



Starting Your First Restaurant

**Created by: Johnny Branch CPA, MBA
Certified Business Analyst
Veterans Business Outreach Center SBA
Gulf Coast State College**

**Before you begin any serious
planning, you must choose a
CONCEPT:**

*What kind of restaurant
will you open?*



Carving Your Niche



Your personality should help determine the concept you choose:

- Early risers or morning people may want to consider a coffee shop or casual breakfast-and-lunch operation.
- Night owls are going to be drawn to the hours for bar-and-grill operations, fine dining and even pizzerias.
- If you are a “people pleaser”, you’ll enjoy the interaction with customers in an in-house dining style of service.
- Less personal contact appeals to food trucks and fast food operations.
- Catering is also an option that fits both personality styles: you can prepare, set up and drop off OR stay onsite to prepare or demonstrate your techniques, etc.

Concepts Let Patrons Know What To Expect At Your Location

- **Seafood:** Can be a risky concept due to seasonal price changes and fluctuating availability
- **Steakhouses:** Can be part of midscale or upscale markets
- **Family-style:** Reasonable prices and comfortable atmosphere appealing to families and seniors
- **Casual-dining:** Generation Y (18-34 yo) to Baby Boomers with appetizers to desserts at midscale pricing
- **Pizzeria:** To-go with limited menu and service or full-service with Italian entrees
- **Sandwich Shop:** High gross profit margins and can easily change menu to adapt to current tastes
- **Coffeehouse:** Coffee is the world's most popular beverage. Follow the trends in your target market.



Different Levels of Service Attracts Different Clienteles

Quick Service or Fast Food attracts working people and families on the go, especially Generation Y - aka Millenials - who were born 1980-2000 and Gen Z, born after 1995.

Midscale, Casual and Family Operations attracts Generation X, born 1961-1980 and Baby Boomers, especially those with restricted budgets, thus looking for good food value.

Fine Dining attracts clienteles who have the most discretionary income and appreciate excellent service and higher quality food. May be age-specific but also applies to business clienteles.

Will You Sell Alcohol?



Be sure to consider your personal feelings towards selling alcohol, as well as your clientele's interest.

Remember every employee involved in alcohol sales must be 18 years or older.

What about a Franchise?



The decision to purchase a franchise involves many factors. To help you consider if franchising is right for you, we've provided a list of important questions to answer.

Do you want a turnkey operation with a proven business model and established operations? Will the franchise restrictions work for you?

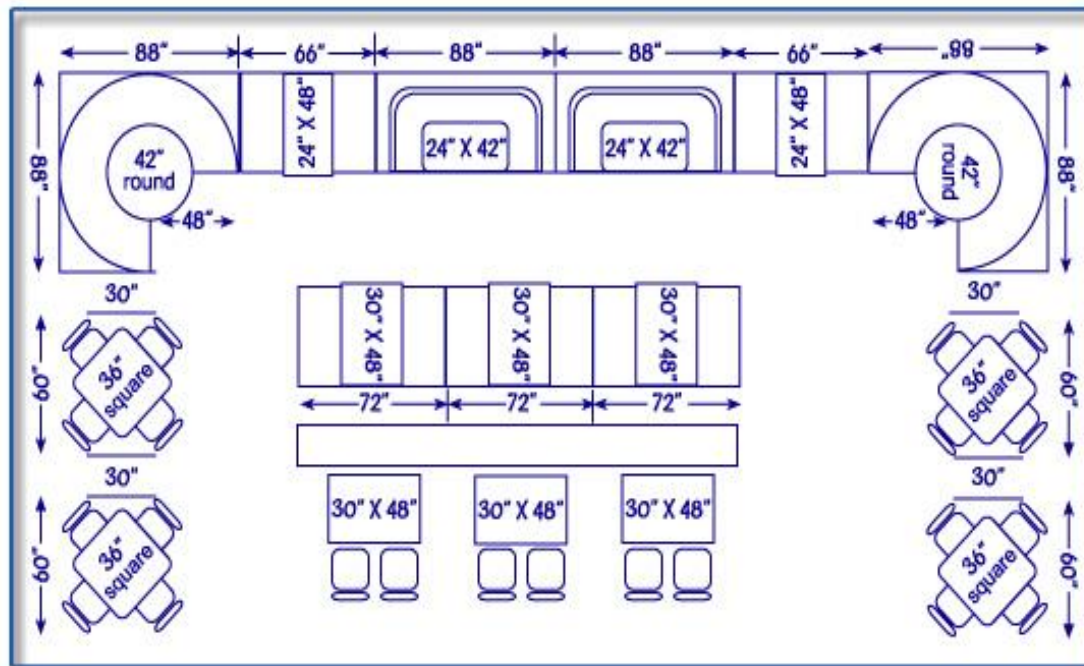
A franchise takes the guesswork and much of the risk out of starting a business but comes with a long list of operating requirements and restrictions

How much will it cost?

Buying a franchise requires capital. The cost often depends on real estate and build-out requirements.

- How much money do you have to invest? Determine how much you can realistically afford.
- Will you purchase the franchise by yourself or with partners?
- Will you need financing and, if so, where can you obtain it?
- Do you have a favorable credit rating?
- Do you have savings or additional income to live on while starting your franchise?

How Large Should Your Location Be?



**Optimize
SEATING
COMFORT:**
allow 12 SF per
customer.

**TOTAL SIZE
ALLOCATION:**
60% for inside
dining, 30% for
kitchen, and
10% for office
and/or storage.

Choosing a Location



- **Traffic Density**

High traffic counts at peak times could contribute to sales volume. Scout potential locations at different times of day to assess volume, then order traffic count data from the State Department of Transportation.

CAVEAT: Volume is not the most important factor. Is traffic moving in volume at the right time of day for your business? People buy donuts on their way TO work, not FROM it!

- **Accessibility to Customers**

Consider how easy it will be to drive in, park and exit for customers. Will your business need foot traffic to survive and will the surrounding area provide enough pedestrians? How is the lighting in your area - critical for making customers feel safe at night.

Choosing a Location



- **Proximity to Other Businesses**

Neighboring businesses can be of benefit by cross-marketing non-competing products. Being near crowd-drawing venues can also help generate new customers. Ex: a 24-hour coffee shop near a hospital

- **Rent-Paying Capacity**

Rent expense should not be more than 15% of sales.

- **Terms of Lease**

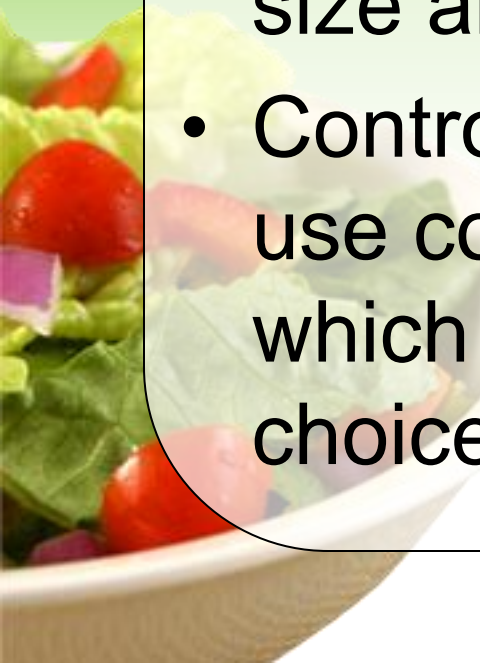
Always have an exit with an option to renew. Have an attorney review the terms of any lease agreement!

- **Health Inspection**

Has location ever been inspected as a restaurant before? Have local Health Dept regulations changed since it was last in operation?

Creating a Menu

- Be aware of taste trends that could influence customer buying: farm-to-table, organic, non-GMO, etc.
- Size of menu is dependent directly on the size and experience of the kitchen.
- Control the number of items offered and use concise, straight-forward descriptions which provide customers with easy choices.



Creating a Menu

- **What Do Your Customers Want?**
- “Comfort food” take customers back to their childhoods?
- Local favorites, popular ethnic foods, even locally sourced foods?
- Seasonal specials?
- Vegetarian, vegan, low salt/diet options?
- Family and casual concepts need children’s or senior’s portion without all of the frills to discourage adult downsizing.



Menu Pricing Formula



1. Add up all of **COSTS FOR THE INGREDIENTS**

Example: *All the ingredients cost **\$3.00***

2. Determine the **FOOD COST %** you are trying to achieve.

Example: **30%**

3. Divide your **DESIRED FOOD COST %** by your **INGREDIENTS COSTS** to derive the **SALES PRICE** of that item.

FOOD COST / % = SALES PRICE

EXAMPLE: \$3.00 / .30 = \$10.00 Sales Price

Menu Pricing



- **Competitive Pricing**

Seek to match what other competitors are charging for the same product.

Example: \$4.95 for lunch with beverage

***BUT BE CAREFUL NOT TO FOLLOW FOOLS -
don't price yourself out of business!***

- **The Factoring Method:**

Multiplying the cost of ingredients by “3” will result in a 33% Cost of Goods Sold (COGS).

DQ39	=SUM(DQ34:DQ38)	
	A	DI
16	Sales Forecast	
17		Jan
18	Unit Sales	
19	Lunches	(47)
20	Lunch Bvg	5
21	Dinners	37
22	Dinner Bvg	(177)
23	Other	18
24	Total Unit Sales	(164)
25		
26	Unit Prices	Jan
27	Lunches	\$1.90
28	Lunch Bvg	\$0.59
29	Dinners	(\$0.15)
30	Dinner Bvg	\$3.17
31	Other	(\$0.79)
32		
33	Sales	
34	Lunches	(\$335)
35	Lunch Bvg	\$83
36	Dinners	\$657
37	Dinner Bvg	\$316
38	Other	(\$18)
39	Total Sales	\$703

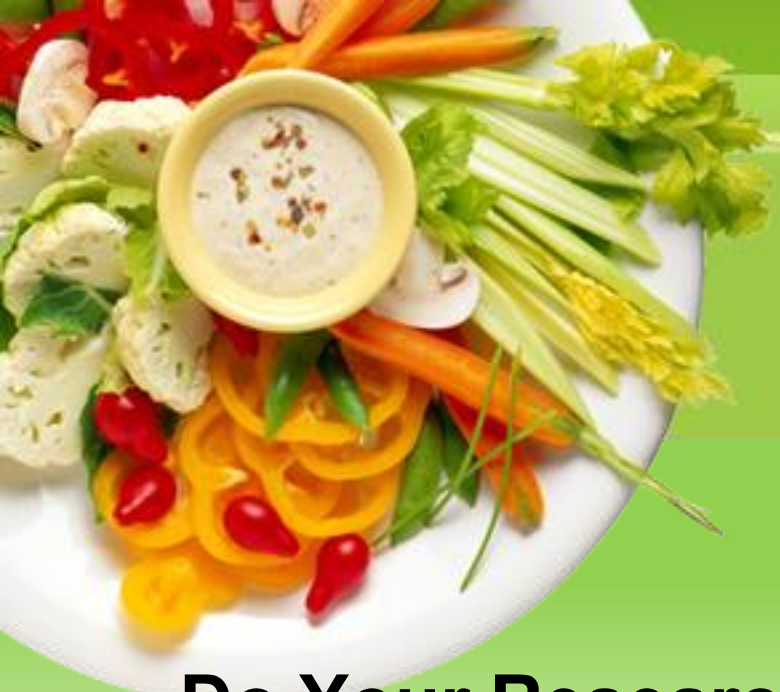
How To Determine Start-up Sales

Estimate .5 - 1% of drive-by traffic (DOT stats) as potential customers.

From total seats, assume a maximum of two turns at breakfast, three turns at lunch, and four turns at dinner.

Divide total capacity by two.

Be conservative!
New customers have to break old eating habits.



Gain practical experience and learn the tricks of the trade by working in a similar restaurant: Get paid to be educated and learn what not to do through other peoples' mistakes!

Do Your Research and Write a Business Plan

Map out everything before you buy the first spoon:

According to Rich Melman, chairman of Lettuce Entertain You Enterprises, Inc., 80% of what will make your restaurant a success will take place before you open the doors. Planning is critical to success!

Utilize the [Veterans Business Outreach Center \(VBOC\)](#) and the [Small Business Development Center](#) resources. Their Business Analysts can review and help you edit your plan as you progress.



Funding Your Restaurant

- From your business plan, you have estimated how much money you will need to start your restaurant.
- Now add 25% to that total for mistakes, incidentals and cash flow while you build your customer base.
- **REALITY:** Banks do **NOT** like start-up independent restaurants and will only lend to some franchises. Check with the SBA for guidance on franchise funding.

Funding Your Restaurant



- **Inventory your own resources** such as retirement accounts, equity in real estate or personal assets that can be liquidated or used as collateral.
- The next step is **family and friends** who believe in you and want you to succeed. All arrangements should be in writing and interest paid in a delayed method on all monies received.
- The last resort is considering a **Partner who wants to team up with you**. Remember a partnership is very similar to a marriage. Be sure to create a written agreement, spelling out all duties expected from each person. Have a business attorney review it!

Buy Used Equipment Except For Refrigeration And Freezers



**95% of start-up
restaurants fail within
the first five years. Why?**

UNDER CAPITALIZATION!

**At auction, brand new
restaurant equipment is only
worth 10-20 cents on the
dollar. Save your cash! Shop
for used equipment and even
furnishings but buy NEW
refrigeration and coolers.**

Registering Your Business Name & Filing Taxes

- Register your fictitious name or LLC at www.sunbiz.org
- Every restaurant in Florida must collect and remit State Sales Tax. Sign up for a license at <http://dor.myflorida.com/dor/taxes/registration.html>
- Restaurant employees are subject to Florida State Unemployment and Federal Payroll Taxes. Register at <https://sa1.www4.irs.gov/modiein/individual/index.jsp> for payroll taxes and <http://dor.myflorida.com/dor/taxes/registration.html> for unemployment taxes

Legal Structure

KISS: “Keep It Simple, Stupid”

Sole Proprietorship
Limited Liability **LLP** **LLC**
General Partnership
PLC **CORPORATIONS**

LLC is the simplest setup that will still protect the members' personal assets.

Remember, you can always change to a corporation when your business becomes extremely successful.

It is always wise to consult a qualified CPA when making this decision!

Hiring Employees



- **Hire The Right People:** Take time to thoroughly screen applicants. Do background checks, especially for cashiers.
- **Create Job Descriptions:** Don't make employees guess about their responsibilities and who they report to.
- **Provide Initial and Ongoing Training:** Well-trained employees are happier, more confident, and more effective.

Hiring Employees

- **Understand and Comply With Wage-and-Hour and Child Labor Laws:**
<http://webapps.dol.gov/dolfaq/dolfaqbytopic.asp?topicID=1>
- **Establish a Pay Scale:** A minimum and maximum for each position.
- **Employee Lease or Pay Direct:** **Leasing companies** provide hiring documents and file all necessary state/federal tax filings including workmen's compensation. Their fee is usually an upcharge on each employee's hourly gross pay rate. **Pay Direct** means you pay in-house or through a payroll processing company with a per pay period charge.

Gross Payroll Should Not Be More Than 24-34% of Sales

Employees of a new restaurant need to be flexible and work together because duties will cross over from one category to another.

The Manager needs leadership skills and familiarity with local buying sources.

ABC Corp. 450 Chamber Street Somewhere, USA 01010				Employee Name: Mary Smith Social Security #: 999-99-9999 Period End Date: 01/07/05			
Wages		Deductions					
		Current	Y-T-D				
Description	Hours	Rate	Amount	Amount	Description	Amount	Amount
Regular	40.00	10.00	400.00	400.00	Federal Withholdings	37.29	37.29
Overtime	1.00	15.00	15.00	15.00	Social Security Tax	24.83	24.83
Holiday			0.00	0.00	Medicare	5.81	5.81
Tuition			37.43*	37.43	Tax	8.26	8.26
					NY State	5.11	5.11
					Income Tax	0.61	0.61
					NYC Income Tax		
					NY SUI/SDI Tax		
					Other		
					401(k)	27.15*	27.15
					Life Insurance	2.00	2.00
					Loan	30.00	30.00
					Dental	2.00*	2.00
					HMO	20.00*	20.00
					Dep Care FSA	30.00*	30.00
Totals			452.43	452.43	Deduction Totals	193.06	193.06
Taxable Gross			335.85	335.85			
					NET PAY	259.38	259.38



Marketing and Promotions

- **The first step in creating a marketing package is to know your target customers' demographics:** *Working people? Families? College students? Seniors?*
- **How will your customers find you?** Storefront signage? Traditional advertising? Social media? IT DEPENDS ON THE CUSTOMER! Younger consumers rely on social media and recommendations from their peers. Older customers still read newspapers, respond to direct mail and are more likely to use coupons. You cannot rely on strictly word of mouth!
- Donate gift certificates and coupons to be used as door prizes or raffle prizes at not-for-profits or professional meetings.
- Support local education plus sporting activities (coupon booklets, gift certificates).



Marketing and Promotions

- Provide gift certificates to radio stations and TV stations that reach your target market and will promote your name and location.
- Cultivate relationships with neighboring businesses and local "influencers", like newspaper food critics
- Word-of-mouth is still matters. Pay close attention to what customers are saying about your restaurant on social media! Thank customers for good reviews. Respond to bad reviews (verify the source first!) and learn from your mistakes.

“WOW” is not the lowest price! VALUE & GOOD TASTE Are!



**VALUE and GOOD TASTE
are the key ingredients to
impressing and retaining
new customers.**

Food prep labor is
expensive. Pick only a few
items to prepare fresh in-
house. Make these items
your signature dishes.

Summary of Ideas



- First, choose a concept and style of service.
- Carve a niche based on your personality.
- A franchise may be a perfect choice: <https://www.sba.gov/business-guide/plan-your-business/buy-existing-business-or-franchise>
- Pick a location that can be profitable.
- If alcohol sales are part of your plan: <https://www.myfloridalicense.com/intentions2.asp?chBoard=true&boardid=400>

Summary of Ideas



- Create a menu to match your location.
- Price the menu with the factoring method (3 times food cost)
- Write a business plan.
- Find a mentor to help locate the RIGHT deal.
- Purchase used equipment and house supplies.
- Begin hiring and training employees.
- Decide whether to lease employees or generate payroll in-house. Ask your Accountant!
- **Start and never stop promoting and marketing.**
You are the billboard for your new restaurant.

QUESTIONS?



**Take Advantage of FREE
SBA resources like the Florida VBOC
for free Business Counseling:
www.VBOC.org
800-542-7232**