



How To Scale Restaurant Growth





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For successful — and busy — restaurant owner/operators, the thought of opening an additional location is both intriguing and daunting. On the one hand, expansion brings with it the promise of higher visibility, greater customer reach and increased profit potential. On the other, there are some practical considerations that can have far-reaching impact on current and future operations if not carefully evaluated.

Ask yourself these important, gut-check questions before you commit to an expansion to balance the excitement of growing your business with the reality of what's needed to make it happen.

SHOULD YOU EXPAND?

The success of your primary operation is a logical factor in your decision to add on. You need sustained profitability to ensure you can comfortably carry the dual financial burden of supporting existing operations and getting the new restaurant up and running.

However, you must also understand why the dollars are coming through the door — and if it can be replicated so other locations thrive.

Take the time to research why and how your current restaurant has been successful. Dig into:

- Location
- Accessibility
- Ambiance
- Service
- Food quality

Can the new restaurant deliver on all of these elements? If not, you may want to invest in growth alternatives to brick and mortar restaurants that are more flexible and less costly to maintain, like adding a take 'n' bake operation or food trucks.



IS FUNDING AVAILABLE?

Since an additional location can represent up to half of your entire operation, failure could mean bankruptcy for both restaurants. That's a sobering thought.

Don't get ahead of yourself. Whether going all-in on a new restaurant or expanding through growth alternatives, the fact remains: you have to be able to afford it — and that means “big picture” thinking about payables, controlled costs, cash flow and maintaining vendor relationships without stretching resources or toppling balance sheets.

Calculating all potential start-up expenses will give you a clear picture of what you're committing to, and help you determine how much money you may need to borrow in order to launch your additional location.

A broad range of costs enter the picture, including:

- **New construction/renovation:** Building from the ground up or refurbishing an existing space are expensive ways to establish a new restaurant. Everything from real estate costs to incidentals adds up quickly and must be carefully monitored.
- **Kitchen equipment:** Your menu, service type and kitchen layout will dictate what commercial equipment is required.
- **Preliminary inventory:** The initial food purchase will be large to stock shelves and allow for sales spikes during the opening weeks. Food vendor minimums may also influence the scale of purchase.
- **Employee wages and benefits:** Regardless of the size of your staff, a portion of capital is predictably earmarked for workers.

Financing Options

Start-up capital doesn't always come from one source. In addition to any personal on-hand savings you invest, you may borrow using one — or a combination — of the following:

- **Traditional bank loans** are the most common funding option, but introduce the risk of repayment even if the business fails, stringent parameters for first-time borrowers and a high likelihood of loan rejection.

continued on next page



- **Marketing:** Getting the word out about a new restaurant happens well before the doors open, requiring upfront funding.
- **Working capital:** Initially, cash flow will be imbalanced between outgoing obligations and income. Have a cash reserve on hand that's equivalent to at least one year's worth of anticipated sales to cover the gap between start-up and profitability.

Financing your restaurant is equally as complicated. Prepare for meetings with lenders and securing the needed funds by taking the following steps:

- **Invest your money first:** Putting up your own cash demonstrates your commitment to the venture, reduces the amount you need to borrow and makes you more attractive to lenders.
- **Develop a detailed list of relevant experience:** Past food industry performance, prior restaurant ownership, culinary expertise and business management along with prior restaurant experience all factor into lender and investor financing decisions.
- **Make sure the location is financing-worthy:** Historically poor-performing restaurant locations or excessive mortgage/rent payments can lead to loan denial.
- **Create a business plan:** Documents containing the general description and purpose of the restaurant, and industry research that supports the concept bolster credibility with lenders.

Financing Options

- **Small Business Administration (SBA) loan programs** provide U.S. governmental guarantees for private and public personal loans you secure. Eligibility factors include the type/size of business, use of funds and the availability of other funding sources.
- **Investors**, whether an individual partner or a several-member consortium, can be a great way to pool resources. Make your proposal worth investors' time by showcasing your experience and operational skills, and consider offering incentives like restaurant equity or interest-bearing partial payback.



WILL THE NEW LOCATION APPEAL TO YOUR TARGET MARKET?

“Location. Location. Location.” This oft-repeated real estate industry maxim about homes is equally applicable to restaurants.

Use your first location as a benchmark against which to compare potential spots for your new restaurant. Ask yourself key questions like: What makes the neighborhood integral to your success? How much competition is within the immediate area? Do the nearby restaurants consistently draw customers? Do vehicular and foot traffic flow freely? Are storefronts highly visible? Although it’s unlikely you’ll duplicate conditions exactly, scrutinizing what worked the first time will help guide your general choice.

Proximity to your target market is one of, if not the, most critical components in location scouting. How do you know if you’re hitting the nail on the head? Take a quick inventory of the demographics your target customer embodies, including:

- Age
- Education or job status
- Gender
- Income level

Lifestyle and neighborhood considerations count, too:

- Marital status
- Housing type
- Presence of competition
- Size of household
- Owner/renter status

Knowing this information creates a “snapshot,” or persona, of the ultimate customer and location, but don’t neglect a little legwork too. Take some time to get to know the area and its residents before committing to a location. If the prevalent values, opinions, culture, lifestyle and topics of community interest align with your target market, chances are your restaurant will be welcomed and supported.

Know Your Audience

Understanding your target market pays marketing dividends, too. You can craft messaging and offers that appeal to the values and needs of your identified generational audiences like Baby Boomers and Gen X’ers, speaking in the voice that best resonates with them.



If part of your current restaurant's success is due to being located within prime target market territory, it may be tempting to open your second location within close proximity to capitalize on the traffic. This strategy isn't without merit, but it must be carefully considered. If your first restaurant already serves the majority of your ideal customers in the area, opening another location close by may do more harm than good in that you risk cannibalizing sales. On the other hand, if your first restaurant hasn't maximized its reach, or if the greater area is growing or can otherwise support the expansion, there may be opportunity.

CAN YOU AND YOUR TEAM GIVE THE NEW LOCATION UNDIVIDED ATTENTION?

Once you open an additional location, everything multiplies — customers, staff, inventory, facility maintenance, costs, and the list goes on. However, the number of hours you have to address all of these needs remains the same.

Resist the temptation to be all things to all people. Ask for support from staff, and rely on them to pick up any slack left by your absence as you focus more of your time on launching the new location. Even after the new restaurant is up and running, your time will be divided, making it imperative that you:

- Foster trusted relationships with your shift managers, senior servers and chefs
- Name a general manager who possesses a minimum of six months of experience in your organization and has demonstrated skills to independently oversee operations
- Continue to invest in staffing, prioritizing hires around abilities, loyalty and dependability

You Have a Hiring Head Start

Your first location is a proven success, which means you likely have an exceptional staff. Evaluate the group's strengths and weaknesses, and use the list to hire employees for your new place.

Also, current talent can help train new employees. Have current talent work some shifts at the new restaurant and also have new staff participate in job shadowing at your existing location.



Adding a restaurant is both a sizeable accomplishment and undertaking. Asking the right questions upfront will guide you toward the diligent research, smart financial planning, employee support and strong vendor relationships that you'll need to succeed.

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