not occupy tables in your restaurant, thereby allowing you to increase your guest count without substantial change in your operating costs and procedures. The key is to have a good idea of all costs involved to calculate appropriate prices. If necessary, a simple action would be to print separate take-out menus to avoid confusion and to inform customers of any take-out item limitations.

Offering delivery service

Delivery service is another way of increasing guest counts, but unless it is traditional for your operation to offer this amenity, you should approach this decision with caution. Delivery can be a very unpredictable business. Staffing can be arduous, insurance costs can be exorbitant, the operation must usually establish a minimum dollar figure per order, and it may well be necessary to restrict the delivery area (larger delivery area - greater number of delivery personnel needed).

Another important issue affected by delivery is quality. It can be very difficult to maintain product quality. This might put restrictions on the number and types of items you deliver. Quality control is even more troublesome if you outsource the delivery function to an independent 'waiter on wheels' type of operation. If the operator can control such risks, there are ample rewards, as these types of guests are willing to pay a premium for the service, in addition to tipping the delivery personnel. Your rewards will increase even more if you offer guaranteed delivery time or else the cost receives a discount. Consumers love this amenity, however, any form of 'guaranteed' delivery will most certainly drastically increase your delivery insurance expenses - if not completely

eliminate insurance protection. Nonetheless, speed of delivery is a primary consideration in the consumer's decision process. The operator would best benefit from by tighter delivery configurations and impact delivery times using shorter distances. To be beneficial to all interests, manageability is key.

Live Entertainment

If your restaurant operation offers entertainment on occasion, there may a need to institute a cover charge. This is not necessary if all you offer is prerecorded background music. But if live music is featured on certain nights of the week, it is necessary to earn enough in cover charges to pay for the band, defray related expenses 9 such as extra security and complimentary food and drinks), and generate a profit.

The easiest way to calculate a cover charge is to add up all relevant expenses and divide by the expected number of guests. In conjunction with this, you could capture this cover charge by establishing a minimum purchase per guest to five you the dollars you need to generate a sufficient profit. If, for instance, the entertainment expense for one night is $1000, and you expect to serve 250 guests. A straight cover charge would be $4 per guest just to break even, and more than that amount per guest to generate a modest profit for the operation. This is another possible option. In lieu of a cover charge, you might require guests to purchase a minimum of two drinks at slightly higher prices per drink. This strategy has higher profit potential because some guests will order more than the minimum number of drinks.

An appropriate corkage fee

Some guests enjoy bringing their own beverages (usually wines) with them when they visit a restaurant. If the commission in your trading area grants patrons this option, you need to decide whether you will allow your customers this privilege. If you do, you must determine the fee you would charge guests for handling the product, providing the drink setups, and generating a profit.

This can be a sensitive issue with patrons. On the one hand, guests know that they will have to pay something. On the other hand, guests who bring their own alcoholic beverages tend to be quite sophisticated and so are very aware of what a standard corkage fee should be. Thus, if you charge a corkage fee, research what other restaurants charge. If you are in that range, you run the risk of alienating these guests.

Realistically, corkage fees should be reasonable. The operator must hope that by allowing guests to show off their personal wine cellars, they will reciprocate and purchase highly profitable dishes from your restaurant. With that in mind, if many of your guests bring their own wines, another option is to completely eliminate the corkage fee and increase the multiples you use to price the food menu items. A slightly higher food menu price is more palatable to such guests than a corkage fee. This is one of those situations where 'it's the principle' that rules the day. Consumers will pay for food, but prefer not to pay for wine glasses when they provide the wine - so make your restaurant a value in terms of convenience as well as preference options for alcoholic beverages.

Demand-based Pricing in Restaurants

Restaurants use differing price structures over different meal periods. The most common price differentiation is lunch and dinner pricing. Special events and holidays can also utilize different pricing structures. Another important factor is ‘duration control’. How long does the operation want customers to remain in the restaurant? This is an important issue if it is necessary to ‘turn tables’ based on space or volume considerations. Kimes (2000) discussed demand based pricing, or fences, and customer perception in a study published in the Cornell Hotel and Restaurant Quarterly. While demand-based pricing is still new to the restaurant industry, this pricing strategy bares mention of the various ways to consider this form of pricing.

Price fencing

Price fences are a mechanism used to maximize profit potential based on demand factors and the aspect of controlling the duration of the customers’ restaurant experience. ‘Fences’ are designed to allow customers to segment themselves based on their willingness to pay, their behavior, and their needs.

Price fences offer consumers discounted prices but impose rules and regulations at every level of discount to balance the perceived value for different market segments, and to avoid automatically offering discounts to customers who are willing to pay a higher price. Fences may include requirements for advance purchase, cancellation and change restrictions, refund penalties, time-of-use restrictions, and the requirements for minimum purchase. Fences need to be logical, transparent, upfront, and fixed so that customers cannot circumvent them thus maintaining the perception of fairness.

Duration control

Some restaurant managers try to manage duration by changing their service delivery e.g., speeding up the delivery process. For example, the ability to enact a certain amount of duration control is important to a popular operation with limited dining capability. It can also be an important element to use in staying off growing pains – growing in an initial location rather than having to expand to another site prematurely.

Demand-based Pricing

Most restaurants use demand based pricing such as happy hours, and early bird specials but they are reluctant to vary prices by time of day, day of week, or table location. The main reason – customers refuse to patronize companies that they perceive as unfair. Several demand-based approaches are possible:

- Differential lunch vs. dinner pricing,
- Differential weekday vs. weekend pricing
- Coupon pricing (including restrictions)
- Table-location pricing (e.g., charging extra for a table with a view).

Some important points to consider:

- Fair behavior on the part of operators is instrumental to the maximization of their long-term profits.
- Consumers may perceive “new” higher regular prices as less fair during high demand periods.
- Consumers normally adhere to the concept of dual entitlement – they are entitled to reasonable prices and firms are entitled to a reasonable profit.

There are two types of rate fences available to the restauranteur: physical and nonphysical. **Physical rate fences** include the restaurant location; furnishings; the presence of amenities, or a spectacular view to name a few. Examples in a restaurant setting are table location, tables with a scenic view, or tables in a private room with fresh cut flowers as exemplars.

Non-physical rate fences include the day of the week (weekend dinners might cost more or meals consumed before 6pm might cost less). Another involves ‘transaction characteristics’ (customers who make a reservation over a month in advance might pay less). Buyer characteristics provide another example - frequent customers might pay less or get free extras) and ‘controlled availability’ (customers with coupons will pay less).

Framing of price differences

Presentations that emphasize customer gains are preferable to frames that emphasize customer losses (a discount vs. a surcharge – reduced prices have a more favorable perception). Recent study results:

- Lunch - vs. - Dinner pricing viewed as reasonable and fair
- Weekend -vs. - Weekday price differences viewed acceptable if framed correctly.
- Time-of-day pricing viewed as fair if framed as a discount during lower demand hours.
- Two-for-one coupons viewed as very fair and no significant difference with or without restrictions.
- Table location pricing viewed as moderately acceptable.

Overall, the operator must always take to utilize demand-based pricing effectively with the following suggestions. Create a revenue management team to predict changes in demand for upcoming periods. Any special events? Weather implications? Other changes in traffic patterns? Reservation build-up compared to similar periods. Feature menu items based on predicted demand. Frame price fences as discounts rather than surcharges. Frame price surcharges as addition value provided to the customer.

Menu Pricing

Determining appropriate menu prices centers on the targeted customer, our competitors, demand-based considerations, psychological considerations, product quality, product quantity, labor requirements and the menu mix.

Procedures:

Standardized Recipes

a. Quality of ingredients

b. Preparation methods
c. Portions/size
d. Yield
e. Prep time
f. Cook time
g. Presentation of final product (plate, hotel pan, or nontraditional presentation platform).
h. Batch recipes
i. Number of items needed on inventory based on variety of menu item selection (typical 1,500 items to execute a menu).
j. Overall menu size: How many choices? Typical dinner menu 4-7 appetizers and 15-18 entrees.
k. What about condiments? Average plate costs (i.e. vegetable, starch, soup or salad)?

Menu Pricing Methods of mark-up and rationale

Mark-up methods

Food Cost Driven (Sales Price X Food Cost %) = Cost of Food (Most common)

- Food cost percentage varies by meal period, course type, business segment, etc.
- Some firms use this method to create an advantage regarding bottle wine sales.
- It can also be useable for food sales as a quasi-demand based sales method.

Prime Costs Method - an estimate of all direct variable costs.

- Food and Labor associated with the item. What labor is included?

Contribution Margin - A general policy of a minimum contribution in $ per menu item sold on the menu to cover fixed costs, variable costs, and profit.

Many chain restaurants have adopted this approach for pricing appetizers.
Assumes menu item courses take up valuable seat hours and each course should contribute an acceptable contribution margin.

This method is similar to a contribution margin except it is also usable as a way to provide a higher value for the customer, increase total sales and still provide an acceptable contribution. Usually a percentage times the food cost.

Labor requirements

Make or buy decisions: Should this item be prepared from scratch or purchased partially, or wholly prefabricated? Will you use sous vide packaging? Will you serve prepared vegetables, sauces, soups, baked goods, etc.? When pricing food items, was ‘preparation time’ taken into account for the final pricing?

Are there additional service requirements associated with this item?

- Tableside cooking
- Demonstration cooking
- Overall service levels
- Training of staff - front and back-of-the-house on preparation and service of this item.

Product availability

- Is the item regularly obtainable?
- How much does the price fluctuate?
- Any additional expenses associated with it (shipping, minimum orders, purchasing staff time, waste or utilization of by-products, etc.)?
- How often will we change the menu (seasonally, weekly, daily, annually, etc.)?

Product mix or menu mix

- Percentage of sales in each category (appetizers, entrees, desserts, beverages, etc.)?
- Within each menu item category, how many of each item do we anticipate selling (popularity index)?

Menu Pre-cost

- The cost of each item based on the standardized recipe.
- Percentage of sales for each item or a calculation of the number of each item sold for a given level of sales volume.

Other pricing considerations

- Price elasticity or inelasticity (product affordability)
- Psychological pricing strategies: odd number pricing, even number pricing, cultural differences, value v. quality indicators, unlucky numbers, etc.
- Pricing when the customer has control over portions: buffets, salad bars, “all you can eat” items, condiments, etc. Generally, the pricing of these items uses an average inventory method.
- Pricing related to competitors: positioning strategy
- Differentiation premium pricing
- Demand-based pricing
    - Fences – restrictions or additional requirements to receive special pricing
    - Differential pricing based on demand during day of the week, meal period or physical location (i.e. “chef’s table”, etc.).

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11.3: Arriving at an item price

The old school menu pricing strategy was simple: you divided the cost of the ingredients by .33 and presto, you had your selling price. Times have changed and menu pricing can no longer be calculated using food cost alone. Numerous restaurants with low food cost percentages have gone out of business because the owners never considered their other expenses. There are no “guaranteed” ways to price your menu and assure profits, but there are formulas and strategies that you can use that will assist you. The method discussed here, takes into consideration not only your cost of food, but also your other variable and fixed expenses.

Quick Review - Income Statement

The more comfortable and knowledgeable you are with the makeup of your business’ sales and expense figures, the easier it will be to develop a menu pricing strategy and calculate your prices. **Review a few definitions and terms associated with a typical income statement – and where you can obtain the information.**

Income Statement definitions and terms

Income Statement. Shows your sales, cost of goods, gross profit, expenses and profit for a given period of time.

Revenue. (also known as Sales) Money earned from sale of food, beverages and other merchandise.

Cost of Goods Sold. The price paid for the food, beverages and other merchandise.

Gross Profit. The difference between the revenue received from your sales and the cost paid for the products sold.

Expenses. The cost of products or services used in operating a business – variable or fixed.

Variable Expenses. Change based on the number of guests that visit your operation or the amount of your sales these costs.

Fixed Expenses. These are the costs that do NOT change based on the number of guests or the amount of sales.

Occupancy Cost. Costs associated with the actual occupation of your physical structure, including rent, real estate taxes, interest on mortgage, and depreciation of a purchased building or structure.

Operating Expenses. The expenses incurred in running your business. Does NOT include your cost of goods. Lines 13 through 23 represent examples of operating expenses.

Operating Income. The Total Gross Profit minus the Total Operating Expense. This is your income or revenue before interest and income tax, and before paying any return or dividend to investors.

Income Statement (example)

Year Ending 20__

	Revenue Sales		% of TR	Source
1	Food Sales	$1,000,000	74.07%	From POS
2	Beverage Sales	$300,000	22.22%	From POS
3	Other Sales	$50,000	3.70%	From POS
4	*Total Revenue (Sales)*	$1,350,000	100.00%	Total of lines 1 to 3
	Costs of Goods Sold			
5	Food Cost	$330,000	33.00%	From Invoices
6	Beverage. Cost	$75,000	25.00%	From Invoices
7	Other Costs	$25,000	50.00%	From Invoices
8	*Total Cost of Goods*	$430,000	31.85%	Total of lines 5 - 8
	Gross Profit			
9	Food	$670,000	67.00%	Subtract line 5 from line 1
10	Beverages	$225,000	75.00%	Subtract line 6 from line 2
11	Other	$25,000	50.00%	Subtract line 7 from line 3
12	*Total Gross Profit*	$920,000	68.15%	Subtract line 8 from line 4
	Operating Expenses			
13	Salaries & Wages	$364,500	27.00%	From Payroll
14	Employee Benefits	$80,190	5.94%	From Invoices
15	Occupancy Cost	$180,000	13.33%	From Invoices
16	Music & Entertainment	$20,000	1.48%	From Invoices
17	Advertising & marketing	$25,000	1.85%	From Invoices
18	Utilities	$50,000	3.70%	From Invoices
19	Depreciation	$25,000	1.85%	From Invoices
20	General & Administrative	$12,000	0.89%	From Invoices
21	Repairs & Maintenance	$25,000	1.85%	From Invoices
22	Other expenses	$10,000	0.74%	From Invoices
23	*Total Operating Expense*	$791,690	58.64%	Total of lined 13 – 22
		$128,310	9.50%	Subtract line 23 from line 12

Developing a Pricing Strategy

You need to start with a few basic pieces of information. Foremost, you need to know the cost of goods for each of your menu items. Standardized recipes as the best means of knowing your food cost. If you have standardized recipes, you will have all your food costs available already. If your standardized recipe file is not up to date with your current product costs, you will need to update

your recipes. Include all of the items that are a part of the menu item's service. These might include bread and butter, side dishes, condiments and a salad. Keep in mind that it is better to over-estimate your costs rather than under estimate them.

Operating expenses	Total Exp.	Variable	%	Fixed	%
Salaries & Wages	$364,500	$175,000	48.01%	$189,500	51.99%
Employee Benefits & Taxes	$80,190	$50,000	62.35%	$30,190	37.65%
Occupancy Cost	$180,000	$25,000	13.89%	$155,000	86.11%
Music & Entertainment	$20,000		0.00%	$20,000	100.00%
Advertising & Marketing	$25,000		0.00%	$25,000	100.00%
Utilities	$50,000	$10,000	20.00%	$40,000	80.00%
Depreciation	$25,000		0.00%	$25,000	100.00%
General & Administrative	$12,000	$2,000	16.67%	$10,000	83.33%
Repairs & Maintenance	$25,000	$10,000	40.00%	$15,000	60.00%
Total Expenses	$781,690	$272,00	34.80%	$509,690	65.20%

	Example	Formula
Variable Expense %	35%	For every dollar in revenue, this expense goes to variable expenses
Fixed Expense %	65%	For every dollar in revenue, this expense goes to fixed expenses and profit

Many operations have computerized their inventory and linked them with their recipes to provide up to date cost information. If you have not done this, consider it. There are several good commercially available software products on the market, which, after the initial setup, make this task a breeze.

You will need to do an analysis of your sales and the current selling price of each menu item. Your POS system should be able to provide this easily. A simple income statement, like the one shown will provide you with the rest of the numbers you will need.

Calculations

You can do the math by hand or on a computer spread sheet such as Excel or Lotus 123 to make it easier.

Step 1: From your income statement, make a list of your Fixed Expenses and your Variable Expenses. This usually requires some "estimation." An expense item frequently fall into both categories

Step 2: Create a chart or spreadsheet similar to the one below. Begin the process by listing your menu items in column A. In column C, fill in your actual cost of the menu item from your recipe files. Columns D, E and F are formulas. Column D is calculates by dividing your item (recipe) cost by the selling price. Variable Expenses, column E, calculates by multiplying the selling price (column B) by the variable expense percentage calculated in Step 1. You calculate the Contribution to Fixed Expenses and Profit

(column F) by first adding together your item cost (column C) and your variable cost (column E) and then subtracting these costs from (column B) the selling price.

A	B	C	D	E	F
Menu Item Name	**Selling Price**	**Item Cost**	**Food Cost %**	**Variable Expenses**	**Contribution to Fixed Expenses & Profit**
	Your Choice	From Recipe File	B/C	Variable Expenses % X B	B-(C+E)
Pub Burger	$6.95	$1.47	21.15%	$2.43	$3.05
Taco Salad	$7.50	$1.95	26.00%	$2.63	$2.93
Grilled Salmon	$10.95	$2.85	26.03%	$3.83	$4.27
Chicken Sandwich	$7.95	$2.07	26.04%	$2.78	$3.10
Fajitas, Chicken	$9.95	$2.59	26.03%	$3.48	$3.88
Fajitas, Beef	$9.95	$2.59	26.03%	$3.48	$3.88
Fajitas, Vegetable	$9.95	$2.59	26.03%	$3.48	$3.88
Sirloin, 12 oz.	$16.95	$6.80	40.12%	$5.93	

Step 3: Now you are ready to assume some “what ifs?” with our menu prices. Start by entering your current menu prices in column ‘B’. Look at the results. Column ‘D’ shows the Food Cost Percentage of the item. Column ‘E’ represents the amount necessary to pay for all of the other variable expenses. The last column, ‘F’, shows the amount the menu price left to put towards your fixed expenses and profit.

By analyzing the effect of raising or lowering your selling price of items, you can get a good idea of where your prices need to be. Remember, this may or may not be the amount that your guests are willing to pay. The fact that you have justification for the price does not mean that your customers will feel the same.

As recent as ten or fifteen years ago changing your menu was a major undertaking for most operations, and cost a lot of money to accomplish. With today’s desktop publishing technology and some forethought, you can update your menu quickly and easily with a trip to your neighborhood copy center. You may even be able to do the job in-house. Now, the restauranteur can address seasonal availability, changes in wholesale pricing or transportation costs, or simply item updating efficiently.

Consider choosing a menu format that allows flexibility. A nice cover with a printed insert or a design that allows you to make changes by substituting single pages will allow you to change and “tweak” your menu pricing and items gradually. Instead of making dramatic price changes once or twice a year, your menu can be adjustable to reflect your actual costs. You can make price adjustments subtly, take advantage of fluctuating commodity prices by featuring high profit items and turn your menu into a sales and profit-making tool.

Purchasing Functions

Regardless of restaurant operation size, someone must perform a certain number of purchasing functions. **Purchasing functions** are the tasks buyers must perform in order to obtain the right products and services, at the right price and time, from the right vendors. The owner or manager usually does the best they can under the circumstances. In some cases, owners and managers delegate a portion of their responsibilities by letting a supplier or a salesperson perform some activities for them. However, owner-managers should determine their own requirements and not allow others to do this. I am not implying that something unfortunate will occur if they enlist the help of a friendly salesperson, but, realistically, they must understand that the salesperson will be prone to enhancing his or her self-interest. In addition, the sales person may not have the owner or manager’s intimate knowledge of the operation, its goals, and standards.

Buyers usually perform a number of functions common to all hospitality operations. One survey of purchasing agents uncovered the following key purchasing responsibilities: (1) determine when to order, (2) control inventory levels, (3) establish quality standards, (4) determine specifications, (5) obtain competitive bids, (6) investigate vendors, (7) arrange financial terms, (8) oversee delivery, (9) negotiate refunds, (10) handle adjustments, (11) arrange for storage.

A study of large foodservice operations indicate that the important purchasing functions center on elements that are not so different from a small restaurant operation. Small operations typically perform: (1) recipe development, (2) menu development, (3) specification writing, (4) approval of buying sources, (5) designation of approved brands, (6) supplier evaluation, (7) negotiation with suppliers, (8) change of suppliers, (9) change of brands, (10) substitution of approved items, (11) approval of new products, (12) invoice approval, (13) invoice payment, and (14) order placement with suppliers.

The follow charts indicate the most common purchasing functions performed by the restaurant owner or manager, or, the person they designate to accomplish these tasks. Generally, the operation will perform more efficiently if one person has the task of following purchasing issues especially in the areas of costing, approving suppliers, and searching for new or equivalent products at affordable prices, and inspecting and maintaining product quality and obtainability.

PREPURCHASE FUNCTIONS

1. Plan menus
2. Determine specifications of product quantities needed
3. Determine appropriate inventory levels
4. Determine appropriate order sizes
5. Prepare ordering documents

FORMAL PURCHASING

1. Contact vendors
2. Establish formal competitive bid process
3. Solicit competitive bids
4. Evaluate bids
5. Award contract to vendor
6. Receive shipment
7. Issue products to production and service departments
8. Monitor future contract performance
9. Evaluate and follow up on all purchasing functions

INFORMAL PURCHASING

1. Contact vendors
2. Obtain price quotes
3. Select vendor
4. Place order
5. Receive shipment
6. Issue products to production and service
7. Departments

Adapted from Food Purchasing Pointers for School Service

The restaurant operation has the choice of a ‘formal’ or ‘informal’ method of addressing the purchasing function. Remember that proper purchasing helps to eliminate waste, improve efficiency, and insure a quality product reaches the consumer. In addition, care and scrutiny regarding the purchasing function goes a long way in maintaining profitability.

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11.4: Classroom preparation assignments

Pricing the Menu Exercise 11.4.1

1. Introductory paragraph
2. Standardized recipes
3. Method(s) of menu pricing'
4. Product mix
5. Product availability
6. Menu pre-cost

Pricing Example

Pricing Objectives

Our menu requires specialized research and equipment to execute. Therefore, while we want to make a profit, we have to try and recouping the costs first. We also want to be seen as high class, so we have to raise our prices a little. Overall, the menu is priced with a "Status Quo" objective in mind. On the other hand, some of our dishes are priced a little low. This is to encourage their sale. For example, our clarified gazpacho is only 10 dollars. Of the small plates, it has the smallest active time, and can be made well in advance. While we will not be losing money on a bowl, net profit per bowl will only be about 4 dollars.

Standardized Recipes

For our restaurant, consistency will be one of our biggest concerns. For this reason, we will be using standardized recipes, formatted in the same way, using the same units throughout. This way, we can have minimal confusion. The recipes will also have a standard yield in both volume and projected number of orders. All of our food on the menu will be single serving plates. This way, cooks can gauge how much of a recipe they need to make based on the number of reservations. Recipes will have 1x, 2x, and 3x batch ingredient lists in a table format in order of use, this way scaling will not be an issue. Properly trained cooks working with tested recipes will reduce our food costs. Another reason that we will need standardized recipes is that most of the complex pieces of the menu require very fine technique and attention to detail.

Food costs become predictable through standardized recipes. From there we can determine profit per plate. This number does not take labor and other factors into account. However, we can use them to estimate how much money we will make from food sales on this hypothetical night, $5289.00.
Labor Requirements

Our goal is to be highly specialized, which will require greater labor costs. Molecular gastronomy is a time consuming and highly detailed art. Our line cooks, prep cooks, and even our servers have to be educated on each dish. On top of the scientific processes involved, we also need to fabricate items like grouper, swordfish, and ribeye. On a lighter note, much of the prep involved with our menu must be done before service, and then it can be held, through sous vide, steam tables, or lowboys. During the summer, we will not do tableside service; that is one of the goals for the winter menu, though.

Projected Menu Mix

The following table shows the presumed number of small plates, entrees, and desserts sold on an average Friday night, assuming we serve 170 people. Included is the projected food cost and profit per plate. The menu mix will calculate by price, personal experience, buying habits, etc.

Small Plate	Price	Food Cost per Plate	FC%	Profit per Plate	# Sold	Gross Profit	Menu Mix
Gnocchi	$16.00	$6.08	38%	$9.92	21	$208.32	11%
Halloumi	$13.00	$4.81	37%	$8.19	17	$139.23	9%
Bone Marrow	$18.00	$9.36	52%	$8.64	13	$112.32	7%
Pork Belly	$15.00	$6.15	41%	$8.85	34	$300.90	17%
Gumbo	$12.00	$5.88	49%	$6.12	11	$67.32	6%
Gazpacho	$10.00	$5.70	57%	$4.30	26	$111.80	13%
Watermelon	$13.00	$3.77	29%	$9.23	30	$276.90	15%
Chopped	$15.00	$4.05	27%	$10.95	27	$295.65	14%
Strawberry	$16.00	$5.28	33%	$10.72	16	$171.52	8%
Average:	$14.22	$5.68	40%	**Total:**	195	$1,683.96	100%

Entrée	Price	Food Cost per Plate	FC%	Profit per Plate	# Sold	Gross Profit	Menu Mix
Scallops	$39.00	$14.82	38%	$24.18	11	$265.98	7%
Grouper	$31.00	$13.33	43%	$17.67	23	$406.41	15%
Swordfish	$33.00	$16.50	50%	$16.50	19	$313.50	12%
Ribeye	$28.00	$6.72	24%	$21.28	32	$680.96	20%
Lamb	$26.00	$7.02	27%	$18.98	20	$379.60	13%
Porkchop	$31.00	$11.16	36%	$19.84	14	$277.76	9%
Duck	$27.00	$12.69	47%	$14.31	29	$414.99	18%
Chicken	$24.00	$10.32	43%	$13.68	9	$123.12	6%
Average:	$29.88	11.57	39%	**Total:**	157	$2,862.32	100%
Desserts	**Price**	**Food Cost per Plate**	**FC%**	**Profit per Plate**	**# Sold**	**Gross Profit**	**Menu Mix**
Confections	$ 14.00	$2.10	15%	$11.90	12	$142.80	18%
Milk & Honey	$ 10.00	$3.00	30%	$7.00	16	$112.00	24%
Sundae	$ 13.00	$1.56	12%	$11.44	21	$240.24	31%
Gin Alexander	$ 16.00	$2.24	14%	$13.76	18	$247.68	27%
Average:	$ 13.25	$2.23	18%	**Total:**	67	$742.72	100%

Ingredient Availability

As this menu centers on the summer season, we know that we can get most of the product on a regular basis. We may have to change the fish from week to week, depending on what is available. The supply of lamb, scallops, ribeye, and pork are reliable. From there, the only thing to worry about is
the “chef selection” based menu items. Of most importance is the market salad, which will require split second creativity. We may use it to test product from a potential supplier, or perhaps to push some product on the edge of salability. We will prepare all of our desserts are made in-house and rely on
simple ingredients always available.

Other Factors

There are other pricing possibilities. Private parties and the Chef’s Table pricing will occur on a flat rate per person. The drink sales for the bar will offer a wide variety to the overall revenue. On specialty order items like allergies, special accommodations, etc. we will have to price it separately from off of the menu. This will require cooperation from FOH and the chefs. We will price slightly above our competitors in some areas, and below in others. Priced competitively, this should give us at least a foot in the market. If we can use price alterations and our patrons will accept an increase, or if our bottom line can take the decrease, then we will.

Conclusion

With a limited summertime menu, we still intend to sell good food. We are offering our menu with food and equipment costs behind the pricing. This menu is set to take advantage of modern food preparation techniques and the season products available in New Orleans. Through proper training and
careful execution, we can make some dining memories.

? Discussion Questions 11.4.2

1. What are the five main factors that affect pricing decisions?
2. Meal components have value. A product may represent only one portion of the total desired benefit. Explain how this works.
3. How do economic factors affect customer reaction to pricing?
4. If you were pricing for ‘cash flow’ what action, would you take?
5. What is ‘status quo’ pricing attempting to achieve?
6. What is pricing for ‘survival’?
7. How could you utilize ‘price fences’?
8. What would be the importance of ‘duration control’?
9. What is contribution margin? Why is it important

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11.5: Chapter Glossary and Notes

Glossary

Pricing Objectives. While the possible pricing objectives are numerous, they usually fall into four overarching categories based on an organization's goals related to: financial performance, amount of volume, competition, and desired image. All pricing objectives should closely relate to the company's organizational objectives. Thus, pricing, in many ways, is a large part of the means to the end.

Financial performance objectives. These objectives focus on financial areas of the restaurant operation such as the company's level of profitability, desired rates of return on sales and equity, and cash flow. Most large companies continually monitor these performance measures and, over time, find it prudent to use these measures as benchmarks or objectives. The closer one observes performance measures, the more clearly they can see the impact of price on financial performance outcomes.

Volume objectives. These objectives focus on sales and market share. These measures can be based either on the number of units sold or on the dollar amount of the units sold. The sales measure looks at the firm in term s of individual accountability, while the market share views the company relative to the competition. Volume objectives are particularly common in the early stages of the product life cycle, when companies are willing to forgo profits in exchange for building long-term sales and market share. It would also be wise to see that price competition stays strong in the maturity stage in an attempt to hold market share.

Competition objectives. Competition objectives focus on the nature of the competitive environment. A firm may want to maintain competitive similarity with the market leader, widen the gap between itself and market followers, or simply survive. If strong competitive forces or economies of scale are at play. There is typically a great deal of head-to-head competition in the hospitality and tourism industry. A change in price by one organization in the market generally sees reciprocation by other organizations in the marketplace.

Image objectives. These objectives focus on the organization's overall positioning strategy. Often, a restaurant operation's position in the market is a direct result of its 'price-quality' relationship as perceived by consumers. Price is the main segmentation factor useful to the restaurant to distinguish quick service (QSR), casual, upscale, and luxury categories.

Price-quality connection. Consumers use price as an indicator of a product's quality, especially when they do not have much experience with the product category. In such cases, consumers be less sensitive to a product's price to the extent that they believe higher prices signify higher quality. An example would be travelers who often use price as a gauge of quality because they lack familiarity with the travel products in a different city. This lack of information is one of the main reasons that consumers would use price as a signal of quality, along with the perceived risk of making a bad choice and the belief that quality differences exist between brands. Pricing perceptions related to the trading area is an important consideration.

Unique- value relationship. Consumers will be less price-sensitive when a product stays unique and does not have close substitutes. If a firm successfully differentiates its products and services from those of its competition, it can charge a higher price. Consumers must remain aware of the differentiation and convinced of its value in order to pay the higher price. In essence, the organization's strategy is to reduce the presence of substitutes in the mind of consumers, thereby eliminating the consumer's reference value for the product. Many fine-dining restaurants use this approach and differentiate themselves on attributes such as the chef, the atmosphere, and menu.

Customer substitutes. Customers will become more price sensitive when comparing a product's higher price with the lower prices of substitutes for that product. The prices for substitutes help consumers' forma reference price, or a reasonable price range for the product. The restaurant operator should always be aware of the number of substitutes that consumers are aware of for different dining options. Substitutes tend to put downward pressure on price resulting in a relatively narrow acceptable range of prices for each different type of restaurant category. As such, price differentials were instrumental in creating the different restaurant categories so it is not surprising that there is little significant price difference between products in quick=service, casual and fine-dining categories.

Value of meal components. A product may represent only one portion of the total desired benefit. Consumers tend to evaluate the desired end benefit of their purchase and their price concerns for something that contributes to that end benefit. Specifically, in the restaurant industry, consumers are more price conscious when the cost of component (say an appetizer or dessert), represents a larger portion of the total cost than they perceive is fair. For example, while $20 might be acceptable for a pasta entree, $7.95 for

onion rings and $9 for a slice of chocolate cake may appear high given the cost of an onion and cake mix. Said differently, although the restaurant operator has justification for charging certain prices, the consumer is under no obligation to agree with a restaurant's pricing structure. Income is an important consideration regarding price and end benefits from the consumers' perspective.

Price fencing. Price fences are a mechanism used to maximize profit potential based on demand factors and the aspect of controlling the duration of the customers' restaurant experience. 'Fences' are designed to allow customers to segment themselves based on their willingness to pay, their behavior, and their needs.

Physical rate fences. Include the restaurant location; furnishings; the presence of amenities, or a spectacular view to name a few. Examples in a restaurant setting are table location, tables with a scenic view, or tables in a private room with fresh cut flowers as exemplars.

Non-physical rate fences. Include the day of the week (weekend dinners might cost more or meals consumed before 6pm might cost less). Another involves 'transaction characteristics' (customers who make a reservation over a month in advance might pay less). Buyer characteristics provide another example - frequent customers might pay less or get free extras) and 'controlled availability' (customers with coupons will pay less).

Duration control. Some restaurant managers try to manage duration by changing their service delivery e.g., speeding up the delivery process. For example, the ability to enact a certain amount of duration control is important to a popular operation with limited dining capability. It can also be an important element to use in staying off growing pains – growing in an initial location rather than having to expand to another site prematurely.

Demand-based Pricing. Most restaurants use demand based pricing such as happy hours, and early bird specials but they are reluctant to vary prices by time of day, day of week, or table location. The main reason – customers refuse to patronize companies that they perceive as unfair. Several demand-based approaches are possible:

- Differential lunch vs. dinner pricing,
- Differential weekday vs. weekend pricing
- Coupon pricing (including restrictions)
- Table-location pricing (e.g., charging extra for a table with a view).

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CHAPTER OVERVIEW

12: Restaurant Analysis

12.1: Menu Engineering

12.2: Classes of Ratio

12.3: Classroom Preparation Assignments

12.4: Chapter Glossary and Notes

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12.1: Menu Engineering

Chapter 12 Learning Objectives

- Understanding the psychology of Menu Engineering
- Gain a working knowledge of menu engineering worksheet construction.
- Gain a working knowledge of menu engineering evaluation.
- Understand the importance of contribution margin.
- Understand 'menu engineering' usage for profitability.
- Learn to re-think menu costing based on consumer acceptance.
- Gain the ability to apply different classes of ratios to evaluate different elements of the operation.

> "The price of light is less than the cost of darkness."
> Arthur C. Nielsen
>
> "The goal is to turn data into information, and information into insight."
> Carly Fiorina
>
> "I never guess. It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts."
> Sir Arthur Conan Doyle
>
> "If you can't explain it simply, you don't understand it well enough."
> Albert Einstein

Menu engineering is an interdisciplinary field of study devoted to the deliberate and strategic construction of menus. It is references Menu Psychology. In general, the term menu engineering is used within the hospitality industry (specifically in the context of restaurants), but can be applied to any industry that displays a list of product or service offerings for consumer choice. Typically, the goal with menu engineering is to maximize a firm's profitability by subconsciously encouraging customers to buy what you want them to buy, and discouraging purchase of items you do not want them to buy. The fields of study, which contribute most to menu engineering, include:

- Psychology (perception, attention, emotion/effect)
- Managerial Accounting (contribution margin and unit cost analysis)
- Marketing and Strategy (pricing, promotion)
- Graphic Design (layout, typography)

Psychology of menu engineering

Perception and Attention. Visual perception is inextricable to how customers read a menu. Most menus are presented visually (though many restaurants verbally list daily specials), and the majority of menu engineering recommendations focus on how to increase attention by strategically arranging menu categories within the pages of the menu, and item placement within a menu category. This strategic placement of categories and items refers to the theory of 'sweet spot'.

The reasoning being 'sweet spots' stems from the classical effect in psychology known as the '**Serial Position Effect**' (aka. the rules of regency and primacy). The thought is that customers are most likely to remember the first and last things they see on a menu—hence, 'sweet spots' on a menu should be where the customers look first and last. To date, there is no empirical evidence on the efficacy of the sweet spots on menus.

Customer perception of items offered on a menu also centers on subtle textual manipulations. For example, descriptive labeling of item names may produce positive effects, leading to higher customer satisfaction, and higher perceived product value. Similarly, the presence of dollar signs or other potential monetary cues may cause guests to spend less.

Managerial accounting

The primary goal of menu engineering is to encourage purchase of targeted items, presumably the most profitable items, and to discourage purchase of the least profitable items. To that end, firms must first calculate the cost of each item listed on the menu. This costing exercise should extend to all items listed on the menu, and should reflect all costs incurred to produce and serve. Optimally the cost of items should include food cost (including wasted product and product loss), incremental labor (e.g., cost in in-house butchering, pastry production, or prep), condiments and packaging. Only incremental costs and efforts should be included in the item cost.

The two criteria for determining which menu items deserve inclusion on a menu have been food cost percentage and gross profit. Food cost percentage is calculated by dividing the cost of the menu item ingredients, including surrounding dish items, e.g., salad, bread and butter, condiments, etc. by the menu price. Gross profit calculates by subtracting the menu cost as previously defined, from the menu price. Advocates of Menu Engineering believe that gross profit trumps food cost so they tend to identify menu items with the highest gross profit, items like steaks and seafood, as the items to promote. The downside of this exclusive approach is that items that are high in gross profit are typically the highest priced items on the menu and they typically are on the high end of the food cost percentage scale. This approach works fine in price inelastic markets like country clubs and fine dining white tablecloth restaurants. However, in highly competitive markets, which most restaurants reside, think Applebee's, Chili's, Olive Garden, price points are particularly critical in building customer counts. In addition, do not ignore food cost completely. If food cost increases, total costs must increase enough to lower the overall fixed cost percentage or the bottom line will not improve. This is not a recommended strategy for neighborhood restaurant with average checks under $15.

Those who believe that a low food cost percentage is more important than gross profit will promote the items with the lowest food cost percentage. Unfortunately, these items are typically the lowest priced items on the menu, e.g., chicken, pasta, soups. Promoting only low food cost items will likely result in lowering your average check. Unless the restaurant attracts more customers, overall sales will not be optimal.

Low food cost and high gross profit are not mutually exclusive attributes of a menu item. A second approach called Cost-Margin Analysis identifies items that are both low in food cost and return a higher average gross profit. This analysis works well for restaurants in highly competitive markets where customers are price-sensitive.

There is no one-analysis method that is useful on all menu items. If a menu item is a "commodity" like hamburgers, chicken tenders, fajitas, and other items found on many restaurant menus, prices tend to be more moderate. If a menu item is a "specialty" in high demand and unique to a particular restaurant, prices can be higher than average. Technically the restaurant has a "monopoly" on that item until competitors copy them and put it on their menus. Thus, higher prices are appropriate. However, no restaurant can sustain a competitive uniqueness or price advantage over their competition in the end.

Using Menu Engineering in restaurants and menu items where price inelasticity is present deserves recommendation. ‘Cost-Margin’ better suits casual neighborhood restaurants and on menu-items where price points are critical in building and keeping customers. Remember, the customer determines the best price to charge, not the restaurant operator. Customers do not care about your costs; they care about what you charge.

After the cost and price of an item have been determined (see pricing in the Marketing section), evaluation of an item's profitability is based on the item's ‘contribution margin’. The contribution margin calculates as the menu price minus the cost. Menu engineering then focuses on maximizing the contribution margin of each guest's order. Recipe costing should be updated (at least the ingredient cost portion) whenever the menu is reprinted or whenever items are re-engineered. Some simplified calculations of contribution margin include only food costs. The menu engineering worksheet is useful to explore how the menu is performing in the dining room. Calculations can adjust accordingly. An example of the sheet layout and calculations in Microsoft Excel follows. The worksheet is useful to evaluate:

- Menu items by category (appetizer, entrée, dessert, drinks, etc.)
- Number of items sold

- Menu mix, the percentage of sales each item represents in relation to total sales
- Item food cost
- Item selling price
- Item contribution margin
- Total menu cost and sales revenue
- Total contribution margin generated from total sales

Menu Engineering Worksheet

Menu Item	No. Sold	MM%	Item F.C	Item S.P	Item C.M	Menu Cost	Menu Rev.	Menu C.M
Salads								
House Pastrami	7	3.80%	$3.00	$10.00	$7.00	$21.00	$70.00	$49.00
House Prosciutto	10	5.43%	$3.00	$10.00	$7.00	$30.00	$100.00	$70.00
House Lardo	5	2.72%	$3.00	$10.00	$7.00	$15.00	$50.00	$35.00
Salad Caprese	10	5.43%	$2.24	$8.00	$5.76	$22.40	$80.00	$57.60
Mediterranean Olives	4	2.17%	$1.50	$8.00	$6.50	$6.00	$32.00	$26.00
Fried Calamari	9	4.89%	$2.63	$8.00	$5.37	$23.67	$72.00	$48.33
Bagna Cauda	5	2.72%	$4.75	$8.00	$3.25	$23.75	$40.00	$16.25
Entrees								
Catch of the Day	4	2.17%	Market Price					
Sicilian Swordfish	3	1.63%	$8.00	$20.00	$12.00	$24.00	$60.00	$36.00
Mussels Di Amore	4	2.17%	$6.00	$17.00	$11.00	$24.00	$68.00	$44.00
Sole Filets and Lemon	4	2.17%	$6.00	$20.00	$14.00	$24.00	$80.00	$56.00
Sea Bass Pomodoro	1	0.54%	$7.00	$20.00	$13.00	$7.00	$20.00	$13.00
Tuscan Salmon	2	1.09%	$4.34	$20.00	$15.66	$8.68	$40.00	$31.32
Osso Bucco	6	3.26%	$4.75	$30.00	$25.25	$28.50	$180.00	$151.50
Veal Marsala	4	2.17%	$4.75	$22.00	$17.25	$19.00	$88.00	$69.00
Veal Marengo	2	1.09%	$4.75	$22.00	$17.25	$9.50	$44.00	$34.50
Veal Lamponi	2	1.09%	$2.31	$22.00	$19.69	$4.62	$44.00	$39.38
Rosa di Parma	2	1.09%	$3.54	$25.00	$21.46	$7.08	$50.00	$42.92
Lamb Stew	5	2.72%	$2.33	$25.00	$22.67	$11.65	$125.00	$113.35
Seared Lamb Chops	9	4.89%	$5.33	$30.00	$24.67	$47.97	$270.00	$222.03
Fettucini al Pesto	7	3.80%	$5.00	$18.00	$13.00	$35.00	$126.00	$91.00
White Truffle Risotto	6	3.26%	$8.97	$20.00	$11.03	$53.82	$120.00	$66.18
Cheese and Basil Agnolotti	7	3.80%	$2.23	$18.00	$15.77	$15.61	$126.00	$110.39
Scallops and Angel Hair	8	4.35%	$3.75	$22.00	$18.25	$30.00	$176.00	$146.00
Pizza Magherita	5	2.72%	$5.00	$15.00	$10.00	$25.00	$75.00	$50.00
Smoked Scamorza Pizza	3	1.63%	$6.00	$15.00	$9.00	$18.00	$45.00	$27.00
Desserts								
Sorbets	7	3.80%	$3.00	$5.00	$2.00	$21.00	$35.00	$14.00
Gelato	9	4.89%	$5.00	$8.00	$3.00	$45.00	$72.00	$27.00
Fruit and Cheese Tray	3	1.63%	$5.00	$8.00	$3.00	$15.00	$24.00	$9.00

Cannoli	3	1.63%	$3.00	$7.00	$4.00	$9.00	$21.00	$12.00
Panna Cotta	4	2.17%	$3.00	$7.00	$4.00	$12.00	$28.00	$16.00
Moscato Soaked Genoise	7	3.80%	$3.00	$8.00	$5.00	$21.00	$56.00	$35.00
Tiramisu	8	4.35%	$5.00	$8.00	$3.00	$40.00	$64.00	$24.00
Angel Wings	6	3.26%	$0.10	$5.00	$4.90	$0.60	$30.00	$29.40
Pandoro	3	1.63%	$0.25	$5.00	$4.75	$0.75	$15.00	$14.25
Total items	184	100.00%					$2,526.00	$1,826.40
Averages			$4.04	$14.97	$10.89	$20.56		

Menu Engineering Worksheet Calculations

- **Number Sold:** (1) A total of all menu items sold. (2) A total by menu category (appetizers, entrées, desserts, etc.).
- **Menu Mix (MM%):** (1) a percentage of the total number of all menu item sales, (2) a percentage of the total number of sales by specific category, (2) both category and total number of all sales.
- **Item Food Cost (Item F.C.):** (1) the food cost of the recipe – with no additional costs added.
- **Item Selling Price (Item S.P.):** the calculated price (possibly a combination of mark-up methods) for an item as stated on the menu.
- Item Contribution Margin (Item C.M.): (1) The selling price minus the food cost, (2) various other cost could be subtracted to arrive at the contribution margin figure such as labor and utilities.
- **Menu Cost:** the 'food cost' multiplied by the 'number of items sold'.
- **Menu Revenue:** The item's 'selling price' multiplied by the 'number of items sold'.
- **Menu Contribution Margin:** (1) the item contribution item multiplied by the number of items sold, (2) the 'menu revenue' minus 'menu cost'.
- **Food Cost:** 'menu cost' divided by 'menu revenue'.
- **Average Contribution Margin:** (1) contribution margin divided by number of item sales. (2) contribution can be calculated by item, menu category, or total menu items.
- **Revenue Per Average Seating Hour (REV PASH):** total menu revenue divided by the total number of covers served.
- **Revenue Per Occupied Seating Hour (REV POSH):** the total sales per hour divided by the number of covers served per hour.

Marketing (price and promotion)

By using 'menu mix' (also called the guest demand) and 'gross profit' margins, the relative performance of each menu item is determined, and assigned one of the following terms (based on the BCG Matrix):

Stars. A 'Star' is extremely popular and has a high contribution margin. Ideally, Stars should be your flagship or signature menu items.

Plow Horse or Workhorse. A 'Plow Horse' is high in popularity but low in contribution margin. Plow horse menu items sell well, but do not significantly increase revenue.

Puzzles. A 'Puzzle' is generally low in popularity and high in contribution margin. Puzzle dishes are difficult to sell but have a high profit margin.

Dogs. A 'Dog' is low in popularity and low in contribution margin. They are difficult to sell and produce little profit when they do sell.

In general, items within a relevant comparable set (for example, entrees, or chicken entrees) should be priced to have similar contribution margins—this way, the restaurant would make the same amount of money, no matter what item the guest chooses to order.

Contribution Margin

The concept of break-even analysis deals with the ‘contribution margin’ of a product. The contribution margin is the excess between the selling price of the good and total variable costs. For example, if a product sells for $100, total fixed costs are $25 per product and total variable costs are $60 per product, the product has a contribution margin of the product is $40 ($100 - $60). This $40 reflects the amount of revenue collected to cover fixed costs and retention as net profit. Fixed costs are not a part of calculating the contribution margin.

The concept of break-even analysis deals with the ‘contribution margin’ of a product. The contribution margin is the excess between the selling price of the good and total variable costs. For example, if a product sells for $100, total fixed costs are $25 per product and total variable costs are $60 per product, the product has a contribution margin of the product is $40 ($100 - $60). This $40 reflects the amount of revenue collected to cover fixed costs and retention as net profit. Fixed costs are not a part of calculating the contribution margin.

Formulas for Break-Even Analysis

Calculating Breakeven Point Using Fixed Costs

1. Total Fixed Costs / by unit (average) = contribution margin
2. Contribution Margin = Selling price – Item food cost

The calculation of break-even analysis using fixed cost uses two formulas. First, the ‘total fixed costs’ are divided the ‘unit contribution margin’. In the example above, assume total company fixed costs are $20,000. With a contribution margin of $40, the break-even point is 500 units ($20,000 divided by $40). Upon the sale of 500 units, you can pay all fixed costs, and the company will report a net profit or loss of ‘0’ dollars.

Calculating Breakeven Point Using Sales Dollars

1. Breakeven = Total fixed costs/ by contribution margin ratio
2. Contribution Margin Ratio = Contribution margin/by sales price

Alternatively, the break-even point in sales dollars calculates by dividing ‘total fixed costs’ by the ‘contribution margin ratio’. The contribution margin ratio is the contribution margin per unit divided by the sale price. Using the example above, the contribution margin ratio is 40% ($40 contribution margin per unit divided by $100 sale price per unit). Therefore, the break-even point in sales dollars is $50,000 ($20,000 total fixed costs divided by 40%). This figured may be confirmed as the break-even in ‘units’ (500) multiplied by the sale price ($100) equals $50,000.

Menu Engineering Usage for profitability

While menu engineering is most often occurs in the context of traditional paper restaurant menus, the concepts are equally applicable to menus posted online, drink menus, specials written on table tents, and items written on menu boards. Simply put, if you sell items that have varying levels of profitability and popularity, menu engineering may help you increase your bottom line. The difference between the more and less successful attempts at menu engineering does not hinge on an establishment’s type or size. Instead, the determining factors are the restaurant owner/manager’s knowledge of the menu and willingness to put in the time and effort needed to understand the process and execute changes.

The Menu Engineering process:

1. Cost your menu. (You cannot skip this step!)
2. Categorize menu items according to profit and popularity levels.
3. Design your menu.
4. Test your new menu design.
5. Review your engineering worksheet over time

Costing the Menu

‘Costing a menu’ refers to the process of breaking down every item on your menu to its individual ingredients and determining exactly how much it costs to create each of these items. Establishments absolutely must cost their menu to the penny for food (not labor) costs because the engineering process depends heavily on the profitability level of each menu item. It is important to note that the person who performs the menu costing is generally the best person to be in charge of the menu-engineering process, as that person will be highly knowledgeable about the food costs of each menu item. For this reason, I always suggest that someone in charge at the restaurant perform the costing process.

Unfortunately, one of the biggest problems in the restaurant industry is that roughly 80% of restaurants don’t cost their menu, and another 5% cost their menus incorrectly (“correct” menu costing means that everything is costed consistently by a single person, as different people will cost items differently). The reason behind the 80% figure is simple: costing a menu is very time consuming. Unfortunately, there is no way around that fact, and you have to put in the work if you want to reap the benefits of a more profitable menu.

The process of categorizing each of your menu items will allow you to determine how to apply your menu-engineering efforts. This process can be broken into three parts:

1. **Split your menu into “categories” and “sections”**

The term ‘category’ refers to the way you break your menu out at the broadest level. The list of what a category entails is not set in stone, but for some guidance, the following are the names of some common categories: Appetizers, Entrees, Desserts, and Drinks. The key is that there is no overlap between the menu items in the various categories and that the list makes sense for your particular menu.

Break out your categories into sections. You can define ‘section’ in different ways according to your menu’s content, but to give you some guidance, here are some common sections that fit into the ‘Entrée’ category: Vegetarian Entrees, Seafood Entrees, Meat Entrees; and here are some for the ‘Drinks’ category: alcoholic Drinks and non-alcoholic Drinks. However you define your sections, be sure to keep distinct types of menu items separate from each other (that is, do not include a collection of vegetarian entrees and meat entrees in the same section).

2. **Place each of your menu items into one of four quadrants**

Go through each of your menu items, and using data for a recent time-period (perhaps the most recent month) then place each menu item into one of four quadrants:

- **Stars**—high profitability and high popularity
- **Plow-horses**—low profitability and high popularity
- **Puzzles**—high profitability and low popularity
- **Dogs**—low profitability and low popularity

3. **Determine the fate of menu items in each of the four quadrants**

Use the profit/popularity information from part (b) to help determine how you want to deal with each of your menu items. You will need to look at the menu items ranked by profitability and popularity at the category level first and then at the section level. Viewing your data at the category level can help you decide where to place the various sections of your menu (for example, if steak items are your Stars, you may want to work hardest to promote the Meat Entrees section). Viewing the data at the section level will then enable you to determine how to place and promote menu items within each section of your menu. The decisions you make will result from a combination of art (not science) and common sense. While every situation is different, here is some guidance for how to act on the data you have generated:

- **Stars**—your menu should highlight your Stars.
- **Plow-horses**—you may want to create more profitability in these versions of items. For instance, soup-and-salad specials often fall into this category and you might try turning such a special into a more profitable three-salad sampler.
- **Puzzles**—make sure your servers are promoting these items and investigate whether customers like the taste of the items in question. Sometimes simply lowering prices will increase sales volume enough to produce higher overall profits, and you may want to consider reinventing items in this category.

- **Dogs**—essentially, this can be a 'liver and onions' dilemma. Some people love the dish. While omitting such items may be an option, you cannot necessarily omit everything in this category (just think of a grilled cheese sandwich that is a staple among your youngest customers). Your best option may sometimes be to deemphasize these items by simply listing their title and prices on your menu and not putting any further effort into their promotion.

Once you have worked through this step, your menu-engineering goals are in place and you are ready to begin the menu design phase.

Re-design your menu

Part of the design process involves highlighting the items you want to sell the most (your Stars), but it goes beyond this and can't be accomplished with a simple checklist. When designing your menu it pays to consider your customer base: what types of customers order which items, what drives them to your establishment (a certain dish, cheap drinks, and atmosphere), do your customers read your menu thoroughly, and other factors. Menu design does not exist in a vacuum, and having such information informs how and when you should apply certain menu design techniques. That said, when it comes to menu-engineering techniques, there are certainly best practices. The following guidelines include enough of them to turn your menu into a profit center:

1. **Use visual cues to highlight the items you want to sell most**

You can use various types of graphics to highlight an item, such as putting a box around it, placing a photograph or drawing near it, or placing an asterisk next to it.

Here are some things to keep in mind when using this technique:

- **Space requirements.** Highlighting items often takes up additional menu space, so please do not make the mistake I have seen many times when restaurant operators choose a menu cover that does not provide enough room to promote their items effectively.
- **Frequency.** As you increase the number of items highlighted with visual cues, the impact that these cues have on your bottom line will decline and your menu may begin to look cluttered. Limit myself to one highlighted item per category.
- **Photographs.** Using a photograph can increase sales of an item by as much as 30% when there is just one photograph on the page (again, the more you use visual cues, the lower their impact). That said, photographs on a menu also tend to cheapen the entire menu concept, so do not use this technique at a high-end eatery.

2. **Do not list your prices in a column down the right side of your menu**

This is the number-one problem seen with restaurant menus. Placing your prices in a column causes customers to focus on price, not your food. This could lead them to choose the cheapest item in the column. Instead, place prices just two spaces after the end of the item description, using the same type font size and style. Also, do not use a dollar sign or the word "dollar" next to the price, as that causes customers to think about money.

3. **Use menu item descriptions to your advantage**

Another common problem is a menu's failure to have an item's description reflect its importance. Do not list your $40 lobster without a description and then write an entire paragraph about your $10 hamburger. It should be the other way around. When writing descriptions, keep these two tips in mind:

- **Use descriptions to set an item apart**—Do not just list the ingredients; use evocative text that can pique a guest's interest in a dish. In addition, you may want to tell customers why the item is on your menu: Did your grandmother use this recipe? Was it your favorite dessert as a child? Humanizing a dish takes it out of the realm of being a commodity.
- **Mention brand names**—if your ingredients include items (such as sauces, spices) made by 'well-known' and respected brand names, include these brand names in your description; they enhance the perception of the item's quality.

4. **Recognize that there is a science to listing each menu section's items**

- **List order matters**. Although you may list your appetizer and entree menu items in a vertical list, one through six, the level of customer focus on each of these six positions does not follow the same order. The first few spots enjoy levels of importance that correspond to their position in the list, but after that, it is the last item in the list that gets the most attention. The items just above the last item in the list are the most ignored.

- **Lists should be short**. My goal is to put five or fewer items into each section, with a maximum of seven. More than seven items in a list constitutes information overload for the customer, and when this happens customers often default to ordering the most common item (such as burgers). Unfortunately, the most common menu items tend not to be the most profitable ones. On the other hand, smaller lists are easier to navigate and lead to higher profitability due to the purchasing of higher-profit entrees and a higher number of add-on items.

5. **Use your menu cover's configuration to your advantage**

Not all menu cover configurations (one panel, two panels, etc.) are equal creations. They differ in the way customers react to them and in the extent to which they allow menu engineering to affect your profits. Choose carefully. Below is a list of some common menu cover configurations and their impact on your engineering efforts:

- **One-panel menu**. People make decisions faster with these menus, but they will not order as much, thus leading to lower profitability per customer. The reason for this phenomenon is that this menu cover configuration does not evoke a full dining experience; it indicates something more light and casual.
- **Two-panel menu**. Whenever possible, this is the best configuration to use. It is easy to read and induces the strong feeling of a full dining experience.
- **Three-panel menu**. This is a valid choice if you have many items to sell and need the space, but the two-panel version is easier to read.
- **Many-panel menu**. The more panels you have in your menu cover the less control you have over the menu. Larger menus hinder your ability to influence customers' actions.

6. **Take advantage of customers' eye-movement patterns**

The eyes of your customers tend to focus on certain areas of your menu depending on your menu cover's configuration. You can use knowledge of these patterns to place chosen menu items in spots where they are likely to receive the most—or least—attention.

Unless otherwise stated, the information below refers to hardcover menu covers with solid cover material, not views of a menu page, on the outer sides of the front and back panels:

Menu Configuration	Area of Most Attention	Area of Least Attention
One-Panel	Top of the page	Just below the bottom of the page (if your one-panel menu cover displays menu items on both sides of the cover, all entrees should appear on the front side, as those on the back will not receive as much attention.)
Two-Panel	Top of the right-side panel	Just above the bottom of the left-side panel
Three-Panel Book-Style	Top of the third panel gets the most respect.	Just above the bottom of the first panel
Many-Panel	Top of each page	Just above the bottom of each page

If the dish you want to promote is very expensive, you may want to keep it out of the menu's highest focal point, as this may make your restaurant appear too expensive. Pricing is an integral part of your 'positioning strategy'.

7. **Think outside the menu**

While the term "menu engineering" implies that the menu is responsible for your profit increase, some of your engineering profits can stem from teaching your staff which items are priorities. They are the ones who interact with your customers, and they can be instrumental in guiding customers to your most profitable or signature dishes.

8. **Test your new menu design**

Whatever method you choose, remember that when it comes to designing the one piece of free advertising that all of your customers will see—your menu—there is always room for profit improvement. Continually test new menu designs

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12.2: Classes of Ratio

A **financial ratio** or **accounting ratio** is a relative magnitude of two selected numerical values taken from an enterprise's financial statements. Often used in accounting, there are many standard ratios used to try to evaluate the overall financial condition of a corporation or other organization. Financial ratios are useful to managers within a firm, to current and potential shareholders (owners) of a firm, and to a firm's creditors. Financial analysts use financial ratios to compare the strengths and weaknesses in various companies. If shares in a company trade in a financial market, the market price of the shares is useful in certain financial ratios.

Ratios are useful to examine and display the 'liquidity' or amount of cash, accounts receivable, or other forms of assets that can be converted to cash quickly if the need arises. In the restaurant industry, how quickly or slowly the perishable food, paper, and other items we stock is used are replenished is always of major concern to the operation. The 'turnover' rate calculation occurring weekly, monthly, or quarterly, is indicative of how well we are projecting the restaurant's product demand, and how well we are controlling storage costs and physical space allocations. Solvency ratios examine the status assets and liabilities, and profitability ratios give us a way to discuss and display how well the operation is conducting business.

The basic 'four' different classes of ratios we will discuss are:

1. Liquidity
2. Turnover
3. Solvency
4. Profitability

We should first define the term 'ratio'. In mathematics, a **ratio is a relationship between two numbers indicating how many times the first number contains the second**. For example, if a bowl of fruit contains 'eight' oranges and 'six' lemons, then the ratio of oranges to lemons is eight to six (that is, 8:6, which is equivalent to the ratio 4:3). Thus, a ratio can also be a fraction as opposed to a whole number. In addition, in this example the ratio of lemons to oranges is 6:8 (or 3:4), and the ratio of oranges to the total amount of fruit is 8:14 (or 4:7). The numbers compared in a ratio can be any quantities of a comparable kind, such as objects, persons, lengths, or spoonful amounts. A ratio is written "a to b" or 'a: b' or sometimes expressed arithmetically as a 'quotient' of the two.

Liquidity Ratios

The **current ratio** is a liquidity ratio that measures whether or not a firm has enough resources to meet its short-term obligations. It compares a firm's current assets to its current liabilities. The current ratio is an indication of a firm's liquidity. Acceptable current ratios vary from industry to industry. In many cases, a creditor would consider a high current ratio to be better than a low current ratio, because a high current ratio indicates that the company is more likely to pay the creditor back. Large current ratios are not always a good sign for investors. If the company's current ratio is too high it may indicate that, the company is not efficiently using its current assets or its short-term financing facilities.

> **Current Ratio = Current Assets / Current Liabilities**
> Example: $2,600,000 / $2,500,000 = 1.04

If current liabilities exceed current assets, the 'current ratio' will be less than one. A current ratio of less than '1' indicates that the company may have problems meeting its short-term obligations. Some types of businesses can operate with a current ratio of less than one however. If inventory turns into cash much more rapidly than the accounts payable become due, then the firm's current ratio can comfortably remain less than one. Inventory is valued at the cost of acquiring it and the firm intends to sell the inventory for more than this cost. The sale will therefore generate substantially more cash than the value of inventory on the balance sheet. Low current ratios can also be justified for businesses that can collect cash from customers long before they need to pay their suppliers.

The 'acid test' or 'quick ratio' or 'liquidity ratio' measures the ability of a company to use its near cash or quick assets to extinguish or retire its current liabilities immediately. Quick assets include those current assets that presumably can quickly convert to cash at

close to their book values. A company with a quick ratio of less than ‘one’ cannot currently fully pay back its current liabilities. It is the ratio between quick or liquid assets and current liabilities. The normal liquid ratio is 1:1. It has a better and more reliable ranking as a tool for assessment of liquidity position of firms.

> **Quick Ratio = (Current Assets – Inventory) / Current Liabilities**
> Example: $2,600,000 - $150,000 -$50,000 = .96

Working capital (abbreviated WC) is a financial metric, which represents operating liquidity available to a business, organization or other entity, including governmental entity. Working capital is the difference between the current assets and the current liabilities. Along with fixed assets such as plant and equipment, working capital is a part of operating capital. Gross working capital equals to current assets. Working capital calculation is ‘current assets’ minus ‘current liabilities’. If current assets are less than current liabilities, an entity has a **working capital deficiency**, also called a **working capital deficit**.

> **Working Capital = Current Assets – Current Liabilities**
> Example: $2,600,000 -$2,500,000 = $100,000

A company can be possess with ‘assets’ and ‘profitability’ but be short of ‘liquidity’ if its assets cannot readily be converted into cash. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash. The basic calculation of the working capital utilizes the ‘gross current assets’ of the firm.

Current assets and **current liabilities** include three accounts that are of special importance. These accounts represent the areas of the business where managers have the most direct impact:

- Accounts receivables (current asset)
- Inventory (current assets), and
- Accounts payable (current liability)

The current portion of ‘debt’ (payable within 12 months) is critical, because it represents a short-term claim to current assets and often uses long-term assets as security. Common types of short-term debt are bank loans and lines of credit. An increase in net working capital indicates that the business has either increased current assets (that it has increased its receivables or other current assets) or has decreased current liabilities - for example has paid off some short-term creditors, or a combination of both.

A positive working capital cycle balances incoming and outgoing payments to minimize net working capital and maximize ‘free cash flow’. For example, a company that pays its suppliers in 30 days but takes 60 days to collect its receivables has a working capital cycle of 30 days. This 30-day cycle usually needs funding through a bank operating line, and the interest on this financing is a carrying cost that reduces the company's profitability. Growing businesses require cash, and being able to free up cash by shortening the working capital cycle is the most inexpensive way to grow. Sophisticated buyers review closely a target's working capital cycle because it provides them with an idea of the management's effectiveness at managing their balance sheet and generating free cash flows.

As an absolute rule of funders, each of them wants to see a positive working capital. Such situation gives them the possibility to think that your company has more than enough current assets to cover financial obligations. The same is not always true about negative working capital. A large number of funders believe that businesses cannot be sustainable with a negative working capital, which is a wrong way of thinking. In order to run a sustainable business with a negative working capital it is essential to understand some key components.

Approach your suppliers and persuade them to let you purchase the inventory on 1-2 month credit terms, but keep in mind that you must sell the purchased goods, to consumers for money. Effectively monitor your inventory management, make sure that refilling occurs on a consistent and timely basis to maintain fresh product with the help of your supplier, and to adequately stock and utilize your warehouse spacing.

Turnover (Activity) Ratios

In accounting, the **Inventory turnover** is a measure of the number of times the restaurant's sells or uses its inventory using a week, month or year calculation. The equation for inventory turnover equals the cost of goods sold or net sales divided by the average inventory. Inventory turnover is also known as: **inventory turns; merchandise turnover; stock turn; turns, and stock turnover**.

A low turnover rate may point to overstocking, obsolescence, or deficiencies in the product line or marketing effort. However, in some instances a low rate may be appropriate, such as where higher inventory levels occur in anticipation of rapidly rising prices or expected market shortages.

Conversely, a high turnover rate may indicate inadequate inventory levels, which may lead to a loss in business, as the inventory is too low. This often can result in stock shortages. Some compilers of industry data (e.g., Dun & Bradstreet) use sales as the numerator instead of **cost of sales**. 'Cost of sales' yields a more realistic turnover ratio, but it is often necessary to use sales for purposes of comparative analysis. Cost of sales is more realistic because of the difference in which one records sales and the cost of sales. **Record sales at market value, i.e. the value at which the marketplace paid for the good or service provided by the firm**. In the event that the firm had an exceptional year and the market paid a premium for the firm's goods and services then the numerator may be an inaccurate measure. However, the firm should record cost of sales at what the firm actually paid for the materials available for sale.

Additionally, firms may reduce prices to generate sales in an effort to cycle inventory. Generally, the terms "cost of sales" and "cost of goods sold" are synonymous. **An item whose inventory is sold (turns over) once a year has higher holding cost than one that turns over twice, or three times, or more in that time**. Stock turnover also indicates the briskness of the business. The purpose of increasing inventory turns is to reduce inventory for three reasons.

Increasing inventory turns reduces holding cost. The organization spends less money on rent, utilities, insurance, theft and other costs of maintaining a stock of good for sale. Reducing holding cost increases net income and profitability as long as the revenue from selling the item remains constant. **Items that turn over more quickly increase responsiveness to changes in customer requirements while allowing the replacement of perishable items**. This is a major concern in the restaurant industry.

When making comparison between firms, it is important to take note of the industry, or distortion in the comparison will occur. Making comparison between a supermarket or restaurant and a car dealer will not be appropriate, as supermarkets and restaurants sell fast-moving goods such as meals, sweets, chocolates, soft drinks therefore the stock turnover will be higher. However, a car dealer will have a low turnover due to the item being a slow moving item.

> **Inventory Turnover = Cost of Goods Sold / Inventories**
> Example: $500,000 / $110,000 = 4.55 times
>
> Average Inventory = $\frac{\text{beginning inventory + Ending inventory}}{2}$
>
> **The average days to sell the inventory calculation is:**
>
> Average days to sell the inventory = $\frac{365}{\text{Inventory Turnover Ratio}}$

Asset turnover is a financial ratio that measures the efficiency of a company's use of its assets in generating sales revenue or sales income to the company. Companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover. Companies in the retail industry tend to have a very high turnover ratio due mainly to cutthroat and competitive pricing.

'Sales' is the value of 'Net Sales' or 'Sales' from the company's income statement 'Average Total Assets' is the average of the values of 'Total assets' from the company's balance sheet in the beginning and the end of the fiscal period. The calculation adds up the assets at the beginning of the period and the assets at the end of the period, then dividing that number by two. Alternatively, "Average Total Assets" can be ending total assets.

This calculation allows the operator to know what the total revenue per hour would be will a ‘full’ dining room at a given average ticket price. It is the ‘optimum’ calculation. Example: If the restaurant has 150 seats, an average ticket price for lunch of $15.00, and a one- hour turnover, the total revenue potential would be $2,250.00 per hour. The total revenue potential for lunch then centers on the number of hours the restaurant serves lunch.

> **REV Pash (revenue per avg. seating hour) = Total Occupancy x Average ticket price per hour.**

This calculation is the point of comparison to the ‘REVPash’ total occupancy calculation. The dining room may not be full which would reduce the revenue for the meal period. In essence, you are calculating real income and comparing that figure to ‘optimum’ income to assess your current potential.

> **REV Posh (revenue per occupied seating hour) = Occupancy rate x Average ticket price per hour.**

> **Average Food Check = Food Revenue / Number of customers**

Profitability Ratios

Profit margin is calculated with selling price (or revenue) taken as base times 100. It is the percentage of selling price that becomes profit, whereas, "profit percentage" or "markup" is the percentage of cost price that one gets as profit on top of cost price. When selling something, one should know what profit percentage one will get on a particular investment, so companies calculate profit percentage to find the ratio of profit to cost.

> **Net Profit Margin = Net profit / Total Revenue**
> Example: $1,092,000 / $4,805,000 = .227 or 22.7% (of every dollar in the form of earnings)

The profit margin is useful mostly for internal comparison. It is difficult to compare with accuracy the net profit ratio for different entities. Individual businesses' operating and financing arrangements vary so much that different entities are bound to have different levels of expenditure, so that comparison of one with another can have little meaning. A low profit margin indicates a low margin of safety: higher risk that a decline in sales will erase profits and result in a net loss, or a negative margin. Profit margin is an indicator of both a company's pricing strategies and how well it controls costs. Differences in competitive strategy and product mix cause the profit margin to vary among different companies. Examples follow:

- If an investor makes $10 in revenue and it costs, $1 to earn it, when he or she take costs away he or she has a 90% margin. A 900% profit on a $1 investment.
- If an investor makes $10 in revenue and it costs, $5 to earn it, when he or she take costs away he or she has a 50% margin. A 100% profit on a $5 investment.
- If an investor makes $10 in revenue and it costs $9 to earn it, when you take cost away he or she has 10% margin, an 11.11% profit on a $9 investment.

On the other hand, **profit percentage** calculates as follows: Suppose that you buy something for $50.00 and then sell it for $100.00.

Cost price = $50
Selling price (revenue) = $100
Profit = $100 − $50 = $50
Profit percentage (profit divided by cost) = $50/$50 = 100%
Return on investment multiple = $50 / $50 (profit divided by cost)

If the revenue is the same as the cost, profit percentage is 0%. The result above or below 100% can be calculated as the percentage of return on investment. In this example, the return on investment is a multiple of 0.5 of the investment, resulting in a 50% gain.

Return on Investment (ROI) is the benefit to an investor resulting from an investment of some resource. A high ROI means the investment gains compare favorably to investment cost. As a performance measure, ROI is useful to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. In purely economic terms, it is one way of considering profits in relation to 'capital' invested.

> **ROI** (return on investments) **(assets) = Total Revenue (Net income) / Total assets**
> Example: $1,092,000 / $9,225,000 = .118 or 11.8%

Purpose: In business, the purpose of the "return on investment" (ROI) metric is to measure, per period, rates of return on money invested in an economic entity in order to decide whether, or not, to undertake an investment. It is also useful as indicator to compare different project investments within a project portfolio. The project with best ROI assumes priority.

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12.3: Classroom Preparation Assignments

Resturant Analysis Exercise 12.3.1

1. Introductory paragraph
2. Menu engineering analysis and menu scoring
3. Break-even analysis and sensitivity analysis
4. Performance measures. Which measures you use and why? Do they relate to each other?
    a. 'RevPash' and 'RevPosh',
    b. Average Check,
    c. Turnover,
    d. Food cost percentage,
    e. Yield management,
    f. Profit contribution
    g. Others.
    h. Appendix – Label charts, graphs or tables clearly.

Discussion Questions 12.3.2

1. What are the five steps in the menu engineering process?
2. What is the formula to calculate breakeven using sales dollars?
3. What is the formula to calculate breakeven using fixed costs?
4. What is a menu engineering worksheet useful to evaluate?
5. Name the four different classes of financial ratios.
6. What is REV Pash and what does it indicate?
7. What is REV Posh and what is its purpose?

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12.4: Chapter Glossary and Notes

Glossary

Menu engineering. An interdisciplinary field of study devoted to the deliberate and strategic construction of menus. It is references Menu Psychology. In general, the term menu engineering is used within the hospitality industry (specifically in the context of restaurants), but can be applied to any industry that displays a list of product or service offerings for consumer choice. Typically, the goal with menu engineering is to maximize a firm's profitability by subconsciously encouraging customers to buy what you want them to buy, and discouraging purchase of items you do not want them to buy.

Number Sold. (1) A total of all menu items sold. (2) A total by menu category (appetizers, entrées, desserts, etc.).

Menu Mix (M.M. %). (1) a percentage of the total number of all menu item sales, (2) a percentage of the total number of sales by specific category, (2) both category and total number of all sales.

Item Food Cost (Item F.C.). The food cost of the recipe – with no additional costs added.

Item Selling Price (Item S.P.). The calculated price (possibly a combination of mark-up methods) for an item as stated on the menu.

Item Contribution Margin (Item C.M.). The selling price minus the food cost, (2) various other cost could be subtracted to arrive at the contribution margin figure such as labor and utilities.

Menu Cost. The ‘food cost’ multiplied by the ‘number of items sold’.

Menu Revenue. The item’s ‘selling price’ multiplied by the ‘number of items sold’.

Menu Contribution Margin. The item contribution item multiplied by the number of items sold, (2) the ‘menu revenue’ minus ‘menu cost’.

Food Cost. The ‘menu cost’ divided by ‘menu revenue’.

Average Contribution Margin. Contribution margin divided by number of item sales. (2) ‘Contribution’ calculates by item, menu category, or total menu items.
Revenue per Average Seating Hour (REV PASH). Total menu revenue divided by the total number of covers served. Computing total possible revenue if all seats are in occupancy.

Revenue per Occupied Seating Hour (REV POSH). The total sales per hour divided by the number of covers served per hour. Your actual revenue.

Stars. A ‘Star’ is extremely popular and has a high contribution margin. Ideally, Stars should be your flagship or signature menu items.

Plow Horse or Workhorse. A ‘Plow Horse’ is high in popularity but low in contribution margin. Plow horse menu items sell well, but do not significantly increase revenue.

Puzzles. A ‘Puzzle’ is generally low in popularity and high in contribution margin. Puzzle dishes are difficult to sell but have a high profit margin.

Dogs. A ‘Dog’ is low in popularity and low in contribution margin. They are difficult to sell and produce little profit when they do sell.

Contribution margin. The excess between the selling price of the good and total variable costs. For example, if a product sells for $100, total fixed costs are $25 per product and total variable costs are $60 per product, the product has a contribution margin of the product is $40 ($100 - $60). This $40 reflects the amount of revenue collected to cover fixed costs and retention as net profit. Fixed costs are not a part of calculating the contribution margin.

Break-even point. In sales dollars, breakeven calculates by dividing ‘total fixed costs’ by the ‘contribution margin ratio’. The contribution margin ratio is the contribution margin per unit divided by the sale price. Using the example above, the contribution margin ratio is 40% ($40 contribution margin per unit divided by $100 sale price per unit). Therefore, the break-even point in sales

dollars is $50,000 ($20,000 total fixed costs divided by 40%). This figured may be confirmed as the break-even in ‘units’ (500) multiplied by the sale price ($100) equals $50,000.

Costing a menu. Refers to the process of breaking down every item on your menu to its individual ingredients and determining exactly how much it costs to create each of these items. Establishments absolutely must cost their menu to the penny for food (not labor) costs because the engineering process depends heavily on the profitability level of each menu item.

One-panel menu. People make decisions faster with these menus, but they will not order as much, thus leading to lower profitability per customer. The reason for this phenomenon is that this menu cover configuration does not evoke a full dining experience; it indicates something more light and casual.

Two-panel menu. Whenever possible, this is the best configuration to use. It is easy to read and induces the strong feeling of a full dining experience.

Three-panel menu. This is a valid choice if you have many items to sell and need the space, but the two-panel version is easier to read.

Many-panel menu. The more panels you have in your menu cover the less control you have over the menu. Larger menus hinder your ability to influence customers’ actions.

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CHAPTER OVERVIEW

13: Appendices

13.1: Structuring Your Business Model

13.2: Legal Regulations

13.3: Professional Associations

13.4: Industry Resources

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13.1: Structuring Your Business Model

A strong business model combines the elements/parts of the applicable information to form a whole idea. Larger industry issues and necessary capabilities surface to convey a competitive advantage. All information in the model is sufficiently evaluated, analyzed, and synthesized. It is important to reflect sound reasoning and judgment, which includes analysis of information, recognition of unstated assumptions, and distinguishes between fact and conjecture. Thus, the model must be well written, with properly

documented references containing no typographical errors. Your business model is also a 'visual aid' available for referencing key points when you discuss your vision with a lender. Use it to your advantage – impression management.

Business Model Format

Cover sheet and Contents Page

Introduction:
A through summary of findings and analysis (approximately 3 pages)

Section 1: The City
Introductory paragraph
City/suburban appeal
City industrial/service sector appeal
Discuss why the city is a 'good fit' for your business
Provide example where applicable

Section 2: The Customer
Introductory paragraph
Complete demographic information on the population in the area.
Based on this information, an estimate of overall market demand.
Direct and indirect competitor information: prices, hours of operation, size, menu type, other characteristics of the competitor.
Potential of new entrants in the area.

Section 3: Competitive Analysis
Introductory paragraph
Direct competition
Indirect competition
Types of food
Price, quality, service, hours of operation, etc.
Rank your competitors
Discuss strengths and weaknesses – theirs and yours
Discuss opportunities and consider threats

Section 4: Segmentation
Introductory paragraph
Segmentation strategy
Broad or narrow segmentation
Age groups including psychographic 'face'.
The total segment demand in the area
Your share of the segment demand – market share & business mix variance.

Section 5: Positioning
Positioning statement and strategy
Utilizing the hospitality marketing mix
Sources of data
Type of restaurant you intend to construct
Type of advertising you intend to utilize
Electronic media usage

Section 6: The Marketing Plan
Marketing approach and target markets
Electronic and traditional media
The methodical approach you intend to use
Incorporate position statement

Section 7: Facility and Operation
Introductory paragraph
Décor and architectural design.
Location
Equipment and resources available
Management plan

Section 8: Costs
Introductory paragraph
Pro-forma Income Statement
Analysis of fixed and variable costs
Investment requirements
Financing plans

Section 9: Menu Pricing
Introductory paragraph
Standardized recipes
Method(s) of menu pricing'
Product mix
Product availability
Menu pre-cost

Section 10: The Menu
Introductory paragraph
Menu information
Layout
Printing considerations
Descriptions
Nutrition considerations
Truth-in-menu considerations
Artwork
Beverage menu – listing and pricing (method?)
Narrative of considerations

Section 11: Menu Analysis and Revenue Management
Introductory paragraph
Menu engineering analysis and menu scoring
Break-even analysis and sensitivity analysis
Performance measures (Which should we use and why? Are they relatable to each other?)
Revenue per operating seat hour), revenue per average seat hour (RevPOSH), average check, turnover (RevPASH), food cost percentage, yield management, profit contribution, or others.

Appendix
Tables, charts, data, and so forth that strengthen your proposal. Include picture for your competition and facility section – visuals are powerful and explanatory.

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13.2: Legal Regulations

There is no universal checklist for all of the necessary licenses, permits, inspections, postings, and signage for your new restaurant. These requirements vary greatly between states, cities, restaurant types, and even counties and neighborhoods. The experts that you hire to help you -- specifically your designer, architect, and contractor -- will help you get through everything, but you will need to

be an active part of the process and take on responsibility as well. Here are 10 best practices to ensure you obtain everything you need to open your restaurant legally from the beginning.

Review your lease in detail	Before you sit down with your team and put together a master list of action items, review your lease in detail so you have a clear understanding of what your property owner will be responsible for, as well as the duties that fall on you, the tenant. If your lease states that your property owner is responsible for trash removal, they may be required to post a decal showing which company they use and what the pick-up schedule is. Make this your first step to avoid confusion and help facilitate a healthy, productive, and accountable relationship between you and your property owner.
Draw on the experience of your team	Your contractor, designer, engineer, architect, and kitchen equipment vendor will be your most valuable allies in getting all of your licenses, permits, inspections, and postings completed properly. Gather this team and ask them to provide you with a list of everything that they know you will need, as well as areas of uncertainty so that you know where you will need to do focused research. You need to have a team established that has experience, otherwise you will experience a lot of surprises and unmet expectations throughout the process. For the person that's just going through this for the first time, it's going to feel like an infinite list and like there are so many people that have their hand out that need to get paid for some sort of application, license, or permit."
Learn your city	Some municipalities are much more organized than others are when it comes to providing practical, accurate information and resources to help you better understand what is required for you to open and operate your business. Cities like San Francisco and New York have relatively advanced online resources, while others may have nothing at all. Still, even the most sophisticated online tools are only a starting point. If your city does not have a centralized Internet resource for new businesses, they likely have an office you can call or visit to get the same information. Track down the information up front to avoid delays and surprises. Remember, investing a day at your municipal office early in the process can save you weeks or months of costly setbacks down the road.
Research the requirements of each individual city agency	Do independent research online. Call or visit the major city and state agencies you will need to obtain permits from, and by asking peers with similar concepts in your market what they needed to get their doors open. It is important to understand that city agencies do not communicate with each other. In New York City, for example, you need a Certificate of Occupancy from the Department of Buildings and from the Fire Department and there is no link between the two. Once you visit central websites, make sure you are then researching the requirements of each individual agency. For example, the New York City Department of Environmental Protection but also the Department of Health, Department of Sanitation, and Department of Buildings monitor Grease traps. They all have different rules that can trigger violations, so you need to understand the requirements of each.

Make a master list, assign responsibilities & follow up	Once you have consulted every available resource and done as much research as you can, sit with your team and compile a master list of every permit, license, inspection, and posting you will need. Delegate each item to a member of your team and assign due dates as necessary. In your weekly construction meetings, update each other on relevant progress, ask questions, and work together to get through inevitable setbacks and complications.
Get comfortable with the health code in your municipality	Department of Health (DOH) requirements vary greatly from state to state and city to city, and many DOH specifications will dictate parts of your restaurant design. Once you know where you are going to open a property, contact the Department of Health for your municipality and read the entire health code so that you do not get in too deep without knowing the regulations. Once they start pouring concrete and putting pipes in, it can be very expensive to retract the work. Even though many standards are consistent across the country, there are some things drastically different, like outdoor seating regulations. The Department of Health really drives much of the construction for your kitchen, back of house, and outdoor seating areas. You need to be coordinated with whatever the regulations are in your specific location.
Keep all of your finalized documents in a centralized location	Some permits and licenses will need posting in a place where they are visible to guests and employees, and others will need to reside on site and presented to inspectors before and after you open. Jennifer recommends keeping copies of everything in one centralized binder that the General Manager of the property has access to so there is no confusion when inspectors arrive. This will also make it easier to replace expired permits and keep track of renewal dates.
Calendar renewal dates immediately	As soon as you receive any type of license or permit, put a reminder on your calendar for the appropriate renewal date, as well as a reminder a few weeks or months before the actual date. Clearly delegate and note on the reminders who is responsible for each renewal and assign one person (probably your General Manager) to follow up as important dates approach.
Include health code and food handling safety in employee training	Some states require every employee on staff to go through food safety training, while others only require certain individuals to go through it. Even if your municipality does not demand that every person carry a food safety card, Jennifer recommends ensuring that every employee has some level of food handling and safety training. This creates a safer environment for staff and guests and helps to maintain your equipment. Employees are better equipped to understand when something is failing if have knowledge about their workstation, how to set up, and how equipment needs to function to align with code. This helps us avoid huge violations for the restaurant, as well as damage to major equipment. Even if the law does not require it, having a staff that is knowledgeable and responsible about food safety will help shield you from the liability of an unfortunate mistake and help you sleep at night, knowing your team knows the basics.

Set up service contracts right away	Before your contractor and subcontractors disappear, bring in your equipment service vendors and set up maintenance contracts. Preventative maintenance measures make sure you do not incur massive emergency service bills when equipment breaks. It is very expensive to call for service at night and on weekends, which are most restaurants' primary operating hours. In sum, negotiate service contracts, calendars the dates for their visits, and always follow up with them before and after they come in. Always keep in touch with them to make sure that they are holding up their end of the bargain. Too often contracts are in place, but no one really monitors work completion.

When it comes to licenses and permits necessary for operation, please heed the following takeaways to bring your facility on-line as quickly as possible.

Do your research	Contact the people in your city and state and ask what you need based on your specific project. Get on top of scheduling critical inspections with long lead times right away.
Take advantage of your team's experience, but do not disengage from the process	Surround yourself with people that have done this before and take an active role yourself.
Get (very) comfortable with Department of Health regulations in your municipality	The Department of Health (DOH) dictates many aspects of construction including kitchen design, and even extending to how your 'service station' set up. Educate yourself on the requirements of your specific area and ensure that your general contractor and designer are on top of it, too.

As stated, licenses and permits necessary to open and operate a restaurant will vary from one city or state to another. The agencies and respective departments involved in the licensing and permit process appear below. Your state or municipality of choice may require more, or fewer, licenses and permits than the table contains.

Permit Sources

Federal Agency	Department of Treasury – Alcohol permit Internal Revenue Service – Employment ID
State Agency	State Liquor Authority – On-premise alcohol Department of State - DBA certificate, New business registration, Department of Taxation – Certificate of authority
City Agency	Department of sanitation – Food Service Establishment permit, Resuscitation equipment, Safety Data Sheets, Food Protection Certificate, Signage, Fire Department - Open flame permit, Range Hood and Duct Inspection, Portable Fire Extinguisher Tags, Gas Authorization, Ansul Tags, Sprinkler System, Certificate of Occupancy / Place of Assembly, Fire Alarm Test.
Utility Company	Electric / Gas Service , Gas Authorization
Contractor, Architect *(In most cases, installation and performance of these items require professionals.)*	Certificate of Occupancy, Equipment Use Permits, Building Permit, Sign Permit, Emergency Lighting & Foot Candle Letter

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13.3: Professional Associations

American Culinary Association (ACF), www.acfchefs.org
American Dietetic Association (ADA), www.eatright.org
American Hotel and Lodging Association (AHLA), www.ahla.org
American Institute of Baking (AIB), www.aibonline.org
American Institute of Wine and Food (AIWF), www.aiwf.org
American Personal Chef Association (APCA), www.personalchef.com
American Society for Healthcare Food Service Administrators (ASHFSA), www.ashfsa.org
Black Culinarian Alliance (BCA), www.blackculinarians.com
Bread Bakers Guild of America, www.bbga.org
Club Managers Association of America (CMAA), www.cmaa.org
Confrerie de la Chaine des Rotisseurs, www.chaineus.org
Dietary Managers Association (DMA), www.dmaonline.org
Foodservice Consultants Society International (FCSI), www.fcsi.org
Foodservice Educators Network International (FENI), www.feni.org
Food Truck Operation, Foodtruckoperators.com
Institute of Food Technologists (IFT), www.ift.org
International Association of Culinary Professionals (IACP), www.iacp.com
International Caterers Association, www.icacater.org
International Council of Cruise Lines, www.iccl.org
International Council on Hotel and Restaurant Institutional Education (ICHRIE), www.chrie.org
International Food Service Executives Association (IFSEA), www.ifsea.com
International Foodservice Manufacturers Association (IFMA), www.ifmaworld.com
International Inflight Food Service Association (IFSA), www.ifsanet.com
Les Dames d'Escoffier International, www.ldei.org
National Association of College and University Foodservice (NACUFS), www.nacufs.org
National Association of Foodservice Equipment Manufacturers (NAFEM), www.nafem.org
National Association for the Specialty Food Trade (NASFT), www.fancyfoodshows.com
National Food Processors Association, www.nfpa-food.org
National Ice Carving Association (NICA), www.nica.org
National Restaurant Association, www.restaurant.org
National Society for Healthcare Foodservice Management (HFM), www.hfm.org
Research Chefs Association (RCA), www.culinology.com
Retailer's Bakery Association (RBA), www.rbanet.com
School Nutrition Association (SNA), www.schoolnutrition.org
Societe Culinaire Philanthropique, www.societeculinaire.com
Society for Foodservice Management (SFM), www.sfm-online.org
United States Personal Chef Association (USPCA), www.uspca.com
Women's Foodservice Forum (WFF), www.womensfoodserviceforum.com
Women Chefs and Restaurateurs, www.womenfhefs.org

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13.4: Industry Resources

Meat

Agri Beef www.agribeef.com/education/
American Lamb Board www.americanlamb.com/chefs-corner/curriculamb/
Butterball Foodservice www.butterballfoodservice.com
Maple Leaf Farms www.mapleleaffarms.com
National Cattlemen's Beef Association
National Pork Board www.porkfoodservice.org
National Turkey Federation www.eatturkey.org
North American Meat Institute www.meatinstitute.org

Seafood

Alaska Seafood Marketing Institute www.alaskaseafood.org
Bureau of Seafood and Aquaculture www.freshfromflorida.com/Recipes/Seafood National Aquaculture Association thenaa.net

Produce

American Egg Board www.aeb.org
Apricot Producers of California www.califapricot.com
Avocados from Mexico foodservice.avocadosfrommexico.com
California Cling Peach Board www.calclingpeach.com
California Cling Peach Board www.calclingpeach.com
California Avocado Commissionwww.californiaavocado.com
California Dried Plum Board www.californiadriedplums.org
California Endive www.endive.com
California Fig Advisory Board www.californiafigs.com
California Kiwifruit Commission www.kiwifruit.org
California Pear Advisory Board www.calpear.com
California Raisin Marketing Board * Dietary Tool Kit www.calraisins.org
California Strawberry Commission www.calstrawberry.com
California Table Grape Commission www.tablegrape.com
Cherry Marketing Institute www.choosecherries.com
Concord Grape Association www.concordgrape.org
Cranberry Institute www.cranberryinstitute.org
Cranberry Marketing Committee*Tool Kit www.uscranberries.com
Dole Packaged Foods *Cost Savings Calculator www.dolefoodservice.com
Florida Dept. of Citrus www.floridajuice.com
Hass Avocado Board *Tool Kit www.avocadocentral.com
Idaho Potato Commission *Cost & Sizing Guides www.idahopotato.com
Leafy Greens Council www.leafy-greens.org
Leaf Greens Marketing Association www.lgma.ca.gov/ Louisiana Sweet Potato Commission www.sweetpotato.org
Mushroom Council www.mushroomcouncil.org
National Honey Board *Teacher Guide www.honey.com
National Mango Board *Lesson Plans www.mango.org
National Onion Association*Lesson Plans www.onions-usa.org
National Processed Raspberry Council www.redrazz.org
National Watermelon Promotional Board www.watermelon.org
NC Sweet Potato Commission www.ncsweetpotatoes.com
New York Apple Associationwww.nyapplecountry.com

North American Blueberry Council www.blueberry.org
Northwest Cherry Growers www.nwcherries.com
Olives from Spain olivesfromspain.us/
Oregon Raspberries and Blackberries www.oregon-berries.com
Pacific Northwest Canned Pear Service www.eatcannedpears.com/
Pear Bureau Northwestwww.usapears.com
Pomegranate Council www.pomegranates.org
Potatoes USA www.PotatoGoodness.com
Produce for Better Health Foundation www.5aday.com
The Soy Foods Council www.thesoyfoodscouncil.com
U.S. Apple Association www.usapple.org
USA Rice Federation www.menurice.com
Washington Red Raspberry Commission www.red-raspberry.org
Washington State Apple Commission www.bestapples.com
Washington State Potato Commission www.potatoes.com
Wheat Foods Council *Tool kits and classroom materials www.wheatfoods.org
Wild Blueberry Assn. of North America www.wildblueberries.com

Oil, Spices and Seasonings

North American Olive Oil Association *Classroom materials www.aboutoliveoil.org

Nuts and Legumes

Almond Board of California*Tool Kit www.almonds.com/food-professionals
American Pistachio Growers www.americanpistachios.org/
California Walnut Board www.walnuts.org
National Peanut Board www.nationalpeanutboard.org

Dairy Products

Emmi Roth USA *Pairing information us.emmi.com/en
Real CA Milk www.realcaliforniamilk.com/foodservice/
Wisconsin Milk Marketing Board Pairing guides www.wisdairy.com

Specialty Foods

New York Wine & Grape Foundation www.nywine.com
Popcorn Boardwww.popcorn.org

Baking Ingredients

Guittard Chocolate Company www.guittard.com
Bay State Milling Co. www.baystatemilling.com

Manufacturing/Distributors

Barilla America www.barilla.com/en-us
Bay State Milling Co.
www.baystatemilling.com
Dole Packaged Foods *Cost Savings Calculator www.dolefoodservice.com
Knouse Foods www.knousefoodservice.com
SYSCO www.sysco.com
Unilever Food Solutions www.unileverfoodsolutions.us
Verterra Dinnerware www.verterra.com

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