

How to Turn Your Good Restaurant into a Great Business

by Jim Laube, RestaurantOwner.com

People who open their own restaurant typically possess an abundance of highly desirable traits and skills. Almost without exception, they're very capable individuals who are naturally optimistic, creative, dedicated, highly motivated, action-oriented, and are not afraid of hard work and long hours to achieve their goals.



Although restaurant owners consistently display these positive characteristics, it's no secret that many new restaurateurs find themselves faced with moderate and even severe challenges in turning their restaurants into successful businesses. There's a lot of truth in the statement, "opening a restaurant is the easy part, the real challenge is making money at it."

One of the main occupational hazards of owning a restaurant is getting buried in the minutiae of daily operations. As we'll explain, when owners get caught up in the details of running their restaurant, they can easily lose sight of what they, as an owner, should be doing to turn their restaurant into a profitable business.

In this article, you'll learn how to "promote" yourself to becoming more of a CEO (chief executive officer) type of owner. In short, you'll see how to keep your eye on the big picture and create a system that will ensure your restaurant operates the way you want it to, without your constant involvement in attending to each and every detail. You'll also learn what type of activities you, as an owner, must be focused on to achieve any degree of sustainable success.

The potential benefits of becoming a CEO type of owner are significant and will have a profound impact not only on the financial performance of your restaurant but on the quality of your lifestyle as well.

As more of a chief executive owner, your restaurant won't be totally dependent on you being there all the time, so unlike many restaurant operators, you'll be able to have a life outside of running your restaurant too. In addition, you'll be better positioned to grow your restaurant through new marketing initiatives, setting up additional lines of business, developing multiple locations or even franchising your concept, if that's what you want to do.

Knowing How to 'Run a Restaurant' Isn't Enough

Many people who open a restaurant don't fully understand the role they should play as an owner. They're convinced that managing or focusing on the operational functions in their restaurant is all that's really needed from them to create a profitable foodservice enterprise.

“ . . . The more any restaurant depends on the owner's day in, day out involvement in the operational details of the restaurant, the greater the risk of failure. ”

-- Jim Laube

Take the chef who opens a bistro or the restaurant manager who raises some capital and creates his own concept. They're confident that because they know how to "run a restaurant" they, by default, also know how to build a successful business. **This couldn't be farther from the truth and is the fatal assumption behind the failure or lack of success in many, if not most, independent restaurant ventures.**

One of the problems of being a restaurant owner and knowing how to run a restaurant is that many end up to only that, constantly "running the restaurant." And if the owner spends all his time running the restaurant, he often overlooks or doesn't pay adequate time and attention to those things necessary to manage other equally important aspects of any business.

The more dependent a restaurant is on the owner's day in, day out involvement in the operational details of the restaurant, the greater the risk of failure. When the owner is unable to detach himself from the daily activities of running the restaurant, he is, in all but very rare situations, unable to do those things necessary to move the business forward in any meaningful way.

Two Big Lessons From Ray Kroc, Founder of McDonald's

You may wonder what an independent restaurant operator could possibly learn from the man who created the McDonald's empire. What could you possibly have in common with a major corporation that serves millions of customers a day in more than 30,000 restaurants worldwide?

From an organizational standpoint, you may not have a lot in common with McDonald's, however, Ray Kroc's ingenious approach and guiding principles are not only relevant but provide highly relevant gems of wisdom every restaurant owner should know and apply.

Kroc's leadership and business sense helped make McDonald's the largest restaurant chain of all time and made more people (his franchisees) into millionaires than possibly any other one organization in history. Just how Ray Kroc was able to build such a massive and extremely profitable business operation in a relatively short time span certainly deserves our attention.

First, get to work 'on' the business, not 'in' it. When Ray Kroc secured the master franchising rights to McDonald's back in the mid-1950s, he didn't go to work "in" the restaurant. He went to work "on" the business. To Kroc, the first McDonald's

restaurant was a model or prototype that was to be reproduced again and again in cities and towns all over the country.

Instead of personally rolling up his sleeves and running that first McDonald's, he began the process of analyzing every operational function of that restaurant from purchasing to prep to cooking and cleaning and so on. Without changing the essence of the concept, he made refinements and proceeded to develop a comprehensive set of standards and procedures, a system, if you will, for running a hamburger stand "the McDonald's way."

After Kroc had completed his first objective of building a complete "set of instructions" for operating a McDonald's restaurant, he then moved on to the next phase of his plan. He was now able to show others — in this case, his franchisees — exactly how to run a McDonald's restaurant in a systematic and proven way that virtually ensured their success.

He understood that he wasn't just selling burgers and fries. In fact, his main product was the business, a McDonald's franchise. His primary customers were not the people who bought the burgers, but the people who would pay for the right to own and operate a McDonald's restaurant (the franchisees). To convince people looking for business opportunities to choose a McDonald's over another franchise or any another business for that matter, he had to make it the best business opportunity available. His competition wasn't other restaurants, but other business opportunities.

Kroc went to work on McDonald's to make it the business opportunity of choice. He refined it to the point that it would operate in a consistent, predictable manner, the same way time after time with a low-skilled staff made up largely of teenagers.

Second, the 'system' is the solution. To have any chance of realizing his vision of a company with hundreds and even thousands of hamburger joints, Kroc knew every restaurant had to be operated in exactly the same manner. He required every new franchisee to attend the corporation's Hamburger University to learn the McDonald's "system" or way of doing business regardless of their experience.

Upon graduation, each franchisee knew precisely how to operate a McDonald's restaurant. They were told to operate their restaurants "exactly" this way because "it worked." If a franchisee deviated from the system in any way they risked losing their franchise. Kroc believed "the system" was the key to creating a successful business.

Another reason to have a system is that it's the only way to get extraordinary results out of ordinary people. **Restaurants can't afford and really don't need extraordinary people but they do need to leverage their people with excellent systems.** You want ordinary people who are able to produce excellent results by having very good systems.

Why do more than 30 million people go to McDonald's every day? Great food? Absolutely not! They go to McDonald's because they know EXACTLY what they're going to get (McDonald's is fanatical about consistency and predictability and you should be too). Customers know precisely what they're going to get regardless of what particular McDonald's restaurant they visit. **You can only create consistency and predictability, the two most important factors in any business, with a good system.**

This systems approach to operating a business does not apply solely to franchised or chain restaurant. A systems approach works anywhere and you've got to have a systems approach to operate a successful restaurant because there are just so many variables and functions that need to be executed the same way, every time, with every guest. Without a system, it's nearly impossible for employees to create a consistent and predictable experience for your guests over and over again. In short, without a system, you're lost.

With a system, a restaurant becomes a valuable asset in itself because it has the ability to produce consistent results and do this with or without the constant, direct involvement of the owner. By the way, when was the last time you saw the owner of a McDonald's franchise working in the restaurant? Probably never.

By contrast, many independent restaurant owners never stop working "in" their restaurant. They start out being the primary go-to person in the restaurant during the opening, which, of course, is understandable and necessary, but if they stay in this role for months and even years after a reasonable startup period, the business (and the owner) suffers.

When the owner continues to be intimately involved in the day-to-day operations of the restaurant, in a way they can't also function as an owner. They are closer to being another employee. **Sure, the owner is the boss and their name is on the lease and the bank loan, but beyond that, they are working in the restaurant in much the same way an employee or a manager would.**

It's important that restaurant operators recognize the implications of the way they approach their business and how they see their role in it. If they're spending most of their time and energy running the restaurant, chances are good that their business isn't achieving its potential for success and they don't have much of a life outside of the restaurant either. The reason many restaurants have problems is that the owner is not focused on those functions and activities that an owner needs to be doing to move the business forward.

How Would You Build 500 More Restaurants?

Imagine that billionaire investor Warren Buffet visits your restaurant and is just blown away by the concept you've created. He likes it so much he wants to form a joint venture and provide you with the capital to build 500 more, just like your first.

So, you're now faced with the prospect of opening 500 more restaurants. Do you think you'd start to do anything a little differently in your restaurant beginning tomorrow? It should become very evident that you could no longer run your restaurant the same way you're doing it now. You could no longer operate the restaurant in a way that requires you to be there all the time doing the work.

You'd realize, just like Ray Kroc did, that your focus needs to be on building a system capable of producing consistent, predictable, high-quality results nearly every single time "without you." The more your restaurant depends on you being there every day, the greater the chances that your restaurant will not reach its full potential for success. Your restaurant has just GOT to be able to operate without your constant involvement, and developing a system will help you get there.

Operating a Restaurant From a CEO's Perspective

Every restaurant has three major areas that must function well to achieve its potential for success.

- **Operations.** Operations include all those functions that are necessary to prepare and serve your products to your customers. It includes all those activities that take place every day in the kitchen, dining room and bar.
- **Financial.** Financial functions deals with safeguarding cash, accounting, cash management, cost control as well as operational and financial reporting.
- **Marketing.** Marketing is getting the word out about the restaurant and positioning it correctly in the minds of the public. It includes public relations, community involvement, advertising, promotions and projecting the right image.

Now, think about how successful your restaurant could be if you regularly gave competent attention to each of these three areas. Imagine that operations was capable of consistently providing products and service in a manner that meets your high standards.

Imagine that your financial, accounting and reporting functions were organized and efficient, and provided you with timely information so that you knew exactly how the restaurant was performing and how your marketing efforts were paying off. Imagine that your marketing received the attention it deserves with the result being well-conceived and well-executed promotional activities, events and communicating to your database of regular customers.

Do you think your restaurant would be more successful if you had that level of organization and attention in each of these three areas of your business? Sure. Well, what's the problem?

The problem in most independent restaurants is that the only one around to set up, organize or perform those functions is who? You guessed it, the owner. And the owner is already working 70 hours a week or more running the restaurant.

Most independent operators are to some degree buried in operations, doing whatever it takes to make it through the day. So what happens to the systems that needed in operations and the financial information to know how the restaurant is doing and the planning for the next promotion? Unfortunately, it often doesn't get done, or at least those areas don't get the attention they need and deserve for the business to thrive.

Let's look at an owner's role and involvement in the restaurant visually. Notice in the image below that we have the three key areas in a restaurant: operations, financial and marketing.



Notice the line that separates the three functional areas and the owner. This is meant to delineate the owner's direct, day-to-day involvement in these functions. Here the owner of the restaurant, who we will call in this case a chief executive owner (CEO), is overseeing and directing the operations, financial and marketing activities, but is not directly involved in the ongoing daily work in these areas; the employees are.

This is a highly advantageous position for not only the owner but also the business. Now the owner can turn his or her attention away from the daily functions of running the restaurant to the equally important "strategic" functions of planning and taking actions that will affect the business not today but in the future.

Strategic functions include those things that don't necessarily have to be done today but must be considered or planned in the present to have a shot at having a better business tomorrow. Strategic functions in a restaurant could include planning your next menu, starting a catering program, developing a new marketing strategy or creating a business plan to grow your business. It's very difficult for an owner to take on these types of projects when he is buried in operations. Here's a visual of what it looks like when the owner is below the line involved in the daily functions and activities of running the restaurant.



In this scenario the owner is too involved in running the restaurant to function as a CEO and is more of an "employee owner" (EO). It's easy to see that restaurants with EOs have a problem, there's nobody above the line doing the CEO or strategic work. When the owner is constantly running the restaurant, there is little or no time to spend on strategic activities like developing systems, coming up with a better marketing plan or taking advantage of new business opportunities like catering. While this may not affect the success of the restaurant today or next week, eventually it will.

The first step in turning a below-the-line EO into an above-the-line CEO is by developing and putting in place a system. In the restaurant business a system is a set of detailed operating procedures and is often referred to as an "operating manual."

Development of a detailed and documented operating manual of how a restaurant is to function will give the owner the best possible shot at reducing the need for his or her constant, daily, ongoing involvement in the restaurant. In addition, and just as important, developing a system will help you create one of the most important assets of any restaurant: consistency — a uniform and predictable experience for your guests.

Advantages of Developing Your Unique Operating System

Although developing a system or operations manual is not a simple or quick task, it's next to impossible to create and maintain a successful restaurant without one. Operators who take the time and the effort to involve their staff and consciously determine how they want their restaurant to operate can enjoy some huge advantages over those who don't.

Developing a comprehensive system for your restaurant will:

- **Help you get out of the (unprofitable) startup phase.** Getting a system of checklists, forms and procedures developed quickly reduces the usual

disorganization and confusion during the startup of any restaurant. Getting out of the startup phase as quickly as possible after opening is key to achieving your personal sanity and profitability.

- **Increase the odds you'll attract and keep quality employees.** Good people want to work for good companies that are organized and serious about what they do. This means a systematic way to recruit, interview and select employees and supporting new workers with job descriptions, training manuals and an employee policy handbook.
- **Provide direction.** A system communicates to your staff the performance and the results you expect and it provides your people with the information and training they need to be successful.
- **Create consistency.** A system makes it possible for your employees to repeat a performance that creates a consistent experience for your guests. Consistency is the key to creating a great reputation and loyal, repeat customers.
- **Give you a better chance to obtain capital.** If you want to expand your concept, having systems will enhance your ability to get the money and better enable you to manage growth. Imagine a single-unit restaurant company building another restaurant without having a system in place in the original one first. Not only are there more challenges in the new restaurant but now the owner is no longer there to manage the original one. Growth without a system has led to the demise of many very good single-unit restaurant companies.
- **Enable your restaurant to function without you.** Without a system in place, many owners being there all the time. It will allow you to separate yourself from the day-to-day details and allow you to take your rightful place as owner.
- **Enhance the value of your restaurant when you sell it.** Businesses that are owner-dependent are worth less than businesses that can function well regardless of an owner's involvement. Prospective buyers always want to know, "What's going to happen when the owner's gone?"

Another valuable benefit of documenting your system and operating procedures is that during the process you'll have the opportunity to evaluate virtually every task or activity that takes place in your restaurant. You'll learn that many activities are happening not by design but because "that's the way we've always done it." Many restaurants find opportunities to reduce errors, eliminate duplication of effort, and increase productivity while they develop their system.

How to Prepare Your Operating Manual

What to include. A restaurant operating manual will generally cover the following sections or categories:

- Menu and kitchen management.
- Dining room management.
- Bar and beverage management.
- Personnel administration.
- Purchasing and inventory.

- Employee training.
- Cleanliness and sanitation.
- Safety and security.
- Marketing and promotions.
- Business and financial management.
- Equipment management.
- Facilities management.

Within each of these areas would be forms, checklists, procedures and manuals in sufficient detail to document and instruct exactly how each task and function within the category should be performed to achieve the desired results.

For example, "menu and kitchen management" would contain instructions and procedures on recipe development and costing, menu assembly instructions, food safety, food prep, food rotation, food storage, station setup and closing tasks, daily kitchen tasks and so on.

Where to begin. The thought of documenting all of your restaurant's functions and procedures to create a comprehensive operating manual can appear to be an intimidating and daunting task. One of the keys to getting started and completing the process is breaking the process down into manageable pieces by working on no more than one or two sections or categories at a time.

One way to determine where to begin is to start on those categories that have the most direct effect or profound impact on your guest's experience. As mentioned earlier, one of the important ingredients of any successful business is consistency. Start with the areas that will help ensure that your people deliver the same food and level of every service to each and every guest. If consistency is your greatest concern or priority, then you might start with the "menu and kitchen management" and "dining room management" sections.

Get your employees' involvement and support. Before you start the process you'll want to inform your employees what's about to take place. As you know, most people don't like change and the process of evaluating and documenting everything that goes on in your restaurant will undoubtedly lead to some changes, and potentially some resistance. Explain to your people that you're about to look at every task and activity that takes place in the restaurant for the purpose of creating detailed operating procedures.

Explain that doing this is very important to the success of the restaurant and its ability to provide your guests with a consistent dining experience every time. Also explain that once the operating procedures are completed and put in place it will make their jobs easier by reducing mistakes, duplication of effort and will make the restaurant function in a much more organized fashion. Tell them you'd want and need their ideas and suggestions as well.

Ask all of your people, managers and hourly employees, to prepare their own job descriptions and to list in detail everything they do in their job. This will involve them in the process and you'll get a good deal of information. Obviously, what you'll get from some employees will be better than others. That's all right. You should get

enough well-written descriptions to help you identify a good portion of the activities that take place in your restaurant that you'll need later.

Organizing the system development process. Preparing an operations manual means collecting and piecing together lots of information. Thus, you've got to be organized. Start out by purchasing a cardboard bankers box. Using a separate box will help you keep this information separate from your day-to-day files and paperwork and you may want to work on this information out of the restaurant as well.

Then, purchase some hanging file folders, one for each main section of the manual and label accordingly. Then, into each hanging file place standard file folders labeled with the description of each category within the main section.

For example, the "personnel administration" hanging file would contain standard files labeled accordingly:

- Job descriptions
- Recruiting
- Employment application
- Interviewing
- Selection and hiring
- Orientation
- Scheduling
- Performance review
- Discipline
- Vacation and time-off policy
- Employee discounts

Collect this information from existing forms, past memorandums, observations and discussions with employees and place these notes or documents in the appropriate folders. As the owner, you don't have to do this all yourself; assign categories to your managers.

During this period it might be helpful for you and even your managers to keep a small notebook or a tape recorder handy for additional notes of what you're observing and ideas about potential changes to incorporate into your final procedures.

Putting It All Together

Once you've collected a sufficient amount of information for a section, start evaluating what's actually taking place or your current policy within each section and determine what would be the best way to satisfy the needs of your guests and meet the goals of your restaurant. This part of the process may involve you as well as your management team and in some cases a key employee or two depending on the section and category.

As policies, procedures and activities are discussed and finalized, start entering this information into a word processing file. You might find it helpful to create a separate file for each section of your manual.

As you complete each section, print it out and review it with your managers and put in place any changes into your operation. Now is the time to really check what you have prepared with what actually needs to take place in the restaurant. If your changes aren't appropriate or there's a better way, change it now and reflect those changes in the procedures. Refine your manual until you get the operational results you want and what is being done in the restaurant matches what is reflected in the operating procedures.

Now it's time to place a copy of each section in a three-ring notebook binder. This is the beginning of your operations manual. Continue this process until each section is complete.

Stay Focused On the Prize

If you begin this process with the same passion and commitment you had when you started your restaurant you'll end up with a better restaurant and a more valuable business. While the time and effort will be significant, you'll be in a much better position to remove yourself from the daily demands of operations and focus your energies on other important functions that an owner needs to be doing.

By developing and documenting your unique business system, you enhance your opportunities to take your business to the next level or just enjoy more time outside of the restaurant; it's your choice. And isn't that what owning your own business is really all about?

Restaurant Operations Manual

Sample Table of Contents

Organization

- Mission statement
- Company history
- Organizational chart

Menu and Kitchen Management

- Menu development
- Recipe development
- Recipe costing
- Recipe cards & photos
- Menu assembly & production
- Station setup & closing procedures
- Breakdown & cleanup

- Inventory procedures & controls
- Food safety
- Product rotation

Dining Room Management

- Customer service
- Menu abbreviations and descriptions
- Cooking techniques and terms
- Basic bar information
- Basic wine information
- Opening procedures
- Closing procedures
- Seating floor plan
- Handling complaints
- Server side work
- Ordering from kitchen & bar
- Presenting the check
- Payment processing
- Gift certificates
- Discount coupons
- Closeout procedures

Bar and Beverage Management

- Drink categories
- Brands and abbreviations
- Wine information
- Bar customer service
- Alcoholic management program
- Perpetual liquor inventory
- Spills and complimentary drinks
- Drink recipes and preparation
- Preparing garnishes
- Order taking and fulfillment
- Presenting the check
- Payment processing
- Opening procedures
- Closing procedures
- Bar cleanup

Personnel Administration

- Job descriptions
- Recruiting
- Employment application

- Interviewing
- Selection and hiring
- Termination
- Orientation
- Scheduling
- Performance review
- Discipline
- Vacation and time off
- Rules and policies
- Sexual harassment policy
- Timekeeping procedures

Purchasing and Inventory

- Product specifications
- Approved vendors
- Par levels
- Ordering procedures
- Receiving procedures
- Inventory control
- Physical inventory procedures

Employee Training

- Training schedules by position
- Training manuals by position
- Restaurant tests by position
- Training checklists by position
- Cleanliness and Sanitation
- Prevention of foodborne illness
- Dining room
- Kitchen
- Restrooms
- Building exterior
- Trash management
- Chemical management
- Cleaning checklists

Safety and Security

- Safety management
- Emergency procedures
- Security systems
- Security policies and procedures
- Safety rules
- Fire protection

- First aid and medical care

Marketing and Promotions

- Advertising
- Promotions
- Public relations
- Customer database
- New-mover marketing

Business and Financial Management

- Cash deposit procedures and controls
- Point-of-sale procedures and controls
- Discounts and comp policy
- Payroll processing
- Accounts payable
- Weekly reports
- Chart of accounts
- Financial statements
- Insurance

Equipment Management

- Equipment maintenance schedule
- Breakdowns and repairs
- Approved repair vendors
- Equipment replacement procedure
- New equipment request procedure

Facilities Management

- Breakdowns and repairs
- Approved repair vendors
- Capital improvement request procedure

Jim Laube works with independent restaurant operators who want to turn their good restaurant into a great business. For more information visit www.RestaurantOwner.com.