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Why Restaurants Fail

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Past research on restaurant failures has focused mostly on quantitative factors and bankruptcy rates. This study explored restaurant ownership turnover rates using qualitative data, longitudinal data (1996-1999), and data from Dun and Bradstreet reports. In contrast to frequently repeated statistics, a relatively modest 26.16 percent of independent restaurants failed during the first year of operation. Results from this study indicated marginal differences in restaurant failures between franchise chains (57.2 percent) and independent operators (61.4 percent). Restaurant density and ownership turnover were strongly correlated (.9919). A qualitative analysis indicated that effective management of family life cycle and quality-of-life issues is more important than previously believed in the growth and development of a restaurant.

Keywords: restaurant failure; dinner-house operation; entrepreneurship; restaurant bankruptcy

> I suffered from mission drift. When things didn't work, I would try something else, and eventually there was no "concept" anymore.
>
> —*A failed restaurateur*

The restaurant industry and its analysts have long pondered the enigmatic question of why restaurants fail. Restaurant failures have been attributed to economic and social factors, to competition and legal restrictions, and even to government intervention. In the current complex environment of the restaurant business, we believe that it is imperative that prospective and current owners understand why restaurants fail (see Sidebar 1).

Most hospitality research has focused on the relative financial performance of existing restaurants instead of examining the basic nature of restaurant failures, and most of these studies considered only bankruptcy reports.[1] Most bankruptcy studies are limited in their scope, however, because many restaurant closures result from change-of-ownership actions, rather than bankruptcies. These change-of-ownership transactions are treated as legal matters instead of actual bankruptcy procedures and may not be included in public records. Furthermore, because the focus of academic research has remained primarily on bankruptcy studies, the qualitative aspects of business failures have received little attention. In writing this article, we hope to determine the underlying factors that determine the viability of a restaurant.

Types of Restaurant Failures

Restaurant failures can be studied from economic, marketing, and managerial perspectives. Of these three perspectives, we observe that restaurant failures have been studied primarily from the economic perspective.[2]

Economic perspective. This category includes restaurants that failed for economic reasons such as decreased profits from diminished revenues; depressed profits resulting from poor controls; and voluntary and involuntary bankruptcies, involving foreclosures, takeover by creditors, receiverships, or frozen assets for nonpayment of receipts.[3]

Marketing perspective. This category consists of restaurants that cease to operate at a specified location for marketing reasons, such as a deliberate strategic choice of repositioning, adapting to changing demographics, accommodating the unrealized demand for new services and products, market consolidation to gain market share in selected regions, and realignment of the product portfolio that requires selected unit closures.[4]

Managerial perspective. This category consists of restaurant failures that are the result of managerial limitations and incompetence. Examples of this group include loss of motivation by owners; management or owner burnout as a result of stress arising from operational problems; issues and concerns of human resources; changes in the personal life of the manager or owner; changes in the stages of the manager or owner's personal life cycle; and legal, technological, and environmental changes that demand operational modifications.[5]

Definitions of Restaurant Failure

Complicating the analysis, we could find no universal definition of restaurant failure, despite the fact that the way a business's failure is defined can greatly alter the failure rate. Studies that use a narrow definition of failure, such as bankruptcy, necessarily have the lowest failure rates,

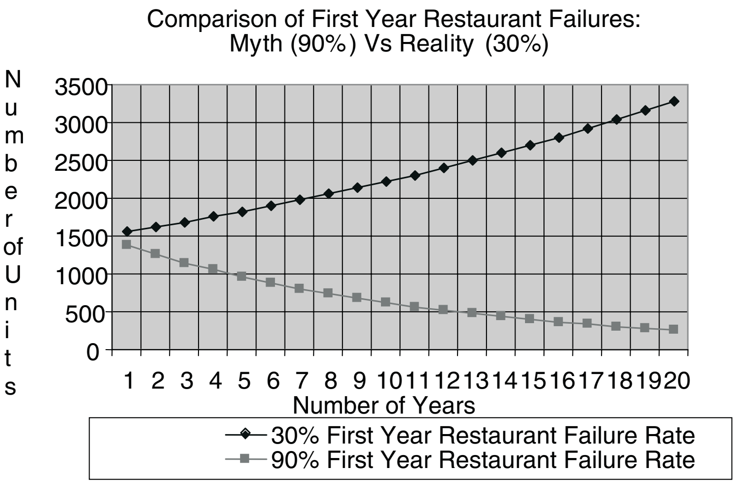
The Myth of the Restaurant Failure Rate

In summer 2003, the NBC television network broadcast a program titled *Restaurant: A Reality Show*. Among other occurrences on this show, an advertisement by American Express claimed, "90 percent of restaurants fail during the first year of operation." To verify the possibility of 90 percent first-year failure, we conducted several spreadsheet simulations. The simulations were based on assumptions that roughly parallel the study in the accompanying article: fifteen hundred restaurants in the market; new-business failures during the first year, 90 percent (the American Express figure); average industry turnover of 10 percent per year (similar to our study's 1999 finding); number of new restaurants opening per year, 15 percent; and average market growth rate, 3 to 4 percent per year (a national average as reported by the National Restaurant Association). In the second series of simulations, we replaced the 90 percent first-year failure rate with a 30 percent rate, drawn from our study (see the accompanying exhibit).

Comparing those two calculations over a twenty-year period, we concluded that if 90 percent of restaurants actually failed during their first year of operation, we would see fewer restaurants at the end of each year, a finding that is contrary to the observed reality in the restaurant industry. In addition, when 90 percent failure was inserted in the equation, simulations indicated that, in twenty years, the market would shrink from 1,500 units to 254 units, or a loss of 84 percent of the existing restaurants. Taking that simulation to its inevitable conclusion, no restaurants would remain in about ninety-four years. These results are practically impossible under normal conditions and run contrary to the National Restaurant Association's observed 3 to 4 percent growth rate (www.restaurant.org).

On the other hand, the 30 percent failure rate resulted in the market's growing by 219 percent, to 3,287 units, a more realistic number. We conclude, therefore, that the reported 90 percent restaurant failure rate is a myth. These results are strongly supported by the outcomes of economic data simulations reported by the Sydney and many other academic research studies showing that restaurant failure during the first year of operations is about 30.0 percent. Indeed, when American Express was asked for its data, it stated in writing that it could not provide data supporting the 90 percent failure assertion it made.—*H.G.P.* and *J.T.S.*

SIDEBAR 1 EXHIBIT
Restaurant Failure Simulation: 90 Percent versus 30 Percent



Note: The figure shows the number of restaurants in a hypothetical market under the assumption that 90 percent fail in the first year (bottom line) or that 30 percent fail in the first year (top line). Other assumptions reflect national averages and findings of the accompanying study, as follows: average annual industry turnover, 10 percent per year; number of new restaurants opening, 15 percent per year; and average market growth rate, 3 to 4 percent per year.

while studies that use a broad definition, such as change of ownership, show the highest failure rates. The definition chosen is usually dictated by the data that the researcher has available, with each definition subject to its own inherent advantages and disadvantages.

Because no reports are required when a business closes, gathering such data involves subjective approaches. An advantage of bankruptcy as the definition of failure, for instance, is the relative ease of obtaining data. The disadvantage of bankruptcy data, however, is its narrow nature. Restaurants that close for any other reason would simply not be included—even for a financial reason, such as failing to achieve a reasonable income for its owners or investors.[6] On the other end of the spectrum, the change-of-ownership definition or "turnover rate" includes all types of business closures. Consequently, turnover rates are much higher than bankruptcy failure rates, regardless of whether the turnover was due to the owner's retirement or due to a change of ownership, such as when a sole proprietorship adds a partner.

Organizational Life Cycle

As with all business organizations, restaurants follow certain stages in a life cycle.[7] At any point along these life-cycle stages, a business can suffer setbacks catastrophic enough to lead to failure. Throughout the life cycle, the first stages are the most vulnerable, which is why the highest proportion of businesses that close are relatively new.[8] This "liability of newness" has linked organizational adolescence to increased organizational mortality rates.[9] One reason for early failure is that new businesses typically have limited resources that would allow them to be flexible or adapt to changing conditions.[10]

Following that logic, it is believed that the longer a company is in business, the less likely it is to fail. Prior research has found that as each year of survival goes by, the failure rate is likely to go down, and by the fourth, fifth, and sixth years, only a modest, but steady, number fail each year. After seven years, the propensity for failure drops dramatically.[11]

Competitive Environment

The environment in which the restaurant operates helps to determine its success or failure. Some attributes of the competitive environment that can influence a restaurant's failure are the business's physical location, its speed of growth, and how it differentiates itself from other restaurants in the market. In addition to the problem of having less cash to handle immediate situations, operators of new restaurants are often unable to manage rapid growth or changes, lack experience in adapting to environmental turbulence, and usually show inadequate planning.[12] An additional failure factor for independent restaurateurs is the ability of chain restaurants, with their economies of scale, to outspend the independents to gain greater market share.

Firm Size

In addition to the age of the firm, research has found a correlation between size and survival. In this regard, the larger firms are more likely to remain in business than small operations.[13] Richardson stated that "both suppliers and bankers are prejudiced against smaller firms. They tend to take longer to act against a slow-paying . . . large enterprise than they do against a smaller firm, because they equate bigness with safety and security."[14] That said, small firms tend to be positioned for growth, but if that growth occurs too rapidly, a restaurant's propensity to fail actually increases because of the ensuing financial stresses.[15] These financial stresses include a high cost of goods sold, debt, and relatively small profit margins.[16] Blue, Cheatham, and Rushing discussed how, at each stage of expansion, there is increased financial risk for a small operation, which increases the likelihood of failure.[17]

Restaurant Density

A restaurant's location in its market and its ability to differentiate itself from its competition also help determine whether it will survive.[18] While a restaurant can benefit from close proximity to competition and restaurants are often located in clusters to attract more traffic, as in a "restaurant row," an operation could find itself in a cluster of restaurants within which it cannot compete effectively. In that regard, a restaurant's inability to differentiate itself from its competition can be fatal. The restaurant's reaction to competitive pressures from excess density depends in part on the nature of its ownership.

External Factors

External environments can change rapidly and companies may not be able to change accordingly.[19] Knowing the nature of one's market is of primary importance to success. Many restaurants fail each year from an inability to understand, adapt to, or anticipate market trends, especially given that some market trends are more difficult to foresee than others. For instance, many restaurateurs must have been shocked by the wild popularity of the Atkins-inspired low-carbohydrate diet, followed almost as suddenly by its apparent abandonment by many customers. To provide the products desired as market preferences shift, operations must trust and have working relationships with their suppliers. Because the resources necessary for business survival come from the external environment, this relationship is important in explaining restaurant failure. O'Neill and Duker found that government-related policies affect business failures.[20] Along that line, Edmunds pointed to the heavy burden of taxation and regulation as contributing to increased business-failure rates.[21]

Jogaratnam, Tse, and Olsen suggested that successful independent restaurant owners must develop strategies that enable them to continuously adapt to the changing environment and find ways to "link with, respond to, integrate with, or exploit environmental opportunities."[22] Typically, external environmental factors affect a segment of the industry broadly, rather than hit any single brand, for example, when a seafood shortage causes problems for all seafood restaurants or high prices for beef hurt hamburger and steakhouse segments. Consequently, the rate of restaurant ownership turnover may differ across different restaurant segments.

Internal Factors

Management capabilities are of primary concern in preventing restaurant failure. Haswell and Holmes reported "managerial inadequacy, incompetence, inefficiency, and inexperience to be a consistent theme [in] explaining small-business failures."[23] Poor management can be connected to "poor financial conditions, inadequate accounting records, limited access to necessary information, and lack of good managerial advice."[24] Other internal factors affecting failure rates of restaurants include poor product, internal relationships, financial volatility, organizational culture, internal and external marketing, and the physical structure and organization of the business. Managers' "inability to manage rapid growth and change" can lead to business failure, concluded Hambrick and Crozier.[25] Sharlit wrote, "The root causes of many business problems and failures lie in the executives' own personality traits,"[26] while Sull commented that managers may suffer from "active inertia."[27]

Makridakis believes that corporations fail due to "organizational arteriosclerosis," overutilization or underutilization of new technology, poor judgment in risk taking, overextending resources and capabilities, being overly optimistic, ignoring or underestimating competition, being preoccupied with the short term, believing in quick fixes, relying on barriers to entry, and overreacting to problems.[28] West and Olsen determined five strategic factors used to determine the grand strategy of a firm. The management or owner's strategic positioning has a strong influence on a business's success.[29] In agreement, Lee stated, "The most important criterion for success . . . is management. Managers . . . direct the marketing, oversee product quality and standardization, and decide when and how to adapt."[30]

Studying Failure

We investigated restaurant failure using qualitative and quantitative methods in two independent steps. Step I consists of findings from quantitative assessment of restaurant failures using longitudinal data from 1996 to 1999; step II reveals findings from qualitative investigation of managerial perceptions and views of restaurateurs.

Step I: Quantitative Investigation—A Success-Filled Industry

Step I of our study involved the analysis of restaurant ownership turnover data from 1996 through 1999. The data were collected with the help of the health department of Columbus, Ohio, a major metropolitan area in the Midwestern United States.

Most of the earlier studies assessing restaurant failure have used either telephone-directory business listings or bankruptcy data. To overcome the incomplete nature of data from bankruptcy filings and telephone directories, our study used data on 2,439 operating-license permits from the Columbus health department. (We removed from the data set the licenses for other food-service facilities, such as daycare centers, hospitals, and grocery stores, to achieve our total *N* of 2,439.)

Exhibit 1:
Restaurant Ownership Turnover (ROT) in the Test Market, 1996-1999

	Year One	Year Two	Year Three	In Business	Total
Total ROT	638	1,107	1,457	982	2,439
ROT percentage per year	26.16	19.23	14.35	40.26	100
Cumulative percentage	26.16	45.39	59.74		
Number of independent restaurants failed	408	699	910	573	1,483
ROT percentage	27.51	19.62	14.23	38.64	100
Cumulative percentage	27.51	47.13	61.36		
Number of chain restaurants failed	230	408	547	409	956
ROT percentage	24.06	18.62	14.54	42.78	100
Cumulative percentage	24.06	42.68	57.22		
Ratio of independent to chain restaurants	1.77	1.71	2.22	1.40	1.55

Not only must every restaurateur renew the health permit annually, but any change in the restaurant's legal ownership requires a new permit.

The health department ascribes to each restaurant location a specific identification number. This ID is a permanent number that does not change with a change in ownership. Similarly, each restaurant owner has a specific identification number. A comparison of the ownership and location ID numbers reveals any change in restaurant ownership, as well as providing information regarding multiple locations operated by the same owner.

Diminishing Failure Levels

Restaurant ownership turnover rate was calculated for one-, two- and three-year periods from 1996 through 1999. Failure rates declined for each year, with the highest failure rate noted during the first year (26.16 percent) followed by the second (19.23 percent) and the third year (14.35 percent) (see Exhibits 1 and 2). Likewise, the highest restaurant ownership turnover occurred during the first year. These results are consistent with several other studies.[31] In his 2004 study of 24,000 restaurants in the Los Angeles area, for instance, John Self reported a first-year failure rate of 24.3 percent and a three-year cumulative rate of 50.9 percent for 1999 through 2002.[32]

The three-year cumulative restaurant-failure rate for franchised chains was 57.22 percent, while it was 61.36 percent for independent restaurants (Exhibit 3). This difference is statistically significant ($p < .05$). The failure rate is slightly higher for independent restaurants (4.14 percent-

Exhibit 2:
Restaurant Business Failures per Year, 1996-1999

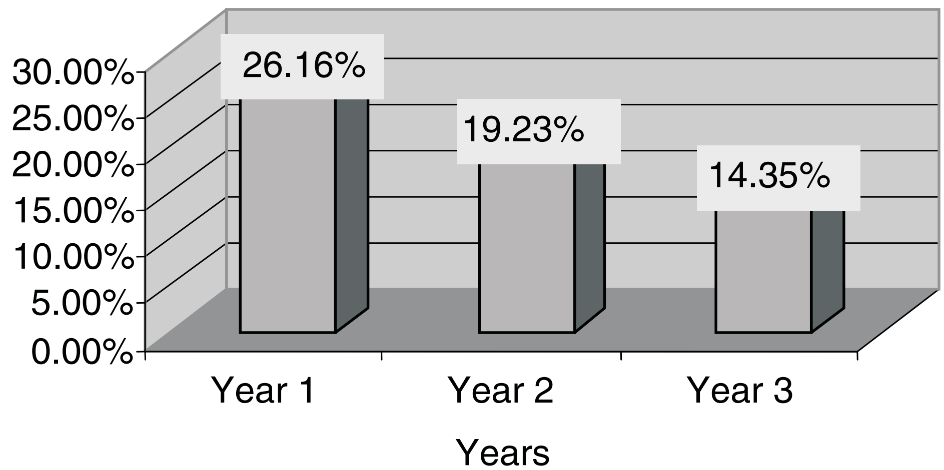
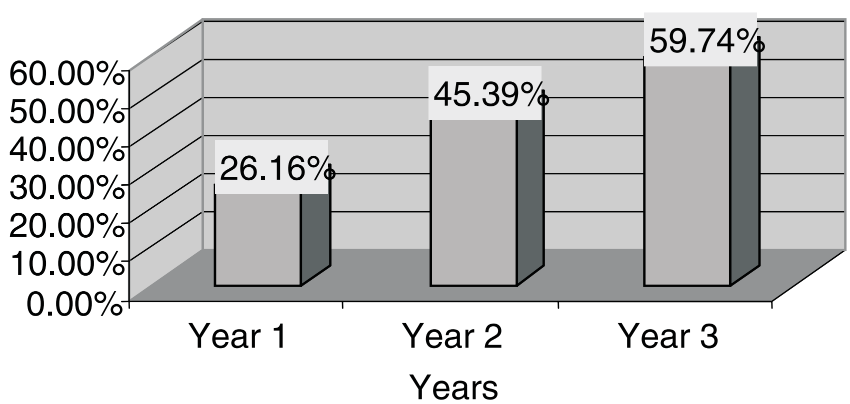


Exhibit 3:
Cumulative Percentage of Restaurant Business Failures, 1996-1999



age points) than for chains. Again these results are consistent with earlier studies.

The descriptive statistics indicated that most independent restaurateurs owned two or fewer units, and by definition, all franchise restaurants had a minimum of three units. Thus, one of the major differences between franchised and independent restaurants was the size of ownership measured in number of units. The

Exhibit 4:
Top Ten U.S. Postal ZIP Codes in the Test Market by Restaurant Density and Restaurant Ownership Turnover (ROT), 1996-1999

ZIP Code	*Restaurant Density by ZIP Code*[a]	*Percentage Density*	*Number of Failures in Three Years*	*Percentage Failure*
43215	315	22.69	193	23.03
43229	241	17.36	146	17.42
43201	181	13.04	103	12.29
43232	108	7.78	63	7.52
43235	111	7.99	59	7.04
43228	87	6.27	57	6.80
43204	87	6.27	56	6.68
43214	85	6.12	54	6.44
43207	98	7.06	54	6.44
43219	75	5.40	53	6.32

a. Total number of restaurants per ZIP code.

obtained higher restaurant ownership turnover rate (61.4 percent) among the independent restaurants as compared to the franchises (57.2 percent) indicated that small firms had higher ownership turnover rates than did the large firms.

The density of restaurants was measured using U.S. Postal Service ZIP code data. ZIP codes in the metropolitan area were ranked according to restaurant concentration per ZIP code, which closely reflects population density. The data were then compared with the restaurant ownership turnover rate in the corresponding ZIP codes. Results indicated that the restaurant failure rate is highest in the ZIP code areas where restaurant concentration is also the highest (see Exhibit 4).

In addition, the restaurant ownership turnover rate was also calculated across various segments of the restaurant industry by the type of food served. For the three years of our study, Mexican restaurants reported the highest three-year cumulative ownership turnover rate (86.8 percent), followed by sub shops and bakeries, coffee shops, and pizza restaurants. Cafeterias and seafood restaurants had the lowest cumulative ownership turnover rate for the three-year period (see Exhibit 5).

Implications

We see the following implications from this portion of our study:

1. Contrary to the oft-repeated myth that 90 percent of restaurants fail in their first year, we note a failure rate closer to 26 percent—and the cumulative failure rate never exceeded 60 percent in the three years we studied.
2. Failure rates were notably higher for small, independent operations than they were for relatively large, franchised restaurants. Thus, we suggest that the financial community make itself aware that the restaurant industry comprises different segments with varying levels of failure rates and, thus, different levels of risk.
3. In that regard, the banking community could consider lower interest rates for all restaurants and particularly for those ventures that are statistically more likely to succeed. Purported high business failures have often resulted in high interest rates for restaurateurs. In addition to gaining more

Exhibit 5:
Cumulative Restaurant Ownership Turnover Percentage by Restaurant Segment, 1996-1999

Restaurant Segment	*Cumulative Three-Year Turnover Percentage*
Mexican	86.81
Subs and bakeries	76.69
Coffee and snacks	70.00
Pizza	61.25
Chicken	57.88
Casual dining	53.13
Asian	51.43
Family dining	45.00
Steak	42.86
Buffets and cafeterias	38.46
Italian	35.29
Burgers	33.70
Seafood	33.33

favorable terms from the banking community, restaurateurs should also be able to gain better rates when borrowing from the federal agencies such as the Small Business Administration and state and local economic agencies. Moreover, although restaurants (i.e., eating and drinking places) topped the list of failed businesses in the 1996 records from Dun and Bradstreet Bankruptcy Reports, several other businesses were much higher when one considers the loss per failed unit, as shown in Exhibit 6.

This study may also help spread a more positive image of the restaurant industry in the financial community, thus encouraging more capital investments in restaurants and casting the restaurant industry in a more positive light compared to other retail endeavors.

4. Given that an overconcentration of restaurants may lead to more failures, city planners should undertake identification of an optimum point for restaurant saturation.
5. These findings clearly demonstrate that even though restaurant failures may be high in pure numbers, they do not leave much financial burden on the local community, unlike failures in many other industries. Thus, city or town planners may want to consider these positive aspects while evaluating local grants, tax rebates, and zoning restrictions.

Step II: Qualitative Investigation

> It became increasingly difficult to balance the demands of operating the business with the needs of the family. I decided it was best to move on.
>
> —*Don Braddy*, Fort Collins, Colorado[33]

We supplemented our quantitative analysis with qualitative study to allow us to analyze relationships between events and external factors more effectively than quantitative procedures (see the illustration in Sidebar 2).[34] Qualitative data were obtained by interviewing twenty successful full-service restaurant operators who had been in business for at least five years and twenty failed restaurant operators who once ran a full-service restaurant and are no longer in business. Five years of continuous operations was suggested by the local restaurant association as a measure of success in the restaurant business. Restaurant owners whom we interviewed were screened to be independent operators (not franchisees). This is a convenience sample, composed using contacts and local business people. While this is not a random sample, the purpose of our interviews was to elicit and explain difficult to assess ideas and phenomena associated with restaurant success and failure.[35] A tested questionnaire was used for all the interviews. The obtained qualitative data were reviewed and coded by two independent researchers.

The qualitative study proceeded in two phases. First, as part of master's project, a graduate student interviewed five successful and five failed restaurant owners. In this phase, interview participants were limited to those from full-service restaurants in the casual- and fine-dining segment to reduce group variation. It is believed that different factors may affect different segments of the restaurant businesses; therefore, for the purposes of this initial study, it was important to look at only one segment of the restaurant industry. Based on the experiences from the initial interviews, the instrument was modified slightly to decrease the length of the questionnaire.

Subsequently, we interviewed fifteen more currently operating restaurateurs and fifteen more restaurateurs who are no longer in the restaurant business. The interviewees who no longer own restaurants were restaurant managers who are working for other companies after closing their restaurant businesses and ex-restaurateurs who are no longer in the food-service business. Selected students from an undergraduate hospitality marketing class took part in this data collection during January, February, and March 2004, typically a slow time for restaurants. Each research team, consisting of two students, interviewed one successful owner and one failed owner in interviews that lasted from sixty to ninety minutes. As one student asked questions, the other student took interview notes. Most of the successful-operator interviews took place in the restaurants. In the case of failed restaurants, some of the interviews were conducted by telephone, as the owners had moved out of state.

We surveyed independent restaurant owners because their success or failure rests more directly on their own decision making (as compared to franchise owners) and because of independent restaurants' relatively high failure rates.[36] Franchise-restaurant failure may have causes that are specific to the franchise system and may

It Is the Milkshake, Stupid!

Cameron Mitchell is a multiunit, multiconcept restaurant operator. One day Mitchell took his family to a full-service restaurant to treat his son on his birthday. When the birthday boy asked for a chocolate shake, the waiter replied that the restaurant could not make milkshakes. As an experienced operator and a graduate of the Culinary Institute of America, Mitchell became furious. "Do you have milk? Do you have chocolate ice cream? Do you have a blender?," he asked. "Well, you can make a chocolate milkshake." The server went back to the kitchen and talked to the manager, but the answer was the same: no milkshake. About a week later, one of the people who had heard Mitchell tell this story told him that the exact same thing had happened to him—at one of Mitchell's own restaurants. Since then, Mitchell has made sure that every new employee gets a milkshake and hears that story on his or her first day of training. "We want our people to have the attitude, 'The answer is yes. What's the question?"' he says.

Source: Barnet D. Wolf, "Cameron: Now, Most Likely to Succeed," *Columbus Dispatch*, October 26, 2003; and www.cameronmitchell.com.

Exhibit 6:
Ranking of Top Twelve Retail Businesses by Number of Business Failures and Total Financial Liabilities

Industry Name	*Total Number of Failures (1996)*	*Rank*	*Total Industry Liability (1996)*	*Rank*	*Liability per Failed Unit*	*Rank*
Eating and drinking places	3,901	1	$550,268,532	3	$141,058	11
Furniture and home furnishings	1,437	2	$1,464,289,154	1	$1,018,990	1
Food stores	1,210	3	$415,586,659	4	$343,460	7
Apparel and accessory stores	1,194	4	$1,197,880,414	2	$1,003,250	2
Other retail stores	1,164	5	$120,880,116	10	$103,849	12
Automotive dealers and service stations	1,061	6	$172,979,289	7	$163,034	10
Nonstore retailers	604	7	$130,446,603	9	$215,971	8
Gift, novelty, and souvenir shops	547	8	$91,898,049	12	$168,004	9
Building materials and garden supplies	541	9	$311,799,779	5	$576,340	4
Sporting goods and bicycle shops	433	10	$162,116,636	8	$374,403	6
Jewelry stores	193	11	$110,197,501	11	$570,972	5
General merchandise stores	190	12	$189,509,276	6	$997,417	3
Total retail trade	13,476		$5,060,452,369		$375,516	

Source: Dun and Bradstreet Bankruptcy Reports. See http://www.dnb.com/us/.

not be in the control of the local operator. The questionnaire that the students used consisted of various topics, including operations, leadership, and marketing. The investigation also included exploration of quality-of-life issues and their impact on the restaurateurs' business decisions.

We decided to interview the owners and former owners so that we could obtain details about the beginning of the operation, including choice of location, concept development, and culture, which managers might not know. We also hoped to find factors in owners' family life cycles, their personal value systems, and their perceptions of the industry and the environment that determined their business decisions and, ultimately, their survival or failure. By comparing the views of current operators with those of failed operators, we hoped to establish the factors contributing to restaurant failure and success.[37]

Concept over Strategy

Perhaps the key finding was that a successful restaurant requires focus on a clear concept that drives all activities. In this finding, concept is distinct from strategy. A remarkable outcome of the interviews is that we found few differences in having a well-defined strategy between successful and failed restaurant owners but considerable differences in clarity of concept. In fact, some of the most successful managers did not have a well-defined strategy (they "adapted and changed along the way as needed")—and some of the failed restaurateurs had elaborate strategic plans. Beyond muddled concepts, failure seemed to stem in large part from an inability or unwillingness to give the business sufficient attention, whether due to a lack of time, passion, or knowledge. Successful restaurateurs attributed their success to their ability to concurrently manage the family life cycle and the business cycle. In contrast, most of the failed restaurateurs attributed their failure partly to family demands (e.g., divorce, ill health, retirement). Family sacrifice was mentioned by both successful and failed owners, but the successful owners were either good at balancing their family and work lives or they were not married. On the other hand, five of the failed owners said that they closed when they were no longer willing to make those family sacrifices. This outcome is consistent with the results reported by Ghiselli, La Lopa, and Bai in their study on quality of life issues with restaurant managers.[38]

Most successful owners attributed their success to their marketing savvy (especially relationship marketing), whereas the failed owners often blamed their failure on competitors' intensive marketing activities. Thus, it is clear that knowledge of marketing functions is essential for successful operation of restaurants.

Successful owners had a passion for business and high energy levels, whereas the failed restaurateurs lacked the high energy levels necessary to motivate themselves and their employees—symptomatic of the "burnout" stage of one's career. At some point during the interview, each of the failed restaurant owners mentioned the burden of the immense time commitment required for a restaurant.

Critical factors contributing to a restaurant's success were food quality and the characteristics of the owner-manager, including knowledge, drive, skills, determination, and passion. Another critical factor discussed was the staff, including employees' training, personality, and diversity. Capital and financial management were important, as were location and a well-defined concept. These factors mostly stem from the owner's own personality traits, relationships with customers and staff, and dedication to providing a quality product.

The critical factors cited by failed restaurateurs as contributing to their restaurants' failure were owner-manager characteristics, including attitudes, expectations, control, knowledge, skills, and ambition. Other top factors include the already mentioned demand of labor and time; poor food-quality controls or low perceived value; being undercapitalized or having poor financial management; and the quality of employees and service, including the amount of turnover. Having an ill-defined concept was also listed as a large contributor to restaurant failure.

Interestingly, successful restaurant owners all had a well-defined concept that not only provided a food product but also included an operating philosophy, which encompassed business operations as well as employee and customer relations. Failed restaurant owners, when asked about their concept, discussed only their food product. They would state that their concept was "vegetarian food," or "Alaskan seafood." They all offered high-quality foods, but that did not make them successful. Although food quality was discussed as being critical to restaurant success, it is obvious from the interviews that food quality does not guarantee success; the concept must be defined beyond the type of food served.

We found no example in our sample of a restaurant closing due to external forces. In contrast to earlier research, we do not conclude that external forces necessarily predict success or failure. It appears that external factors may not automatically lead to failure if they are properly managed. One could argue that external forces generally affect all restaurants similarly, somewhat like the weather in a given geographic area. It is the individual's preparation or lack thereof that makes the difference in the severity of the impact. Similarly, it is the restaurateur's responsibility to prepare for impending external "weather" conditions.

This study also called into question the commonly held belief that restaurant viability is determined by the amount of capital investment. Although sufficient financing was cited as critical to restaurant success by most of the participants interviewed, some of the most successful restaurant owners started their operations with less than $100,000 in capital. This indicates that ongoing financial management may be a better predictor of restaurant viability than capital investment. To underscore these findings, the internal environment was determined to be the most critical factor contributing to restaurant viability, with the owner's characteristics and goals serving as the guiding force.

Implications for Restaurant Owners

Regardless of the size or organization of a restaurant operation, the following implications seem clear from our interviews. We have summarized the many forces that bear on restaurant success or failure in the model in Exhibit 7, and we discuss those factors in Sidebar 3.

1. A well-defined business concept is essential to success. Successful owners could describe their concept during our interviews, whereas failed owners could only describe the food and could not expand their description of concept beyond food production: "I suffered from mission drift. When things didn't work, I would try something else, and eventually there was no 'concept' anymore." "A restaurant can close if it loses its focus and if it tries to be too many things to too many people by offering more than it can successfully implement."
2. The organizational life cycle depends on the family life cycle. Most owners mentioned how their family situation drove their decision to grow, change, or leave the business: "Family and spousal support is essential for the success of a restaurant." Family support goes beyond that of the owner. It means recognizing that your employees have families also. On New Year's Eve 1999, when most restaurants stayed open past midnight taking advantage of the millennium celebrations, one restaurateur whom we interviewed closed the doors at 5:00 p.m. so that the employees could go home and spend time with their families.
3. It is no surprise to find that location is important to restaurant success, but only one (failed) owner mentioned location as being a contributor to his restaurant's failure. This particular restaurant was located upstairs on a busy street near a hospital. There was no parking nearby, and so customers had to walk from the hospital. Though the restaurant was initially successful, it attracted only walk-in customers. That example notwithstanding, the consensus was that a poor location can be overcome by a great product and operation, but a good location cannot overcome bad product or operation.
4. Growth requires extensive prior planning. One of the failed restaurateurs expanded his unit's operations until the restaurant became unmanageable.
5. Although they were not mentioned specifically as contributing to failure, family pressures and sacrifices, as well as the sacrifices made by family members for the owners to have their restaurants, were often mentioned by both failed and successful owners. The successful owners were single, divorced, or good at balancing their family and work lives. The failed owners were no longer willing to make those family sacrifices. To reiterate our point above, the immense time commitment required was mentioned by all of the failed restaurant owners. One of the failed owners felt the guilt of being unable to be with her children while they were growing up. So she sold the operation.
6. Although a clear concept is essential, having a well-defined strategy was not found to be critical to a restaurant's success. Some of the restaurant owners who had been extraordinarily successful were "going with the flow," while some owners failed despite well-defined strategies. The lesson in this

Elements of Restaurant Success and Failure

Elements of Success:

1. Have a distinctive concept that has been well researched.
2. Ensure that all decisions make long-term economic sense.
3. Adapt desirable technologies, especially for record keeping and tracking customers.
4. Educate managers through continuing education at trade shows and workshops. An environment that fosters professional growth has better productivity.
5. Effectively and regularly communicate values and objectives to employees. In one instance, new owners credited communication of their values and objectives to their employees as a major element in the successful repositioning of their restaurant to better meet the needs of the growing neighborhood businesses by adding lunch to their dinner-only concept.
6. Maintain a clear vision, mission, and operation strategies, but be willing to amend strategies as the situation changes.
7. Create a cost-conscious culture, which includes stringent record keeping.
8. Focus on one concentrated theme and develop it well.
9. Be willing to make a substantial time commitment both to the restaurant and to family. One successful owner refused to expand his business into lunch periods because he believed that his full-service dinner house was demanding enough from his family.
10. Create and build a positive organization culture through consistent management.
11. Maintain managerial flexibility.
12. Choose the location carefully, although having a good location seems to be more a moderating variable than a mediating (causal) variable in restaurant viability.

Elements of Failure:

1. Lack of documented strategy; only informal or oral communication of mission and vision; lack of organizational culture fostering success characteristics.
2. Inability or unwillingness to establish and formalize operational standards; seat-of-the-pants management.
3. Frequent critical incidents; managing operations by “putting out fires” appears to be a common practice.
4. Focusing on one aspect of the business at the expense of the others.
5. Poor choice of location.
6. Lack of match between restaurant concept and location. A night club failed, for instance, because it opened across the street from a police station. The owners thought that the police station would be a deterrent for potential criminal elements and bar fights, but unfortunately it was also a deterrent for customers, who were afraid of police scrutiny and potential DUI tickets. The club was closed within eighteen months.
7. Lack of sufficient start-up capital or operational capital.
8. Lack of business experience or knowledge of restaurant operations. The owners of a successful night club expanded their business by investing more than $1.5 million in renovating an old bank building for a fine-dining restaurant. With no knowledge of restaurant operations, they opened the restaurant with zero marketing budget as they relied primarily on free publicity and word of mouth. In less than one year, the restaurant was closed, with more than $5 million in debt. The owners tried to salvage the business by converting it into a night club, but with no success.
9. Poor communication with consumers. One restaurant failed to take off after a major renovation because the owners did not communicate to their clientele their reason for closing or their timetable for reopening. Their customers were long gone by the time they reopened.
10. Negative consumer perception of value; price and product must match.
11. Inability to maintain operational standards, leading to too many service gaps. Poor sanitary standards are almost guaranteed to kill a restaurant. One operation was exposed by a local television station for poor sanitary practices. Though the sanitary conditions subsequently improved—as reported by the

same television station—the damage was done and the restaurant was closed. It later reopened as a successful full-service restaurant.
12. For ethnic restaurants, loss of authenticity; for all restaurants, loss of conceptual integrity.
13. Becoming everything to everyone; failure of differentiation or distinctiveness.
14. Underestimating the competition. A contemporary restaurant located near an established restaurant adjacent to a golf club failed when it could not draw the golfers from their traditional haunts. Owners thought that their new restaurant would have no problem attracting the golfers.
15. Lack of owner commitment due to family demands, such as illness or emotional problems. In an extreme example, a child with a long-term illness prevented an owner from devoting necessary time to the restaurant, which soon closed.
16. Lack of operational performance evaluation systems. In one instance, new owners did not know how to calculate food cost and relied on employees to maintain proper inventory controls.
17. Frequent changes in management and diverse views of the mission, vision, and objectives. In an example that is common in partnerships, the owners of a failed restaurant could not agree on its direction after just one year of operation.
18. Tardy establishment of vision and mission statements of the business; failure to integrate vision and mission into the operation; lack of commitment in management or employee ranks.
19. Failure to maintain management flexibility and innovation.
20. Noncontrollable, external factors, such as fires, changing demographic trends, legislation, economy, and social and cultural changes.
21. Entrepreneurial incompetence; inability to operate as or recruit professional managers.

finding is that restaurateurs must not be so rigid in their strategy that they fail to see opportunities as they appear. As an example, one of the successful restaurateurs continued to adjust his operations as the neighborhood evolved, and his place became a popular hangout for college students. He gradually changed the menu to add value offerings and to remove the expensive items that his new customers could not or would not order. Thus, the restaurant, which began as a small, family-style restaurant, became a large, value-centered, full-service, coffee-shop-style restaurant for college students.

7. Awareness of specific competitors did not seem to be critical to restaurant success. Most of the owners defined their competition as any dining establishment; one even went so far as to define the competition for dining dollars as "any entertainment during the dinner hours." Competition was viewed by most of the owners to be a tool for self-measurement but not necessarily something to use to develop strategic defenses.
8. Having a defined target market was not critical to success. Not only was a defined target market not mentioned by any of the owners as a critical factor, but it was not obvious from the interviews that successful owners could define their target market. We found successful owners who could not determine a demographic or psychographic segment that they appeal to, and, more to the point, some failed owners could demographically pinpoint the target market that they had missed.
9. Likewise, marketing strategy did not seem to be critical to a restaurant's success. The owners whom we interviewed rarely used advertising or promotions. One owner mentioned marketing as a critical factor but went on to discuss the target-market awareness, at the same time stating specifically that advertising is not necessary. On the other hand, public relations, community involvement, and customer relations were all considered important to their business operations. The successful owners, when asked about marketing, all discussed these types of relationships in the community over advertising or promotions. In fact, the most successful owners all stated a strong belief in *not* advertising and *not* using promotions. In that regard, one owner stated, "If you have to give something away then you shouldn't be in business."
10. The owner's skills and knowledge are critical factors. "One should not rely on others, but should be knowledgeable in all areas of the business."

Conclusions

Combining our quantitative (longitudinal) and qualitative data, we present (in

Exhibit 7:
Impact of Various Factors on Restaurant Viability

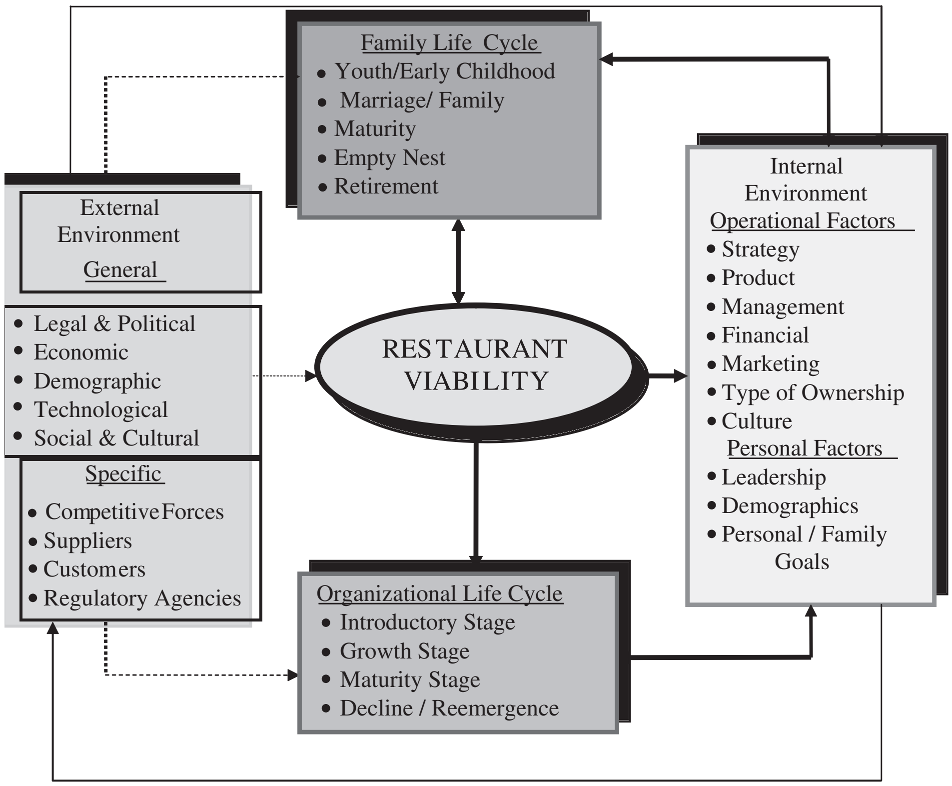


Exhibit 7) a model for future research. Our study indicates that the restaurant failure rate is affected more by internal factors than by external factors, although both apply. Such attributes as restaurant density, firm size, and managerial characteristics are important to success. In particular, the manager's ability to balance family matters with the development of the organization is critical. Along with that balance, it is important for the owner-manager to have the requisite skills to run a restaurant. While the restaurateur should plan carefully in growing the business, she or he should be ready at any time to alter plans in response to changes in external factors. Finally, while formal marketing and advertising seem not to be important to the success of an independent restaurateur, the restaurant must pay attention to community and customer relations so that it is perceived to be a part of its community.

Further research should focus on those factors that have been found to be the most critical to restaurant survival. Although it is comforting to work with numbers and to look at external forces and failure rates, it is more important to get to the core internal issues underlying restaurant viability. Future research on successful ownership characteristics and managerial factors can be useful to aspiring restaurant owners. Also, the complex roles of family and organizational life cycles in restaurant viability warrant further investigation.

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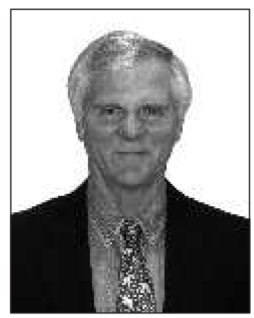

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