

# How to Create a Winning Restaurant Business Plan

by Joe Erickson

In the story “Alice in Wonderland,” the lost protagonist asks the Cheshire Cat, “Would you tell me, please, which way I ought to go from here?” “That depends a good deal on where you want to get to,” said the cat. “I don’t much care where, so long as I get somewhere,” said Alice. “Then it doesn’t matter which way you go,” said the cat.



And so, without a well-conceived business plan, you are not much better off than the hapless heroine in the Lewis Carroll story. A business plan is your roadmap for the future of the business. Not only does it provide direction, it requires you to consider all the pitfalls and opportunities of your prospective enterprise, well before you open its doors. It is your script of how the business ought to be. Without it you are unlikely to receive funding from anyone other than the most trusting or unsophisticated sources of financing. In short, many restaurateurs agree that having a sound business plan was the single most important ingredient in making their new business a reality.

So why do so many restaurateurs forsake this critical step, without which many entrepreneurs wouldn't even open a lemonade stand? For one, restaurateurs often want to get the ball rolling quickly. Too many operators put all their planning into simply getting financed. They then want to open the doors as fast as possible to create cash flow. Unfortunately, some operators don't understand how crucial a well-planned opening is to the success of their concept. Hard work, great food, and the will to succeed are not enough. You need proper training, established operational procedures, and a creative marketing plan, before you open. These may be more important to a successful opening than menu design or table and chair selection.

Where to start? You can wade through thousands of articles, software programs and books that can be purchased on the Internet or in the business section of your local bookstore/coffee bar. Some of these guides are valuable, although you might have to dig a little to find information created specifically for restaurateurs. This article is not meant to be the first and last word on the business planning process; however, it intends to give you an overview of the key, basic components of a strong business plan. We'll tackle the basics here (except for how to create financial projections, which is deserving of a separate article in a future issue).

**So, Who's Going to Read It, Anyway?**

Most business plans address the same basic areas; however, there are a variety of ways to organize and format them. The overriding goal is to structure your plan in a logical and easily understood manner. Consider that it will be your roadmap for development, and prospective financiers — be they institutional lenders or “friends and family” investors — will want to review your business plan as part of their due diligence, before they open their checkbooks. Consider the ways that your business plan will be used before you begin writing. These include the obvious:

- ✓ Acquire investment capital.
- ✓ Get a bank loan.
- ✓ Obtain lease space.

And the not so obvious:

- ✓ Convince your prospective managers to believe in your concept.
- ✓ Gain respect and confidence from prospective employees.
- ✓ Allow management to concentrate on execution rather than “plan as you go.”
- ✓ Create a blueprint for operating your restaurant.

If you want to achieve your objectives, keep your business plan simple, but make it easy for the reader to find the answer to specific questions they may have. (As with any good reference, you will want to provide a table of contents that outlines the content in the plan.)

## **First, Put Down Your Pen and Breathe**

For most business people, the most daunting aspect of creating a business plan is the writing process. Most folks have a deadly fear of the blank sheet. This is the part where many would-be operators and experienced restaurateurs struggle.

Their expertise, in many cases, stems from their ability to conceptualize their dream of owning a successful restaurant.

When it comes to documenting their dream, however, the enormity of the task can be overwhelming. “Creating a business plan for the first time is too daunting of a project for most newbies,” says Dave Ostrander, who is known as “The Pizza Doctor.” “Even we ‘Old Grizzlies’ often shudder at the task. It takes big hunks of time and lots of research to create a great one. Anything less than great has a big chance of being turned down.”

“ . . . Creating a business plan for the first time is too daunting of a project for most newbies. ”  
-- *Big Dave Ostrander*

That’s a lot of pressure. Relax. You might not be Hemingway, but once you have adopted a structure for your business plan, “fleshing out” the content will flow more easily than you anticipated. Address the following points below, and you’ll find that the skeleton of the plan will take shape.

Mind you, there is no shame in hiring assistance from a consultant, for whom writing a business plan is routine. Not only is the consultant producing a much needed document, but he or she is helping to plan the operational strategy and opening process as well. Consider this icing on the cake.

Regardless of who drafts the final version of your business plan, have another set of eyes — preferably someone who understands the process — rigorously proof the final version. While this is not Ms. Crabapple’s English composition class, typos and misspellings reflect poorly on your attention to detail. Is this enough to cause a lender to deny funding or a prospective partner to lose confidence in your diligence and ability to execute a complex project? Maybe not, but ...

## The Executive Summary

Almost every business plan, regardless of business type, includes a one- to four-page introduction that gives the reader a summary of the business plan components to follow. The executive summary should be written last, after you have completed the other components of the plan.

The summary should effectively convey your identity, your concept, why the concept will be successful, your plan to make it a reality, its cost, and the anticipated return on investment.

Use this opportunity to capture the reader’s interest, and as a sales tool for your business plan. Avoid too many details in this section. Details will be addressed later. Discuss only the key aspects about your restaurant concept. Remember, some readers never make it past this part of the business plan. A well-written summary can convince the reader to thoroughly explore the rest of the plan.

Some plan advisers suggest that a confidentiality statement precede the introduction. After all, much of the content you provide is confidential and cost you a lot of time, effort and expense to produce.

## Company Description

**Legal structure.** Establish early on the ownership structure and capitalization plan of the proposed restaurant. This section should include a brief description of the legal organization. For an independent business, this will typically be an S-corporation or limited liability company (LLC) (rather than sole proprietorship or partnership) since these “entities” allow for multiple ownership interests and can shield managing investors from personal liability for claims against the business.

**Site lease or purchase.** If a definitive site has not been chosen, list the area or city the restaurant is to be located. Perhaps there is no business in which location is more critical than a restaurant. Informed prospective investors will look at site selection very carefully. Also, the financial, including tax consequences of a lease versus purchase is critical in any new venture. A detailed explanation of the rationale for selecting either is warranted in the business plan. For example, a significant attraction of the deal might be the investment value of the real estate. This section can be updated, if needed, once a site has been selected.

**Capitalization needs.** Give an overview showing the estimated capitalization needed to open the restaurant and the planned sources for funding it. Keep this section to the point, and don’t clutter it with minor issues. Detailed projections and investment requirements will be explained in the “Investment Analysis and the Financial Projections” sections of your business plan.

**Business concept.** As critical as this aspect is, writing your concept description is typically the most fun. What you want to do here is to paint a picture of what the experience will be from the guests' point of view. Just as a menu can whet one's appetite, creating an image of your restaurant concept can peak a reader's interest.

While you might envision serious investors and bankers as dispassionate number crunchers concerned only with income projections and returns, in fact, they need to be sold on why your business is a great idea. They need to be convinced that the concept should succeed in appealing to diners. Remember, everyone understands what makes a restaurant enticing. If you can't get them excited about your concept, don't expect them to invest.

Writing a vivid concept description is a lot like telling a good friend about a fantastic new restaurant you have visited. Use descriptive, enticing language to describe the following features of your concept:

- ✓ Service style, such as fine dining, casual upscale, fast-casual or quick-serve.
- ✓ Size and seating capacity.
- ✓ Décor and furnishings.
- ✓ Operating hours and meal periods.
- ✓ Atmosphere, ambience.
- ✓ Lighting and music.
- ✓ General menu theme.
- ✓ Points of difference or unique selling points.
- ✓ Related products and services such as catering, delivery, and retail.

In addition to describing the food, be sure to mention interesting design elements, unique furnishings or other attractions. And let's not forget the service. A good descriptive summary of the service style, as well as the promptness, is necessary to properly communicate the conceptual image of the restaurant.

The writing style you use should resemble that of a restaurant critic, albeit one who has only positive things to print about your restaurant. Descriptive remarks about the overall atmosphere you want to project helps to solidify the conceptual picture you are trying to create. Your narrative should inform the reader of other key factors such as the restaurant's price point, hours of operation and service style. Alcohol service, if provided, should also be pointed out.

Be sure to express any unique selling points or points of differentiation the restaurant may have. Points of difference can include anything from food to décor to entertainment. Typical distinctions are often made for signature dishes, ethnic cuisine new to the area, unique service styles or unusual décor.

You should also inform the reader of the size of the restaurant and its seating capacity. Make sure to mention the presence of a bar or banquet room, explaining the seating capacity, décor and any significant factors about them. Finally, be sure to enlighten the reader of additional services the restaurant may offer such as catering, delivery or retail merchandise.

**Sample menu.** Include a sample menu in your plan. A well-written and attractively designed menu can help to sell your concept. Whether your concept is a fine dining table service or a quick-service fast-food restaurant, the menu is your No. 1 selling tool.

Customer perception, though influenced by several factors, is largely formed based on the appeal of the menu, whether it is a printed menu or a menu board. If you are opening a quick-service concept, consider the inclusion of your menu board design. And remember, it is not the number of items you have on your menu, but the design, variety and appeal that makes an eye-catching menu.



**Building design and layouts.** Architectural drawings, floor plans, and artist renderings can also help you create a visual image of your concept. Include visual components of the concept if available.

## Management Team Overview

The success of any business relies on sound management. Don't believe it? Talk to any venture capitalist. A good story is just a good story. They want to know who is going to execute and drive the plan. A lot of great business concepts have been turned down by investors, both "friends and family" and institutional lenders, because the prospective managers did not seem to possess the experience, skill, education, and/or discipline to make the business work.

The restaurant business is no exception. Controlling cost, managing employees and servicing customers requires experience and talent. This section of the restaurant business plan is intended to convey the background and experience of the managing partners or owners as well as key management personnel that will operate the business. You should include a résumé-styled summary for each of the management or owner/management persons.

**Résumés.** The summary should begin with the name of the person and a brief description of the role or position they will have in the management of the business. Provide a summary of his or her experience or qualifications. You might choose to insert actual résumés in this section or list them in the Appendices section of the business plan.

**Management agreements.** Management agreements, though not mandatory, may be used to lay out the expectations of the manager, the incentive plans, if any, and a termination strategy. You should disclose if there are to be any management agreements in place between the company and owners, hired employees, or third parties. Include a copy of the management agreement, if available, either here or in the Appendices section of the plan. It is also acceptable to state that while a management agreement will be in place, none has been drafted as of yet. You should consult with your attorney before carrying out a management agreement, since they are binding on the organization, and are a frequent source of litigation. Furthermore, you might not want to enter into an employment contract with certain managers,

and instead, keep the relationship “at will.” (For more information, see [“Don’t Leave Mad, Just Leave!: Firing Legal Pitfalls, and How to Avoid Them.”](#) RS&G Archives.)

## **Business Environment Analysis**

Many restaurant entrepreneurs share an exceptional attribute that enables them to visualize a restaurant concept they fervently believe will have popular appeal to the dining public. After all, passionate belief in their concept is the driving force that can turn a dream into reality. However, passion must be balanced with reality when it comes to creating a sound business plan. In-depth market research is needed to substantiate that conceptual assumptions are in line with market conditions.

There are four basic factors to consider in your market analysis. First, you need to be aware of current industry trends and customer spending habits. Next, identify your target market, the market niche to which your concept appeals. Third, compare the customer base for the chosen location with the target market you are appealing to. Finally, identify the local competition that may contend for the same customer base.

**Industry overview.** Although there has been a dramatic shift in dining habits over the last 20 or so years, the change has been gradual, reflecting a constant evolution of the industry. In the United States, the National Restaurant Association (NRA), [www.restaurant.org](http://www.restaurant.org), has been the premier source for identifying changing trends in consumer habits. Each year the NRA publishes, among other things, its annual “Restaurant Industry Forecast.” The forecast provides a glimpse of the industry through anticipated sales, customer spending habits, dining traits, operational trends and industry workforce trends.

The U.S. Bureau of the Census, the Department of Labor, and The Library of Congress are also good sources when analyzing population growth, ethnicity mix, labor and economic conditions; however, organizations such as the NRA and restaurant-based publications provide more relevant information about our particular industry. Given the projected growth of the restaurant industry, this aspect of your plan paints an optimistic future of your chances for success in a very competitive business.

**Target market.** Careful evaluation should be used to determine the preferred target market that your concept best appeals to and how that relates to the overall restaurant market with respect to diner demographics, preferences, and habits.

Use this section to describe the ideal (targeted) customer profile for the concept. Consider the demographic characteristics for your ideal customer such as head of household age, income, household size, ethnicity, single or multifamily housing.

Identify the preferred market size of residential and business population and their proximity. Establish desirable traffic count thresholds or a preference for a specific industry such as tourism. Determine the importance of traffic generators for your concept such as malls, theaters and universities.

**Location analysis.** Some business plans, probably most, are created before a site has been selected. Therefore, the location analysis may be limited to the general area or city for the proposed concept.

As suggested earlier, site selection is often considered the most crucial aspect of the business planning cycle. The location analysis should describe market conditions that exist in the location (or general area) you have selected. Information gathered and displayed here should include demographic statistics, description of local industry and economic outlook, location traffic counts, traffic generators, residential and business population and proximity.

You should also draw comparisons between market conditions for the selected location, and the targeted market characteristics of the concept. List the surrounding neighborhoods, points of interest, and area businesses.

Demographic and other information about a specific market can be found through various sources, including Web sites. Contact the local chamber of commerce, the U.S. census bureau, the departments of labor (U.S. and state), and the comptroller's and clerk's office of your county.

Often the most useful information though will come from your real estate broker. They have access to demographic information that is more specific to the immediate area surrounding the location. They can provide you with reports for one-, three- and five-mile radiuses. Real estate brokers oftentimes subscribe to services that specialize in collecting and analyzing data that is not publicly available.

**Competitive analysis.** Researching the local competition, in terms of proximity and similarities to your concept, is an important factor when estimating your market share. The competitive analysis should show the extent of market saturation, the type of other restaurants in the area, and restaurants deemed to be in direct competition with your concept. List the unique aspects of your concept that give you a competitive advantage over each.

## **Marketing Strategy**

A comprehensive business plan includes a sound marketing plan. Owner, investors and bankers want to know you have a proactive plan to grow your business. You can't rely on instant popularity and simple word-of-mouth marketing just because some restaurants, but not many, open their doors to instant success.

Use this section to paint a picture of your restaurant's marketing strategy before and after you open the doors. Distinguish your plans for the grand opening marketing from ongoing marketing.

Give an introductory summary of the marketing philosophy that will guide your marketing program. This introduction should convince the reader that a well-thought-out, workable plan is in place. Use a descriptive, enthusiastic approach to verbalize the plan.

Over the years, restaurateurs have found creative methods to market their concept. We've covered many of them in this magazine, and will continue to discuss them in future issues. Some of the methods you may want to consider are:

**Build a customer database.** The cornerstone of direct marketing efforts such as loyalty programs is to build a customer database. Operators have used imaginative

tactics to gather names such as business card drops or promotions that entice guests to sign up.

**Frequent diner programs.** Otherwise known as loyalty programs, automated frequent diner programs are now available with many POS (point-of-sale) systems. There are also a variety of services available that help you track and reward repeat customers.

**E-mail campaign.** E-mail as a marketing tool has been a growing phenomenon for a few years now. Unfortunately, spammers have infiltrated this market to the disdain of all. Nevertheless, e-mail can be an essential part of your direct marketing plan. It's inexpensive and promotions can be created quickly without the time and cost associated to produce mailers. Promotions can include monthly newsletters, specials, announcements, etc. (For more information, see "[You've Got Mail.](#)" RS&G Archives.)

**Direct-mail campaigns.** Direct mail remains a highly effective tool to reach new customers. It can also be very effective when used in conjunction with a well-maintained customer database. Simple practices, such as mailing birthday and anniversary cards to existing customers, help to build customer loyalty.

**Community/ charity involvement.** Community involvement helps build name awareness as well as loyalty. Diners tend to frequent establishments that give back to the community. Sponsoring charities has always been a great method to build support for your restaurant and provide help to others. Contributions can be financial or the use of your resources such as your banquet hall for meetings or serving equipment for events. Other community efforts include supporting the local sports teams, churches, and fund-raisers. (For more information, see "[Doing Well by Doing Good.](#)" RS&G Archives.)

**Building business relationships.** Building solid business relationships can lead to big bucks for aggressive owners. You can build tourism traffic by establishing relationships with hotel concierges. A strategic relationship with a major employer can help to draw lunch traffic from employees or from executive entertainment. Catering revenue is enhanced when you know who books the catering. Delivery to area businesses at lunch helps the business guest and you.

**'Four-walls' marketing.** In-house marketing is one of the most effective tools you have to keep existing guests coming back. Think of ways to promote your restaurant from within such as table tents, menu inserts, displays or signage, suggestive sales tactics or frequent diner promotions. (For more information, see "[Selling to a Captive Audience](#)" RS&G Archives.)

**Public relations (PR).** Effective public relations takes creativity and work. You may choose to handle this aspect of marketing yourself or hire a PR firm. Whichever method you choose, briefly describe how PR will be handled. (For more information, see "[The Value of PR.](#)" RS&G Archives.)

**Advertising.** All restaurants advertise in one form or another. Simple signage with the name of your restaurant is advertising. Whether or not you are a proponent of advertising your plan should be described here. Some operators may choose to use this section to express a view against excessive advertising, choosing instead to bolster other marketing techniques. Either way, investors or bankers will be



interested in your viewpoint, if only because advertising can be a huge expense. (For more information, see "[And They Will Come: Picking and Choosing Media Advertising for Your Success](#)," RS&G Archives.)

## Operations Plan

The operations section of the business plan should convey a general description of how the restaurant will be operated on a day-to-day basis. Most chain restaurants have systematized their operations. The system is then documented in an operating manual that the management team and employees must follow. This way everyone is on the same page.

Although it is not always realistic to complete an operating manual before the business plan is written, it is important to acknowledge the systems and controls you intend to put in place. Documenting the systems and procedures can take place during the opening process.

The operations section may be the most critical to the success of your restaurant; not so much from the investor's and banker's perspective, but as a comprehensive plan to share with management and employees.

Key considerations for describing your operations include:

**Staffing.** This section should list the staff positions, the number of people needed for each position and the average rate of pay for the position. List any recruiting plans or services you will use to hire your staff. Describe the hiring standards and interview process that will be used. This is not intended to be a labor cost projection. That will be addressed in the "financial projections" section of the business plan, to be discussed in a subsequent issue.

**Training.** Provide an overview of the training programs that the staff will undergo. Include in-house training and third-party training such as a state-mandated Alcohol Awareness Program servers may have to attend. Be sure to reference employee handbooks, training manuals and training tools.

**Daily operations and production.** This section should describe, in summary, the day-to-day operations of the restaurant from opening to close. It should convey to the reader that management has a sound plan for operating the restaurant. Briefly explain operational issues such as scheduling, departmental job functions, ordering and receiving, menu production, service, general safety procedures and maintenance.

**Customer service.** Describe plans for establishing service attitudes and policies. Include an overview on how customer complaints will be handled and how the restaurant will go about getting customer feedback such as surveys or through mystery shoppers.

**Suppliers.** You should list suppliers for specialty products that make your business unique. Show contingency plans for replacing key suppliers. If your concept relies on unique products like Florida stone crabs, Maine lobster, or imported items then you'll want to have a backup plan readily available.

**Management controls.** Operating a restaurant on a day-to-day basis requires established systems and controls. Many seasoned restaurateurs have established systems to help them control cost and maintain excellence. Unfortunately, though, some startup restaurateurs open their doors unprepared to handle the day-to-day challenges of operating a restaurant.

Incorporate management controls, tasks and support systems into your plan. Some startup restaurateurs are undecided about how they might run the restaurant. They may have plans to hire a general manager or chef before making operational decisions. However, it is important that you acknowledge in your plan some of the basic controls such as:

- ✓ POS system to track sales.
- ✓ Time and attendance tracking.
- ✓ Scheduling.
- ✓ Operations checklists.
- ✓ Ordering procedures.
- ✓ Inventory control.
- ✓ Cash control procedure.
- ✓ Security measures.
- ✓ Safety policies.
- ✓ Liability reviews.

**Administrative controls.** Establishing systematic administrative procedures is equally important as putting in place management controls. One might view management controls as tools for management whereas administrative controls are tools to measure management's performance.

Administrative tasks such as accounting and payroll processing are vital to the financial success of restaurants. Many owner-operators use a bookkeeper, accounting or payroll service to handle some of the administrative tasks such as the preparation of daily and weekly reports, profit-and-loss (P&L) reporting, bank reconciliations or payroll processing.

Investment partners may want to know "who is guarding the henhouse." To address their concerns you might consider the incorporation of these financial controls:

**Daily cash control.** Adopt a system whereby sales and receipts recorded by the POS system will be compared with actual cash and credit card deposits on a daily basis. Establish acceptable over/short amounts. Monthly totals should be compared with actual P&L statements for accuracy.

**Weekly prime cost report.** Prepare a weekly report that shows the gross profit margin after the cost of goods sold and labor cost has been deducted from the sales revenue. The prime cost, depending on the type of restaurant, is expected to range on average from 55 percent to 65 percent. Proper control of the prime cost is the single most effective measure of management's ability to operate the restaurant. Weekly monitoring allows for quick reaction to adverse cost ratios.

**Purchasing records and account payables.** Establish a system to process and record invoices and credits daily.

Reports detailing cash expenditures, payments by check, and accounts payable transactions should be readily available. Consider how check disbursements will be prepared and to whom check-signing authority for the general operating account will be given.

**Accounting system/ service.** Allow for the timely preparation of monthly financial statements, including the monthly P&L and balance sheet. The plan should state who will prepare the reports, such as the bookkeeper, CPA or accounting service.

**Payroll processing.** Provide an overview on how payroll checks will be processed. Consider how often checks will be issued such as weekly, biweekly, or semimonthly. Acknowledge your preference of preparing payroll in-house or to have a payroll processing service.

### **Keep It Under Your Hat**

When submitting a business plan for review by potential investors, bankers, and prospective partners, you should consider having reviewers sign a confidentiality agreement. In the critical planning and negotiating stage of a new operation you need to protect your trade secrets and confidential information. Chain restaurants use them in standard practice; however, independent restaurateurs should consider them as well, particularly if the concept is novel and involves significant proprietary market research.

### **It Does Matter Which Way You Go**

Clearly, this article only provides an outline. The real sweat begins when you address each issue. Try not to think of creating a business plan as a dry academic exercise, but rather painting a detailed and vibrant picture of how you see your operation unfolding. Feel free to bring your CPA, attorney, spouse, and committed investors into the process. They may bring up issues that you might have missed, and provide that critical objectivity that often escapes us when we are too close to a project. Moreover, you will not feel as alone as you chart your course.

No doubt, a business plan takes time and effort. It is well worth it, as the final, polished document will give you, and your investors, confidence that you really can reach your destination: a successful restaurant.

Joe Erickson works with independent restaurant operators who want to turn their good restaurant into a great business. For more information visit [www.RestaurantOwner.com](http://www.RestaurantOwner.com).