

Can You Make Your Fortune With Food?

By Randy Myers, November 7, 2011



Starting a restaurant is a common dream ... and a lot of work. Here are some tips to improve your odds of success in this notoriously difficult industry.

Just about everyone who enjoys cooking, it seems, has fantasized about launching a little restaurant. There's an undeniable romanticism associated with opening your own eatery, despite the harsh reality that 1 in 4 restaurants fails in its first year.

This is an especially dicey time to try: Market research firm NPD Group reports that the number of U.S. restaurants fell 2 percent in the year ended March 31, 2011. That's 9,450 restaurants that kicked the bucket, most independents rather than chain units. Sageworks Inc., which analyzes the results of privately held companies, warns that rising food costs are threatening restaurant profit margins as well.

Such news isn't holding back Brad Halsten, a former social services worker who last year opened The Burger Dive in downtown Billings, Montana, with his wife, Andi, fulfilling a long-held dream. At first, Halsten thought he could operate his restaurant with just one helper, but business has been so good that he and his wife now employ 12 people.

If you're inclined to follow in the Halstens' footsteps, here are seven ways to improve your odds of success:

- Don't underestimate expenses. It can easily take six months for a restaurant to reach break-even on an operating basis, warns Barry Knepper, a CPA in Jericho, New York, who offers part-time CFO services as a member of SBA Consulting Ltd. Besides the direct costs of outfitting a kitchen and dining room, architectural and design fees can add 15 to 20 percent to your bill. Halsten was mistakenly led to believe he could lease a hood system for his kitchen exhaust; instead, he had to spend \$30,000 to buy one.

- Go for good looks, but be practical. Your restaurant may represent your dream, but don't lose perspective and blow your budget. Knepper says one of his established clients is saving money by opening new locations only in former restaurants. Such sites already have the necessary electrical and plumbing systems, hoods, walk-in refrigerators and restrooms.

- Involve local regulators early in your remodeling plans. Halsten invited fire, health and building inspectors to sign off on his remodeling plans before he started construction. "We heard several nightmares talking to other owners who thought they were ready to open, only not to pass inspection," he recalls. "We didn't want that to happen to us. Our budget was tight and we knew we had to get it right the first time."

- Plan on long, hard hours. Even though his restaurant is only open five hours a day, Halsten is typically on-site for 10. Chef-turned-food-cart-operator James King puts in nearly that many hours selling lunches from his fish and chips cart, The Frying Scotsman, which he opened in Portland, Oregon, in 2009. A solo operator, King peels and slices up to 100 pounds of potatoes himself every morning — and prepares his other foods from

scratch, too. Halsten says, “[I] didn’t appreciate just how difficult it was going to be to stand on that line and work with other cooks to get meals out. Cooking at home for my friends was easy. It was a real eye-opener to see people waiting for a table and know they only had 20 or 30 minutes to get back to work.”

- Forget vacations for a while. Unless you have a trusted family member to take your spot, you’ll likely be at your restaurant every day — and not just to make sure your new spinach soup tastes right. “The old expression is, ‘The cash goes out the front door, and the food goes out the back door,’” says Knepper, “meaning employees will steal both your money and your food.”

- Mind your portions and recipes. Food accounts for about a third of restaurant operating costs, yet novice restaurateurs are often lax about portion control, ruining profit margins. Know what each recipe will cost and stick to your calculated portions. “Let’s say you buy a 30-pound salmon and plan to serve each guest 8 ounces, but you’re not careful and serve 10 ounces,” Knepper notes. “Your food cost for that item just went up 25 percent. Multiply that by multiple items, and it adds up fast.”

- Control your cash via a daily sales report. Professional restaurateurs are zealous about preparing a daily sales report, or DSR, that accounts for every transaction made that day — what goes into the cash register and what goes out — and making sure the final total gets to the bank. “A lot of people don’t bother, and it doesn’t take long for employees to figure that out,” Knepper warns. “Then somebody starts taking out \$30 or \$50 a day because nobody is paying attention.”

Still interested in opening your own restaurant? If so, you may be the type, like Halsten, for whom dream and reality are happily in sync. “Opening this restaurant,” he says, “is the best decision I ever made.”

For the full story featuring Sageworks’ private company data, please visit [MSN – Can You Make Your Fortune With Food?](#)