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Surviving Recession: Strings tries to keep costs down

menkoji@sacbee.com

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Al DeCaprio lightly taps the rim of a brimming bowl of pasta. He knows what to look for in the fettucine curling amid the creamy Alfredo sauce.

Unlike diners at his restaurants, DeCaprio sees beyond the Parmesan cheese, the butter and the olive oil in the classic Italian dish. With 40 years of restaurant experience, he can dissect the cost down to the garlic crushed into the sauce, evaluate the likely popularity of the dish and calculate how many minutes it takes two cooks to plate it.

In good times or bad, DeCaprio said, it's the only way to run a restaurant. Especially now.

"Making money is an art; it's not an accident," he said.

DeCaprio is president of Gold River-based Strings Restaurant Group, a chain of 29 mid-priced Italian restaurants that's been around for 22 years. A look at his efforts, including spending a day in the kitchen and a restaurant on Madison Avenue, reveals the strategy that a business like Strings employs to stay above water as the industry nearly drowns in hard economic times.

Strings has been here before. The chain was in bankruptcy protection for two years until it emerged in 1999. When the current recession hit, several franchisees were forced to close. That pushed the company to sharpen the way it screens potential franchisees.

By literally watching pennies and constantly taking the consumer's pulse, DeCaprio is confident he can keep the restaurants out of the red.

As the economic downturn leaves more restaurant tables empty, owners of California's 62,000 dining and drinking establishments are toiling overtime to get customers in the door. Many are offering deals – coupons, two-for-one specials – and pushing low-priced meals. Most are shaving operational costs – cutting lunch hours or curtailing late-night dining, for example – as a way to control expenses and widen profit margins, which for some could be pennies on the plate.

"This is one of the most difficult times our industry has faced," said Jot Condie, president and

CEO of the California Restaurant Association.

Even the most optimistic forecast doesn't predict an uptick in consumer discretionary spending until the end of the year. That directly affects dining out, Condie said.

In the meantime, restaurants will largely be reconstructing menus to offer value and trimming costs.

"That's what will keep a lot of them marginally profitable," Condie said.

Yet controlling or reducing costs to the point where customers notice – a runnier sauce, slower service, no bread – is a fatal risk, analysts say.

"It's a fine line to be drawn," said Ron Santibanez, a restaurant consultant in Riverside. "You cannot control yourself to profitability. You have to do it with sales."

DeCaprio's key to profitability is found far from the corporate boardroom. Nearly every day, he can be found at a restaurant, busing tables, pouring ice teas, smiling to customers as they clean their plates or grumble over the marinara sauce.

"A lot of people think that owning a restaurant is glamorous. The restaurant business is just hard work," said DeCaprio, 58. "The customer is a moving target. In this economy, they are much more sensitive."

It's not a pricey menu that boosts profits. It's the ability to manage and plan, he said.

"You can't build a church for Easter Sunday. Everyone goes then, right?" he said.

DeCaprio spends time at each store once or twice a month. He's at the company's four corporate-owned stores more often, including the one on Madison Avenue, one of Strings' oldest.

He's here to make sure the staff understands expectations and adapts to new menus, but it's a two-way street. DeCaprio will often ask waitresses to pick up forks and sample prospective dishes for the moderately priced menu, mostly in the \$10 to \$15 range for full meals.

"You may learn as much from them as they do from us," he said.

DeCaprio and friends founded the chain with the first Strings on Sunrise Boulevard in 1987. Even with hands-on knowledge culled from time waiting tables and behind the bar, DeCaprio acknowledges that it took the disciplined financial mind of Paul Ip, who joined the business in 1993, to turn the business into a real business.

Ip, who is the main stockholder in the privately held company, became CEO of a reorganized company in 1999, pulling it out of bankruptcy.

"The old company was losing \$4 to \$5 million a year," Ip said. Ip instituted operational changes, such as a seasonal menus, and tightened vendor negotiations and franchisee requirements.

"You need more than pasta mixed with sauce," he said.

The restaurants are family places without full bars, usually located in busy shopping centers.

With less than a handful of employees in the corporate office, Strings stayed lean in boom times and never took on debt.

"We didn't buy a plane," DeCaprio said, rolling his eyes. "We wanted to do everything out of profit."

The company had not lost a store in 10 years until five closed in the past 12 months. DeCaprio said they were franchises shouldering large debt compounded by inflexible rent structures.

One of the franchise owners who closed a store reopened recently in a new spot on Bradshaw Road. The restaurant features a new pared-down concept for the chain: Strings Pizzeria, featuring pizza and Italian-style sandwiches.

"It's a departure from where we've been," DeCaprio said. The concept speaks to a new economy, with lower prices than a traditional Strings, he said.

In the empty 87-seat dining room at the Madison Avenue Strings, DeCaprio spread papers across a table. This, he said, tapping the paper, is the fundamental key: daily tracking of numbers, such as how many meals sold, how much is spent for linen service, how much to keep the lights on.

"If you don't stay on top of these," he said, "they can get away from you.

"What we learn here is going to 29 stores. If you can save \$100 a week, multiply that by 29 stores," he said.

At any given time, DeCaprio can rattle off the cost breakdown of each dish. A beef dish with 6 ounces of meat pencils out to \$2.40 for the meat, another \$1 for the mushroom sauce. Add about \$1 for salad and bread, and the cost comes to \$4.40. The industry standard puts a dish's cost at about 25 percent of retail price for a restaurant like Strings.

"So at \$16, it's right on the border for us," said DeCaprio, who prefers to keep the prices in the \$10 to \$12 range.

Diners arrived as lunch began. In the kitchen, the aroma of warm butter and melted cheese swept the room as DeCaprio talked to waiters and cooks.

The restaurant's manager, Dean Johnson, an employee for 20 years, is right behind his staff, handing out menus, filling bread baskets, placing tiramisu on dessert plates.

Managers work the dining room to save on labor costs, DeCaprio said. Dishes are also chosen with an eye to the labor it takes to produce them. A corporate kitchen with about 10 employees under an executive chef creates most of the food, which is distributed to the restaurants where cooks finish it and plate it.

As lunch diners fill half the seats, DeCaprio inspected the dishes as they clattered onto the

stainless-steel counter.

"A little less sauce," he said, sliding back a fettucine bowl for replating.

When the last take-home container is filled and a lull between lunch and dinner sets in, DeCaprio returned to his table for a round of taste tests. He's brought in Eric Hunziker, the executive chef, who whips up a pesto pasta with vegetables or porcini mushrooms or prime rib slices.

"It's very close," he said to Hunziker, nodding.

"The meat is the wrong way to go," DeCaprio said, shaking his head and pointing to the untouched beef dish. As he serves each dish, Hunziker handed DeCaprio a sheet of paper with a cost breakdown.

Chanel Conklin, a veteran waitress, dipped a fork into the mushroom pasta. "I think this would be a popular vegetarian dish," she said to DeCaprio, who agreed.

DeCaprio's style might seem unusual, but it conveys volumes to the staff and to diners, said Santibanez, the restaurant consultant.

He worked for years with Carl Karcher, the founder of Carl's Jr., who would often pop into his restaurants to flip burgers and chat with customers.

"You could see what's going on at the store level and hear the complaints. You get your ear to the ground on what's going on," Santibanez said.

DeCaprio is hard-pressed to consider another way to run a restaurant.

"If you think the customer is a fool, you're in trouble," he said. "In the end, the customer has to walk out of here and say it was worth it."

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