
How To Develop a Restaurant Business Plan

Whether you've been in business for two weeks, two years, and especially if you are just starting out, a business plan is your road map to success. A well-developed business plan can help you minimize the risk of failure. A business plan has three basic functions. They are:

1. An operating tool
2. Means of communication
3. Means of obtaining financing

There are many ways to use a business plan. The process of writing a Business Plan in itself is useful because it requires you to think about your operation as well as setting long term goals and objectives.

An Operating Tool

A business plan can be developed for a proposed or existing restaurant. It is important to remember that once developed it shouldn't be placed on a shelf somewhere to gather dust; rather it should be used as an operational tool to assist you in day-to-day decision making. A business plan can also serve you well as a benchmark to measure your actual performance versus projections, and hopefully reveal where some of your shortfalls (if any) exist.

Some of the strategic questions to be addressed while developing a business plan are:

- Where am I now?
- Where do I want to be next year? Five years from now?
- How am I going to get there?

One of the most crucial aspects of using the business plan as an operation tool is that it serves as a reminder of your original concept. Sometimes we have a tendency to get off course just a bit and your business plan will help you get back on course.

As they say, "It's not worth the paper it's written on". The same holds true for a business plan. If the reasoning and projections behind it are faulty, the plan will serve little if any purpose.

Communication

Business Plans by design frequently are used to communicate a concept to others, including those outside of your organization as well as the members of your staff. Encourage your staff to read your business plan. It gives them the opportunity to understand your goals and objectives for the restaurant. Additionally, it keeps them focused on the concept and how you intend to achieve success.

Obtaining Financing

How To Develop a Restaurant Business Plan

A business plan is a must if you intend to obtain outside financing for your venture. Banking institutions and venture capitalists always require a business plan, even if you have an innovative, sure-fire way of making money.

There is no such thing as a perfect business plan. Each operation is unique, and you are the best judge of what should be included in your business plan. Not all of the components we will be discussing will be appropriate for your business plan. You be the judge as to what to include.

Tailor your business plan to fit the audience. Typically the financial information is placed at the end of business plans. However, if you are using yours to obtain financing, I recommend you place it at the beginning since this is what bankers and venture capitalists are most interested in.

When you begin writing your restaurant's business plan, it is important to remember that this is, in a sense, your restaurant's resume. The business plan should reflect your restaurant's unique qualities.

There are many different opinions regarding the order of each category. But for the most part, the following is usually included in the business plan:

- Cover sheet
- Executive summary
- Statement of purpose
- Description of the restaurant concept and organization
- Market analysis and marketing strategy
- Description of the operation
- Financial data
- Supporting documentation (appendices)

Also, do not overlook the importance of the cover sheet. Most people will base their initial impression of your operation from the cover sheet.

Usually included on the cover sheet is the following:

- Name of restaurant
- Logo or trade mark
- Current or proposed address of the restaurant
- Restaurant's telephone number
- Your name/name of associates

How To Develop a Restaurant Business Plan

- Name of company
- Address and telephone number where you and your associate (s) can be reached.
- Statement identifying the document as a business plan

Executive Summary

Despite all the time and money you invest in writing a business plan, the reality is that your audience will most likely review the executive summary first to determine whether any potential exists for your plan and whether your plan deserves further attention.

Keep the executive summary brief; one or two pages are fine. The executive summary summarizes the entire business plan. Although it is placed first in the business plan, it is the last section completed. Begin by stating the purpose of the business plan. Whether it be to attract investors, seek financing, or to bring in partners.

Statement of Purpose

A statement of purpose at the beginning of the business plan is recommended for those of you who are planning to use the plan to obtain financing from an outside source. The statement of purpose must identify the following:

- Who is asking for the money
- What the business structure is (sole proprietor, partnership, public or private)
- How much money is required
- What the money is needed for (how will the funds be used)
- How the funds will benefit the business (increase competitiveness, efficiency, etc.)
- Why the loan or investment makes sense
- How the funds will be repaid

Description of the Organization

Type of Organization

This section of the business plan is where you indicate whether or not you are a sole proprietorship, partnership, or a public or private corporation. If you have already stated the type of organization you are in the statement of purpose it is not necessary to do so again.

Description of the Management Team

How To Develop a Restaurant Business Plan

This section is where you give a synopsis of the education and experience of the management team and what they will bring to the organization in order for it to succeed. Include all types of restaurant experience your management team has and how they intend to put that experience to use.

Description of the Restaurant Concept (Mission Statement)

A mission statement can also be thought of as a description of the positioning of the restaurant. In other words, how will consumers perceive your restaurant relative to other establishments? Writing a mission statement will force you to clearly define your concept clearly by answering the following questions:

- What business am I in?
- What makes my restaurant unique?
- Who is my competition?
- Who are the restaurant's constituents?
- How will the operation improve and how you plan on positioning yourself.

Competitive Differentiation (What makes my restaurant unique)

Defining what makes your restaurant different or special in the eyes of the customer is a way to differentiate yourself from the competition. Why should customers patronize your restaurant rather than the competition? What makes you so special? You must name the benefits you provide that consumers consider to be important.

Competition (Who is my competition?)

Describe your competition. If your answer is "every restaurant in town," you need to go back and establish what benefits you offer in order to determine your competition.

Strategy for Growth and Development (How will the operation improve and develop over the long-term?)

This is where you get to dream your wildest dreams. Assuming everything went your way, where would you like to be in the next five years? Do you want to establish a chain? Perhaps franchise your concept? Once you have established a goal, what do you think you have to do to achieve that goal? Would your sales have to increase 25 percent every year for the next five years? If so, how do you plan to attain that growth?

Now that your mission statement is complete you should be able to convey your concept to others so that they have a crystal-clear image of your operation. People who read your description should know exactly what it would be like to dine in your restaurant.

Contrary to what many of us have been told, marketing is not sales. Marketing is simply understanding your customers and fulfilling their needs. When you write this section of your business plan, you need to

How To Develop a Restaurant Business Plan

look at your operation through the eyes of your customers. You need to grasp an accurate sense of how your customers see you. Once you analyze your market you will have a better understanding of the feasibility for your operation to succeed. And developing a marketing strategy based on your mission statement will force you to outline your plan to make your restaurant successful.

In order to fully understand whom your customers are you will need to conduct research. The National Restaurant Association publishes many reports that can assist you.

Target Market

This section details the nature, size, and scope of the market segment that you wish to target. Basically, a market segment is a group that can be distinguished from other groups on the basis of a characteristic, such as demographics, attitudes, behavior, etc. The definition of your target market should be specific enough to exclude those you do not wish to communicate with.

Chances are that you will want to target more than one segment. For example, will you target different segments for different meal periods? Regardless of the number of segments, be sure to identify and describe each one.

Description of the Target Market

The following are some variables that your target market can be described in terms of:

Demographics

- Age
- Income
- Education
- Marital Status
- Size of household
- Race or ethnic group

Psychographics

- Trendsetters or followers
- Introverts or extroverts
- Value-conscious or price-conscious

Lifestyle

How To Develop a Restaurant Business Plan

- Single (never married)
- Single parent
- Married (no children)
- Married, children under 18
- Empty nesters (married, children no longer living at home)
- Widowed

Geography

- Does your market live, work or play in a definable geographic area?
- Description and scope of area

Again, do not feel constrained by the variables listed. Define your target market using any other characteristics, which you believe are relevant, such as hobbies, movie attendance, etc.

Market Potential

The market potential provides an indication of the size of the market, the rate and direction of its growth, and how much of the market you expect to capture.

Is the market you have identified large enough to provide you with an adequate customer base now and in the future?

Now look at the market's growth potential. There are four stages which all products, services, organizations, and industries go through; introduction, growth, maturity, and decline. Your marketing strategy will depend, to a certain extent, on the stage of the life cycle that your market is in.

For example, in the introduction stage, competition should be minimal and efforts should be focused on obtaining a loyal customer base and defending yourself from impending increases in the number of competitors, which marks the next stage of the cycle, the growth stage. In the growth stage, competitors flood the market to get a piece of the increasing sales. This is the time when having a unique benefit, which is not easy for competitors to copy will allow you to differentiate your restaurant from the competition. During the maturity stage, the market reaches its saturation point and sales stagnate.

Sliding sales marks the stage of decline, and this is the period when a large number of restaurants cease operations.

How To Develop a Restaurant Business Plan

Market Share

This section consists of answering the following questions:

- What share of the market do you expect to capture. Explain reasoning.
- Do you expect your share to increase, stay the same, or decrease over time? Why?
- If competitors enter the market in the near future, how will that affect you and what course of action will you take?

Remember to balance your optimism against reality. If your market is extremely competitive, don't expect to gain a 25 percent share during the first three months of operation.

Pricing Strategy

Most restaurants base their pricing on what they believe the market will bear. Others simply choose prices that will provide a reasonable food cost percentage. In the development of your business plan it is important to remember that choosing a pricing structure is a strategic decision. It needs to be consistent with your mission statement and your objectives.

If your atmosphere says "casual dining" your pricing structure must reflect that. If not, you're likely to confuse and alienate your potential customers.

Location Analysis

Location, location, and location. We have heard this real estate adage before. But no where is it more important than when selecting a location for your restaurant.

A location analysis typically includes a description of the area, traffic counts, and accessibility. You should begin by providing a description of the area.

- Specific (address, between what streets, famous landmarks nearby?)
- Type of district (business, residential, campus. etc.)
- Future of area (proposed developments in the area and their effect)
- Safety (general reputation of area, lighting)

Commercial/Residential Profile

This section of the business plan should include the demographics of workers and residents in your local trading area. I recommend you include a ring study which includes a one, two, and three-ring demographic survey.

As with your target market, describe the size and scope of residents or commercial establishments in your area in terms of demographic and lifestyle variables such as:

How To Develop a Restaurant Business Plan

- Age
- Income/occupation
- Lifestyle
- Ethnic composition

Traffic

The number of people who pass your establishment every day may mean the difference between profitability and bankruptcy. Whether on foot or in some type of vehicle, higher traffic means greater visibility and the potential to attract walk-ins.

The easiest way to gather this information is to do an actual count. Count the number of people that pass by your potential site during your hours of operation. You may also be able to get vehicular counts from the department of transportation.

Competitive Analysis

The competitive analysis section of the business plan consists of a brief one to two paragraph description of each of your competitors. First, you need to determine who your restaurant will actually be competing against. Think again in terms of how your restaurant is positioned and the benefits that you provide. You need to determine the following:

- Number of competitors – Indicate the number of other restaurants that you expect to compete against, plus the number of competitors that may enter your market within the next year.
- Location of competition – This is straightforward; include a general description of the location of your competitors.
- Competitors' sales and market share – While it is unlikely that any competitors will provide you with this information, there are a few methods you can use to estimate both their sales and the market share that they've captured. For instance, observing your competition for several days can provide you with a rough estimate of their number of covers per meal period or day, which can be used as a basis for calculating their sales.

Advertising and Promotional Campaign

This section of your business plan is a description of the advertising and promotion that you plan to implement. To maximize the effectiveness of your campaign, you must identify your objectives, your target market, and the techniques that ensures you will reach that market.

How To Develop a Restaurant Business Plan

The following objectives are frequently used as the basis for restaurant advertising and promotions:

- Build awareness
- Encourage trial
- Differentiate your operation from the competition
- Serve as a reminder
- Build and maintain image
- Contribute to word of mouth
- Blunt competitive strategy

Once you know what you wish to accomplish, you must decide on the best way to meet your objectives. These are some of the techniques frequently used:

- Price/quality promotions
- Coupons
- Future discounts (bounce backs)
- Refunds
- Premiums
- Prize promotion



Include a timetable of when your advertising and promotional campaign will take place and the cost in both dollars and as a percentage of sales.

Operations

This section provides the reader of the business plan with a clear picture of how your operation will function on a day-to-day basis.

Human Resources – This section informs the reader who oversees which elements of the operation. An organizational chart as well as staffing needs should be included.

Physical Description of the Operation – The physical description of your operation should include a schematic of both the front and back of the house and a narrative of the flow of operations. The reader should have a clear understanding of the entire process of your restaurants dining experience.

Other Information

How To Develop a Restaurant Business Plan

You may wish to include other information not previously discussed which has a bearing on your operation, such as a growth schedule, financing schedule, or a schedule of return on investment.

Financial Data

If you are writing a business plan for the purpose of obtaining financing, the financial section is the heart of the matter. I strongly recommend that you have an accountant or other professional assist you with the financials.

The required documents include:

- Sales projections
- Balance sheets
- Statement of income and retained earnings
- Cash flow statement
- Tax returns (for existing restaurants)

For any other questions regarding the development of a business plan, call Ron Santibanez at 899-903-5875.



