



# PROFIT FROM A DIFFERENT PERSPECTIVE



By: Theodore Barber, FCSI

**P**rofit in a restaurant, is sort of like winning in sports. Both are tough to accomplish! In both cases there are a lot of moving parts to be concerned with, all functioning independently, where the sum of the parts will result in a greater achievement than the whole. As in sports, certain restaurants seem to excel year after year, no matter what. As restaurateurs, we are skilled at the art of explaining to ourselves every reason; there is movement and trends in our revenues. We all know and believe volume is key indicator of our

restaurants health and penicillin for all of our troubles. But sometimes volume alone is NOT the answer. If you are losing money or close to it, and you believe more volume is the answer; what happens when you run the end-all promotion and double your business without first determining why you aren't making money prior to? Answer; You Lose More! Profit or lack thereof, is the result of many factors and most can be identified and managed prior to opening, with good pre-game preparation or with sound operating systems, fundamentals, management, execution and most important, your employees.

The link between winning in sports and the restaurant business is leadership, self-motivation, intelligence, self-confidence, planning, being true to your objective, understanding where your restaurant (team) fits, what market (league) should you be playing in, setting reasonable expectations, motivated and capable employee's to execute, recruiting (drafting) more capable team members at your weak positions, and knowing how to measure success (keep score).

There is nothing accidental about success. Notre Dame Coach Lou Holtz once said, "There are three types of people out there, those who make it happen, those who watch it happen and those who wonder what happened."

Think in terms of every factor that affects your operation. You will soon learn that being a good cook or dreamer of concepts is not enough. Your skill requires admission that "you" cannot do it alone! What follows is an abbreviated list of hats a restaurateur wears; real estate lawyer, business lawyer, accountant, tax planner, kitchen designer, interior designer, architect, landscape architect, marketing director, purchasing





A current market acceptable rate of return today on a mixed portfolio of stocks, bonds and mutual funds is around 7% per annum compounded. So what this means is, without getting out of bed, you can invest the money you would spend in opening, remodeling, developing, expanding or growth in units and invest it in a diversified portfolio and make around 7%. However, if you are one of those who just have to be in this business in one way or another, then you should ask yourself the following. Will my investment deliver a “superior” market rate of return?” Meaning, can the cost of my capital be covered and still provide a return that exceeds the average rate compounded over the next several years to come? Remember this, even if you do not borrow money to open, remodel or expand you must still figure your capital could be delivering a 7% return compounded annually. So when you forecast your new enterprise, you must consider the return in relation to your cost of capital (your money) or the hurdle rate. If your forecast does not cover at

least the cost of your “net present value” potential then abandon the project or determine where you can make adjustments to achieve your expected returns. Remember, the restaurant business, is just that. A Business! Approach it like a business.

Most importantly, you cannot create nor have a clear understanding of your operation from within the four walls. In the beginning you were outside the four walls to create your business. You must not lose that perspective. In order to better understand your business from all views, you will need to depend on your people while you are looking in. Your staff, no matter how large or small your business is, is your key to success. Your staff delivers on your mission statement and executes by your culture. Your purpose, should be defined in your mission statement. What you stand for, in your company philosophy (principles and beliefs). Where you want to go, stated clearly to your staff in your objectives and long-range goals. Who you are, is reflected by your culture.

Your culture must be formulated as you intend to live it. You should say nothing that you do not believe in or intend to do. If you set the example by your commitment to your principles and vision, then you will gain the trust of your employees. And then they will follow you because they will know what to expect from you in all circumstances. Loyalty, trust and commitment of your employees is your only real competitive advantage.

If you choose not to commit as leaders to vision, principles and beliefs, then your employees won't either.

Unlike the past, we expected our staff to do what was told to them. Today, you must rely on your employees to add value, as they are most often the only point of contact with your customers.

If your team is not functioning as a team, then you cannot win.

Vince Lombardi said, “The achievements of an organization are the results of the combined efforts of each individual.”

Don't do it Alone! 

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### Warning! Slippery When Wet

The five biggest reasons why restaurants fail are:

- Lack of Knowledge
- Poor Planning
- Poor Execution
- Under Capitalization
- Poor Management

