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Introduction



As increasing numbers of consumers want to dine out or take prepared food home, the number of food-service operations has skyrocketed from 155,000 about 30 years ago to nearly 900,000 today. But there's still room in the market for your food-service business.

Shifting demographics and changing lifestyles are driving the surge in food-service businesses. Busy consumers don't have the time or inclination to cook. They want the flavor of fresh bread without the hassle of baking. They want tasty, nutritious meals without dishes to wash. In fact, the rise in popularity of to-go operations underscores some clear trends in the food-service industry. More and more singles, working parents and elderly people are demanding greater convenience when it comes to buying their meals.

Though the future looks bright for the food-service industry overall, there are no guarantees in this business. Even the most successful operators will tell you this isn't a "get rich quick" industry. It's more like a "work hard and make a living" industry.

A hard reality is that many restaurants fail during their first year, frequently due to a lack of planning. But that doesn't mean your food-service business has to be an extremely complex operation. In fact, the more streamlined you can make it, the better your chances for success. Robert V. Owens, owner of RV's Seafood Restaurant, a casual seafood restaurant in Nags Head, North Carolina, observes, "The restaurant business is a simple business that people make complicated." His formula for success is quality food, good service and great people—an approach that's worked for him for nearly a quarter century.



Beware!

The three primary reasons why food-service businesses fail:

- undercapitalization
- poor inventory control
- poor payroll management

WHO ARE THE DINERS?

No single food-service operation has universal appeal. This is a fact that many newer entrepreneurs have trouble accepting, but the reality is that you will never capture 100 percent of the market. When you try to please everyone, you end up pleasing no one. So focus on the 5 or 10 percent of the market that you can get, and forget about the rest.

With that said, who is eating at restaurants? Let's take a look at the main market categories of food-service business customers.

Generation Y

This generation, also tagged the "millennial generation," the "echo" or the "boomlet" generation, includes those born between 1980 and 2000. Generation Y is the most ethnically diverse generation yet and is more than three times the size of Generation X. Gen Y teenagers have an average of \$100 per week of disposable income, and 40 percent of them hold at least a part-time job. One in four lives in a single-parent household, and three out of four have working mothers. They are a prime market for food-service businesses.

Members of Generation Y go for fast-food and quick-service items. About 25 percent of their restaurant visits are to burger franchises, followed by pizza restaurants at 12 percent. This group's food-consumption behavior is not signif-

icantly different than previous generations at the same age.

Generation X

Generation X is a label applied to those who were born between 1965 and 1977. This group is known for strong family values. While earlier generations strove to do better financially than their parents, Gen Xers are more likely to focus on their relationship with their children. They are concerned with value, and they favor quick-service restaurants and midscale operations that offer all-you-can-eat salad bars and buffets. To appeal to this group, offer a comfortable atmosphere that focuses on value and ambience.

Baby Boomers

Born between 1946 and 1964, baby boomers make up the largest segment of the U.S. population. Prominent in this generation are affluent professionals who can afford to visit upscale restaurants and spend money freely. During the 1980s, they were the main consumer group for upscale, trendy restaurants. In the 1990s, many baby boomer families were two-income households with children. Today, those on the leading edge of the boomer generation are becoming grandparents, making them a target of both restaurants that offer a family-friendly atmosphere and those that provide an upscale, formal dining experience.

Stat Fact

According to the National Restaurant Association, by 2010, the restaurant industry's share of the food dollar is expected to rise from its present 46 to 53 percent; that's up from 25 percent in 1955.



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Stat Fact

More than 50 billion meals are eaten in restaurants and school and work cafeterias each year.

Empty Nesters

This group consists of people in the age range between the high end of the baby boomers and seniors (people in their early 50s to about age 64). Empty nesters typically have grown children who no longer live at home, and their ranks will continue to increase as the baby boomers grow older and their children leave home. With the most discretionary income and the highest per-capita income of all the generations, this group typically visits upscale restaurants. They are less concerned with price and are focused on excellent service and outstanding food. Appeal to this group with elegant surroundings and a sophisticated ambience.

Seniors

The senior market covers the large age group of those who are 65 and older. Gen-

erally, the majority of seniors are on fixed incomes and may not be able to afford upscale restaurants often, so they tend to visit family-style restaurants that offer good service and reasonable prices. “Younger” seniors are likely to be more active and have more disposable income than “older” seniors, whose health may be declining. Seniors typically appreciate restaurants that offer early-bird specials and senior menus with lower prices and smaller portions, since their appetites tend to be less hearty than those of younger people.

INDUSTRY TRENDS

In the 1980s—by many accounts the decade of greed—new restaurants were typically upscale establishments that centered on unique and creative dishes by famous chefs. Young, professional baby boomers, often with liberal expense accounts, supported these concepts. The 1990s brought a trend to the restaurant industry that is continuing into the 21st century: an appreciation of value. There’s no question that family-minded Generation Xers and baby boomers are concentrating on stretching their dollars.

Some other industry trends include:

● **Carts and kiosks:** Eating establishments no longer require customers to come to them.

Behind The Angel-Hair Curtain

The typical American food-service business owner began his or her career in an entry-level position such as a busperson, dishwasher or cook; works long hours; is energetic and entrepreneurial; and is usually more involved in charitable, civic and political activities than the average American.

Although these traits are characteristic of restaurateurs, they are not required attributes. For example, some food-service business owners have entered their fields without any previous experience. They hire employees who have the experience they lack and who can help guide their operation to success. There is, however, no substitute for energy and a desire to succeed. Successful restaurateurs know they’ve chosen an industry where hard work is the norm, and they’re willing to do what it takes to turn their dreams into reality.

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In many cases, the restaurant goes to the customer in the form of a cart or kiosk. Many limited-service mobile facilities are operating at locations that attract large numbers of people, such as malls, universities, airports, sports stadiums and arenas. These restaurants typically offer very limited menus but attract customers with their recognizable names.

● **Co-branded operations:** Especially popular in the fast-food market, “co-branding” or “dual-branding” is when two or more well-known restaurants combine their menus in one location to offer customers a wider selection of items. The concept of co-branding began in the 1990s and continues to be a strong trend.

● **Nutrition-conscious customers:** Restaurant-goers are showing a heightened interest in health and nutrition. Many are looking for low-fat dishes and fresh foods.

● **Popular menu items:** Barbecued foods and appetizers remain two of the most popular menu groups. Barbecue appears to satisfy customers seeking spicy foods and regional cuisines. Appetizer orders are increasing thanks to customers who omit entrees and choose starters instead. Customers are also increasingly looking for menu items that are compatible with weight-loss trends such as the low-carb, high-protein diets and Weight Watchers.

● **A focus on children:** Because many baby boomers still have children living at home



Stat Fact

More than 65 percent of restaurant customers agree that food served at their favorite restaurant provides flavor and taste sensations they cannot easily duplicate at home.

Stat Fact

An estimated 75 percent of restaurant-goers ask for alternative preparation methods, off-the-menu orders and substitutions.



and an increasing number of them are dining out with grandchildren, the majority of their restaurant experiences are family-oriented. Food-service operations wanting to reach this market are offering children’s menus and children’s value meals with smaller portions. Some offer child-friendly environments with booster seats, toys, balloons, crayons, menus featuring games on them and even free table-side entertainment in the form of magicians and clowns.

MENU TRENDS

As you put together a plan for your food-service business, be aware of some of the trends in terms of menu content and design. These factors could—and, in fact, should—influence the type of food-service business you open.

Restaurant operators report that vegetarian items, tortillas, locally grown produce, organic items, fusion dishes (combining two or more ethnic cuisines in one dish or on one plate) and microbrewed or local beers are gaining in popularity. Pita dishes and wraps continue to be in high demand, too, as an easy-to-consume alternative to sandwiches. You will also see a strong demand for bagels, espresso and specialty coffees and “real meals,” which are typically an entree with a side order. Consumers are also eating more chicken, seafood and beef dishes than they have in recent years. At the same time, people expect to see meatless alternatives on the menu.

Customers also are demanding “comfort

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food”: the dishes that take them back to their childhoods, when mothers baked from scratch, and meat and potatoes were at the center of each plate. Creative chefs are looking for ways to redefine and reinvigorate comfort food favorites. Instead of the traditional version of shepherd's pie, for example, you might see one made with mushrooms, spinach, carrots and lobster sauce.

Menus are also showing a number of ethnic dishes and spice-infused offerings. It's not surprising to find Thai, Vietnamese, Creole, Tuscan and even classic French cuisines on the same menu and even on the same plate.

At the same time, be sure to keep the kids in mind as you plan your selections. If families are a key part of your target market, you'll want to offer a range of four or five items in smaller portions that youngsters will enjoy, such as a half portion of pasta or small hamburger. If you serve snack items as well as entrees, note that kids are choosing healthier snacks more often than they did a few years ago, thanks to concerned parents. For example, while salty snacks remain popular, yogurt is the fastest-growing snack food based on consumption frequency among kids under 13. The average child in that age group eats yogurt 11 times more in a year today than five years ago. Fruit cups and applesauce cups are also growing in popularity among children and teens. While most restaurants still offer fixed kids' meals, you might consider allowing your young diners to choose among a selection of nutritious options.

Though menu variety has increased over the years, menus themselves are growing shorter. Busy consumers don't want to read a lengthy menu before dinner; dining out is a recreational activity, so they're in the restaurant to relax. Keep the number of items you offer in check, and keep menu descriptions simple and straightforward, providing customers with a variety of choices

in a concise format.

Your menu should also indicate whether dishes can be prepared to meet special dietary requirements. Items low in fat, sodium and cholesterol should also be marked as such.

Most large chains do a significant amount of market research before adding new items to their menus. Occasional visits to popular chain outlets (or just paying attention to their ads or visiting their websites) can help you benefit from their investment. For example, Applebee's has teamed up with Weight Watchers International to develop menu items for diners who are counting "points." T.G.I. Friday's has partnered with Atkins Nutritionals Inc. to offer Atkins-approved, low-carb menu items. The newest concept in the Darden Restaurants chain (Olive Garden, Red Lobster, Smokey Bones) is Seasons 52, which offers nutritionally balanced, lower calorie menu items and desserts in bite-sized portions. When P.F. Chang's China Bistro sponsored a marathon, it also created special high-carb, high-protein entrees for participating athletes. Even the fast-food outlets, which aren't known for nutritious fare, are offering healthier options. Pay attention to these trends, and make adjustments to your

Bright Idea

Combine two or more types of food-service businesses for maximum profitability. For example, Cuisine Unlimited, caterer Maxine Turner's Salt Lake City operation, is a combination upscale catering business and delicatessen. The businesses complement each other; deli customers often use the catering service, and catering customers visit the deli.





Stat Fact

Seven out of 10 adults say there are more nutritious foods available to them in restaurants now than five years ago.

own menu when the market demands it. “We took successful items from a lot of the major chains and incorporated them into our menu,” says Bill Ellison, co-owner of Frasier’s, a sports bar and restaurant in Apopka, Florida. But he and partner Frank Perez also came up with some of their own dishes. “Every restaurant should add their own signature items,” Ellison says, “things you can’t get anywhere else.”

UNDERSTANDING TAKEOUT CUSTOMERS

Research conducted by the National Restaurant Association indicates off-premises consumption of restaurant food is on the rise. Of respondents to a survey conducted by the organization, 21 percent who use off-premises restaurant services purchase one or more such meals a day; 26 percent purchase off-premises meals every other day; 22 percent purchase them about twice a week; and 31 percent buy them less than once a week.

Fast-food restaurants (operations that prepare food quickly) represent the largest share of off-premises dining, followed by carryout restaurants (operations that target the off-premises diner either in part or exclusively). However, full-service establishments are increasing their takeout services. A growing number are allowing diners to call in their order and a description of their car and then delivering the food to them in a designated parking area. What motivates consumers to buy prepared food to

consume elsewhere? Mainly, they are in a hurry and want easy access, fast service and reasonable prices. Another reason is that they’re just too tired to shop for and prepare food themselves. Often, consumers looking for a special treat are inclined to buy takeout food, particularly ice cream, snacks and gourmet coffees. Another strong motivator of takeout customers is the desire to eat something that is good for them. These people tend to order takeout from full-service restaurants. They also get takeout items from grocery stores and cafeterias or buffets for tasty, fresh foods. Interestingly, studies show that consumption of takeout food increases during times of national crisis, when people are hungry for information and want to get home to their TVs as quickly as possible.

WHERE IS THE COMPETITION?

Competition in the food-service industry is widespread, varied and significant. When you open a restaurant, you’ll be

Stat Fact

The most popular items on children’s menus are:



1. Chicken nuggets or strips
2. French fries
3. Hamburgers
4. Pasta
5. Grilled cheese sandwiches
6. Hot dogs
7. Pizza
8. Fish sticks
9. Cookies
10. Shrimp
11. Pancakes
12. Milkshakes

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competing not only with other similarly themed restaurants, but also with every restaurant in the area you serve. In addition, your customers themselves are a form of competition, because they can make their own meals at home if they choose. Let's take a closer look at the primary competition categories.

Chains

Chain restaurants may be the biggest threat to independent operators. Chains are growing as private companies and franchises take over a greater portion of the market. With well-known names and large advertising budgets, chains enjoy significant consumer recognition.

What these restaurants do not offer is the personalized attention that many small, independent operations provide—so this is where independent restaurants have an advantage. Many restaurateurs become acquainted with their regular customers and build relationships with them. This is not to say that chains do not offer personalized service—indeed, many of them excel in this area. But there is a difference when cus-



Dollar Stretcher

You don't have to prepare every item you serve from scratch. To increase productivity, more and more food-service businesses are offering menu items that are either fully or partially prepared off premises. Bread is the most commonly purchased prepared item, but a significant number of operators also purchase pre-portioned meats, prepared desserts, soups and sauce bases. You can also purchase prechopped salads.

Stat Fact

The restaurant industry's sales equal 4 percent of the U.S. gross domestic product.



tomers know they are dealing directly with the owner.

Independent restaurants have several other competitive advantages over chains. For one thing, independently owned fine-dining establishments are often willing to take reservations, while chains usually are not. Independents may also offer live music, experienced chefs (rather than just basic cooks) and creative foods and beverages. While chains have the advantage of a well-known name, many independents offer the atmosphere customers prefer.

Supermarkets And Convenience Stores

Supermarkets and convenience stores are fairly recent competitors for restaurants. These businesses offer customers food that is freshly prepared and ready to go—although not always healthy. Their menus typically include fried chicken, sandwiches, side dishes, salads and desserts. The primary concern of customers who visit these establishments is convenience, so supermarkets and convenience stores offer serious competition to quick-service restaurants that also compete on the basis of convenience and value.

Eating At Home

Dining out is not a necessity for most people. Restaurants, like other service businesses, sell convenience: They perform a task that consumers could otherwise handle themselves. Some consumers perceive dining out as something to do

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only on special occasions, which may be the attitude of a large portion of upscale restaurant customers. Quick-service and midscale restaurants must appeal to value- and time-conscious consumers. They must stress how eating out can save customers

the time and trouble of cooking and how customers can relax while they eat and not worry about cleaning up afterward.

For more information about researching the competition, see the “Conducting Market Research” chapter in *Startup Basics*.