

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

I. Other Presentations In Which Either The Date And /
Or Sponsoring Organization Is Missing

3. Development Topics

r. "Restaurant Real Estate", no date

Restaurant Real Estate

- I. The restaurant business including institution food services, says the National Restaurant Association, is the third largest of all businesses in the United States with annual sales of about \$35 billion. This covers all food eaten away from home including restaurant, hotels, at work, on airplanes, in hospitals, schools, and other institutions but 93% of all units were public.
 - A. For the last data available for 1966, there was a total of 344,000 public eating places but only 47,000 had annual sales exceeding \$100,000. Only 8200 had sales exceeding \$300,000, a figure which is needed to interest large companies and to support a professionally trained manager.
 - B. Restaurant began in Egypt and Rome was famous for its fast food snack shops providing spiced wines, cheese, figs, etc. Many of them were connected with bakeries and the Roman ruins indicate a large number of these bars were identical, or so nearly so, that they were part of a chain under a single ownership and preserved in A.D. 79 by the eruption of Mt Vesuvius - possibly owned by Marcus McDonaldcus.
 - C. Coffee shops were popular in the U.S. and French chefs were in great demand for private catering. Delmonico in New York City in 1827 or the Union Oyster House in Cambridge, Mass. which is still operating, opened in 1826.
 1. Conspicuous consumption at \$400 a person with La Grande cuisine
 2. Lobster ala Wenburg
 3. On a Sunday in 1895, Delmonicos was the first test of racial integration under a New York statute and it was the only restaurant to pass that day, serving three prominent negroes without any fuss.
 - D. Only a few high cuisine restaurants have operated successfully in the U.S. such as Antoinettes in New Orleans, Ernies and the Blue Fox in San Francisco, the Colony in New York, etc.
 - E. After 1850 most of the good dining was for travelers and was found on riverboats, railroad dining cars and the resorts. The railroads and the hotels used deluxe dining as a major marketing loss leader and concealed the true cost in the fares and the American plan room rate. Otherwise boarding houses and greasy spoons were strictly bake or boil meat and potatoes. As late as 1919 there were only 32,000 restaurants in the country and prohibition reduced these by 1/3.
 - F. The coffee shop was created in California in the 30's and was introduced across the country by the hotels in the early '40's.
 - G. World War II started the restaurant business for real, changing the eating habits of millions, a third of the women in the country went to work outside the home, discretionary income rose, families were separated and food rationing stamps limited eating at home.

- 1. Sales climbed from \$2.2 billion in 1939 to 7 billion in 1948
- 2. By 1956 the magic number was 10 billion, by 1963 20 billion and by 1971 the figure was 31 billion.
- 3. The small restaurant faded from the scene so that average sales rose to over 50,000 but the business changed from that of the small entrepreneur until large restaurant chains accounted for 1/3 total sales for the industry.

H. In 1972 the top five commercial food operations were:

| | <u>Sales</u> | <u>Units</u> |
|------------------------|--------------|--------------|
| Kentucky Fried Chicken | 900 | 3872 |
| McDonald's Corporation | 784.1 | 1944 |
| Marriott Corporation | 605 | 1122 |
| Holiday Inns, Inc. | 525.5 | 7247 |
| ARA Services, Inc. | 496 | 1426 |

- I. Stouffer's has a unique restaurant record, having made a profit, increased sales, and paid dividends every year since 1935.
- J. Restaurant firms generally depend on the guiding genius of one individuals and seldom survive the loss of direct family involvement. More people have become rich in the restaurant via the stock market than by operating restaurants.

- 1. In the late 1960's food stocks were the darling of Wall Street. McDonald's jumped from a 67 low of \$28 a share to a 1968 high of 130. House of Pancake rose from \$25 to \$250.
- 2. The chain has stability because it can make more mistakes than the independent.
- 3. It can afford to employ specialists who have the benefit of the internal data generated by a broad statistical base of businesses.
- 4. It can develop a formula by trial and error and then replicate the standard by the dozen.
- 5. Chains suffer from a shift from entrepreneurial imagination to professional management and loses its capacity to adapt.

II. The economic characteristics of a restaurant are fairly basic in terms of a space-time product.

- A. It is a fixed cost variable revenue installation. Raw food seldom represents more than 30% of the retail price of the item.
- B. Revenue depends on the basic revenue unit and the rate of turnover.
 - 1. A small dining room for each party may characterize the elite restaurant
 - 2. Typically it is the number of table settings and 4-place tables.
 - 3. In many it is the number of stools as in a coffee shop or bar.
 - 4. In a few it is the number of persons which can be handled at a serving counter and the speed of the cashier at the end of the line. (attempts have been made to place the customer on a conveyor belt but the customer resisted)

C. A restaurant is designed to permit a low unit sale or high rate of turnover or a high unit sale and a low rate of turnover.

1. A 10-stool coffee shop over a 12 hour period could do a volume of \$600 a day with an average turnover of 10 times per hour and an average sale of 50¢. At 200 days a year that's \$120,000 gross.
2. The elite restaurant may average 1.5 turnover for a table of four in an evening but with an average sale of \$10 per person that's \$60 per table and with only 20 tables, that's \$1200 a night.
3. Obviously these are the extremes but it is useful to look at the recent new restaurants in Madison to see what the formula is.

D. Consider the Hatchcover on the west end of Lake Mendota

1. Reduce fixed costs by creating a minimum size kitchen which requires a minimum number of entrees.
2. Choose entrees for simplicity of advanced preparation by low priced help so that the chef need only put what is needed on the grill. The preparation areas can be shifted to the food supply with the aid of coolers and freezers.
3. Reduce fixed costs by holding seating capacity to 80-100 and using a rough casual decor to permit tight placement of tables, elegance requires space.
4. Basic sport themes of water, rock, wood, and fire are considerably less expensive than the symbols of elegance such as carpeting, leather chairs, white linen and all the rest.
5. Create a simple menu which provides 40% beef, 40% sea food, and 20% a specialty and presented in a form which is unique (carved in a breadboard, burned on leather, written on a scroll or on a blackboard that everybody can see - example, The Last Harrah)
6. Provide a cocktail area for those who would linger over a drink and eliminate desserts to discourage those who would linger over coffee to increase the turnover of a limited number of tables.
7. Remain open only during peak hours.

E. An effort to reduce fixed costs restaurants can stress old buildings for atmosphere (Cobblestone Station) The Ovens of Brittany, Smokey's, Paisan's.

F. All restaurants have an entertainment-recreation input.

1. Role playing - *more play - crazy*
2. Entertainment (le nicolse)
3. Romantic imagery (nautical, early English, Japanese, etc.)
4. Drama - such as revolving restaurants, Grouse Mountain, barges on the canal in San Antonio, The Gobbler.

G. Even the noise level and crowd is part of the entertainment. No one wants to be the only customer in a large room and therefore restaurants are broken up into a variety of seating areas with a variety of noise levels.

1. In a downtown congested area busy people seem to enjoy being processed rather than served
2. Young people may enjoy eating in little more than 3 minutes while the middle aged may prefer making dinner an hour long event.