Pascas Cafe *with* Raw Power!

Behind the Menu

"Peace And Spirit Creating Alternative Solutions"

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PASCAS CAFÉ – BEHIND the MENU: P.34 Charter – May 2010

Running a restaurant requires more than just a love of food. Story by Melissa Wilkinson

If you're ever tempted to throw in your career towel and pursue your dream of running a restaurant, you may need to think again. The romantic illusion of spending all your time surrounded by good food, jovial guests and fine wine is unfortunately just a fantasy.

The reality is that when compared to the restaurant game, working in professional services looks positively easy. Running a successful restaurant demands creative flair, business savvy and a sturdy marriage. Perseverance and sheer grit also seem to be common traits for restaurateurs who work late mingling with diners, only to be up again at 4 am buying fresh produce at the markets.

People who go into the restaurant trade with only an urge to be around food and a limited understanding of the business of hospitality will run aground very quickly. Unfortunately, many only seem to discover this sad truth once they've signed a 10-year lease and invested a chunk of capital in an expensive fitout.

The folklore in the industry suggests that up to 80% of a restaurant's success is sealed before the doors are even opened. A new restaurant owner must have a decent business plan, a realistic budget and a deep understanding of the importance of a unique offering. Good staff and, of course, a great chef are essential. The restaurant's location must fit with the business's positioning and the lease costs must be manageable through all types of market conditions.

While there is a shortage of data in Australia on restaurant failure rates, according to some US research undertaken by Ohio State University over the period from 1996 to 1999, the highest failure rate for restaurants was reported during the first year when about 26% came a cropper. About 19% failed in the second year and 14% in the third year. The cumulative failure rate for the three year period (1996 – 99) was 59%. Interestingly, just over half of the franchised chains (57%) still failed over the three years and among independent restaurants, the rate was slightly higher at 61%. Some of the common reasons cited for failure were not all due to poor financial management. Many restaurants could simply not cope with the hours and resulting stress on their family life. Family issues such as divorce, poor health or a desire to retire drove many owners to shut their doors.

The pressure to understand the business of running a restaurant is even more real at the moment given the weaker economic conditions forecast over the next 12 months (2010 – 2011). According to some research IBISWorld published in *The Sydney Morning Herald*, consumer demand and industry revenue in the restaurant sector are expected to decline during 2010. The IBISWorld report is predicting a 2.7% decline in the overall industry revenue in 2009-10 as uncertainty about the future continues both in Australia and overseas.

As average restaurant profit margins in Australia are about only 4% per year, business owners cannot afford to take their eye off the ball or make too many strategic or operational mistakes. Hospitality can be a brutal business with fickle diners and influential food writers. That’s why it is critical to know which operational levers need to be pulled to increase profit and keep cash flow steady.

Revenue Generators

Like any other business, a restaurant owner can drive profit by increasing revenue or decreasing costs. Increasing a restaurant’s sales relies on attracting more customers, getting more repeat customers in the door or encouraging your current customers to spend more during each visit.

One of the must-have ingredients to increase a restaurant’s revenue is a strong value proposition. Are diners buying convenience or are they buying an experience from you? With more than 40,000 restaurants, cafes and caterers in Australia in 2009, it’s a crowded marketplace with low barriers to entry. That’s why there is no room for any confusion about your point of difference or unique value you’re offering to customers.

According to Craig Davidson, the chief operating officer of boutique travel experience company Anthology Travel and former executive general manager of Hamilton Island, trying to be all things to all people is a sure recipe for failure.

“A lot of people who get into the restaurant business think it’s going to be easy but it’s actually highly competitive because there’s so much choice in the market. Like any business owner, you have to be really clear about what gap you’re trying to fill in the market. You need to really narrow down your value proposition which includes the type of food and the style you’re offering and which target market you’re pursuing. You can make money out of both mass service and fine dining, but whatever you choose, keep your offer nice and simple. This means not offering too much choice."

Serge Dansereau is the chef and owner at Sydney's Bathers Pavilion and he agrees that finding the right project to create consistent revenue is a must.

"If you're going to take out a loan over 10 years to fund your investment, you need to make sure that the business will still be running beyond the first two to three years. I have a 20-year lease down at Balmoral beach, so I have to make sure that we have good trade for at least 15 years to have a decent return on that investment. I wanted to create a restaurant that was part of the community so that it would last the distance. It is important to pick the right food, attract the right people and the right price point at the time."

Dansereau has also been canny by diversifying his revenue stream and spreading his financial risk by adding on a more casual café and kiosk to the original fine dining restaurant. The seasonal nature of beach side dining was an important factor behind this decision.

"The café and kiosk have helped us cushion the blow in tough times. It has been a pretty soft market over the last 18 months, particularly as the corporate function market has dried up as a result of the global financial crisis."

Corkage and Cakeage

Many restaurateurs believe that charging for additional services like corkage and cakeage is fair given the costs associated with these services. Some restaurants charge AU$10 a bottle while others AU$5 a head. In BYO restaurants corkage can be a real money spinner but in restaurants which are both licensed and BYO, then corkage really only helps to recoup the service costs.

In terms of cakeage, some restaurants charge as much as AU$10 a head to cut up and serve cake which diners have brought in for a special occasion.

Martin says these charges are legitimate as restaurants run a service business.

"I support corkage and cakeage charges 100% because you can't have people sit there and drink their own wine and eat their own food. These situations represent lost money to the restaurant owner, plus there are service costs involved which must be accounted for," he says.

Key Costs

With a very tight grip on the key financial levers in his business, Dansereau knows how to quickly adjust his cost base to deal with softer economic conditions.

"The major cost in any restaurant business is always labour. It can be 40% – 50% of revenue depending on your value proposition. In our business we have key performance indicators and targets for each area and we match these against the actual payroll. It's important for employees to understand this relationship. We also have to ensure that we have a lot of internal flexibility so we can move people around when required.

"For example, we can take someone from the bar to help in the kiosk which allows us to direct resources where they are needed most. The key issue is getting a balance between offering the right amount of service and maintaining a high level of internal efficiency. It's so easy to slip if we don't stay on top of the labour figures all the time."

With more than 25 years in hospitality, Davidson says that a good restaurant starts with a good kitchen.

"Your food will make or break you. If it is not consistently good, then you can't possibly succeed as people turn away from restaurants very quickly. If I was a financial advisor or an accountant, the kitchen would be the first place that I would be investigating. It's a very high cost part of a restaurant and you need to know what's going on in there and what your food costs are going to be," he says. "Food costs can be about 30% to 35% of your revenue so it's very important to manage well and avoid wastage from poor ordering or stock control. Menus have to be designed with the seasons in mind and your pricing structure should move around throughout the year to reflect this."

Davidson notes that some restaurants typically make more money on alcohol than on food.

"Beverage costs represent about 30% of revenue and mark up can be as high as four times the landed unit cost which includes delivery and taxes. For example, a bottle of wine bought at AU$9 can be sold at AU$27. Generally, the higher the landed unit cost, the lower the mark up. Beverage control is important so you need to do regular stocktakes and watch stock control. A lot of restaurants also carry too many lines of beverage which has negative implications for stock turnover. It's also critical to monitor the bar because it is more prone to theft and bad practices."

Recipe for Success

The global financial crisis has done a service to the Australian restaurant scene as it has forced quite a number of businesses to smarten up – and quickly. In the past, some commentators have described the restaurant industry as a two-speed sector. That is, there are those that perform well and who make decent profits and then there are those who are continuously on Struggle Street.

Stephen Shaul, a lecturer at Southern Cross University Hotel School with 21 years in hospitality, says that there are a number of key mistakes that restaurant owners make.

"Restaurant owners can't just simply take the things they like and then offer them to the public assuming that this plan will automatically be successful," says Shaul. "To really fill a gap in the marketplace, a restaurant must be a customer-driven product as opposed to an entrepreneur-driven product. The problem is an owner can try too hard to make art instead of running the restaurant like a business.

"One of the other common issues I see is when the owner constantly takes cash out of the till for person purposes. You can't control what you don't measure so without the right systems and processes in place, the owner will never really know what's going on in the business.

"Recruiting and keeping good staff are also very important. Unfortunately, the hospitality industry is the home of entry level staff and staff who have other priorities in life. A lot of people see it as the job you do when you're looking for what you really want to do. Luckily professions like head waiters and restaurant managers are re-emerging and there are more people being hired who take the profession seriously.

"An owner must also have a good relationship with the restaurant's chef. It's common for chefs not to be focused on controlling costs so that's why an owner must really understand how to produce food so that he knows what's going on. It is definitely a mixture of art and business."

Ian Martine is president of Restaurant and Catering NSW / ACT. The largest industry association representing the hospitality industry throughout New South Wales and the Australian Capital Territory. He agrees that a key potential threat to a restaurant's success is the chef, particularly if the chef has a high profile.

"Most of the top chefs are involved in some form of profit sharing because essentially they are the business. This form of incentive or golden handcuff is quite common in the sector."

Martin also urges restaurant owners to keep up to date with what diners want.

"We work in an extremely dynamic environment which is constantly changing. Australians in particular are a lot more discerning today about their food and levels of service. We have a pot pourri of different influences here so it's important to keep your offering fresh and meeting the needs of the market."

Keeping a tight control of a restaurant's initial fitout costs is also very important. Some figures suggest that a Greenfield site may cost as much as AU$300,000 for equipment like industrial cooking and ventilation equipment, refrigerators, freezers, tables, shelving and counters with stations for cutting, heating and cooling.

Tablecloths and linen alone can be expensive and these small decisions can soon cost you a lot of money during the year. Many would-be restaurateurs stumble before they even open their doors because they have seriously overcapitalised with no chance of making a decent return on their initial investment. The burden of too much debt and an unclear idea of the numbers required to breakeven can be all-too-dangerous traps.

Renovating an existing restaurant is likely to cost less, although the rent may be comparatively higher.

Rent is a restaurant's biggest fixed cost so it's critical that the initial site chosen hits some of the old real estate criteria including position, position, position.

Hamilton Kings, owner of casual dining restaurant Bondi Social and Chilterns Catering, says that his point of difference is definitely his location.

"Our view and balcony are phenomenal and much better than many other restaurants at Bondi because we have views of both the beach and the streetscape. We're one of the longest serving restaurants in the Bondi area with the same owner because we know how important it is to have provisions to deal with the seasonal natures of the business. This area has notoriously low restaurant success rates because we have amazing summers and terrible winters in terms of revenue. For example in summer we can do three times what we would turnover during the winter. The restaurant trade can be very glossy and driven by the latest trends, so that's why you need good financial management to know where your costs are and hot to control them."

RAW FOOD MEALS:

Key Performance Indicators for Restaurants, Cafes, Catering, Clubs & Hotels

http://www.profitablehospitality.com/public/88.cfm

Remove the guesswork from managing your business by checking the numbers that tell you what's really happening.

There's a business saying: 'if you can't measure it, you can't manage it!' Real, responsive management needs reliable and truthful figures on which decisions can be based. If there are problems, you can take corrective action quickly. If you are having success, you'll know to do more of what you're doing! Good figures also give you a wider understanding of your success – sometimes if it's a quiet month (when your suppliers are telling you that 'everyone's quiet!') you'll see that some of your KPIs are actually improving (e.g. sales per head). Well done – it's not all doom and gloom!

Watch several figures from each of the 6 following sections. **Phone: +61 2 9340 1089 (Australia)**

1. Staff and Employment KPI's **http://www.profitablehospitality.com/public/88.cfm**

- Wage Cost % – wage costs as a percentage of sales.
- Total Labour Cost % – not just wages but also the other workcover insurance, retirement and superannuation charges and other taxes that apply on your payroll.
- Total Labour Hours – how many hours worked in each section. This is useful to compare against sales to measure productivity.
- Function Labour charge-out. Caterers usually charge-out service staff at a markup on the cost of the wages paid. Are you achieving a consistent mark-up?
- Sick days taken – sometimes a measure of morale and the management skills of your management team.
- Labour turnover (number of new staff in any one week or month). Everyone says high staff turnover is 'part of the territory' in hospitality. It doesn't need to be like that, but one way to measure how good (or bad) you are at controlling this is to measure labour turnover. Count the number of positions you have (A), then count the number of people who you have employed during a certain period (B). Divide B by A and you will get a labour turnover figure, sometimes expressed as a percentage. For example if you have 10 staff positions and you have employed 38 people in the last year, your Staff Turnover is 38/10 or 380%!!
- Average length of employment – another way to look at your success in keeping staff. Add up the total number of weeks all your people have worked for you and divide this by the total number of staff.
- Average hourly pay – divide the total payroll by the number of hours worked by all staff.

2. Kitchen Management

- Food Cost % can be measured quickly by adding up food purchases for the week and measuring them against your food sales. This is based on the assumption that you are not holding very much stock (as its perishable, you need to sell it or throw it out!). You may also do a stock-take regularly to get a more accurate food cost percentage, although the burden of kitchen stocktaking often means it is not done very often.

- Total Food Costs – how much was your total food bill? Sometimes a useful figure to show staff who think you are made of money!
- Food Costs per head. It can be useful to see every week how much it costs to feed an average customer. If your menu and sales style is consistent, this should also remain much the same. If it starts to go up, you will have to find out what's happening!
- Kitchen Labour % – it's only fair to measure kitchen productivity by comparing kitchen labour against food sales, not total sales (alcohol and beverage sales may be influenced by other factors).
- Kitchen Labour hours – how many hours worked in this section? Compare against sales to measure productivity.
- Stock Value – how much food stock are you holding? It should be less than a week's use, but can slip out if you are storing frozen seafood or cryovac meat.
- Best (and worst) selling items – check the weekly sales from your POS or dockets. Did you know what the best sellers were? Map these on the Menu Profitability Analyser.
- Kitchen linen costs – the cost of uniforms, aprons and tea-towels can be a shock! How many tea-towels are you using each day? (thought about laundering them yourself?)

3. Front of House & Restaurant Management

- Total Sales Per Head – your total sales divided by the number of customers. How does it compare to last week and last month? This may vary between different times of the day.
- Number of customers – simple! A good measure of popularity.
- Food, Dessert, Beverage Sales per head. These are divided into key areas of choice – main course and starters, desserts, non-alcohol beverages, alcohol and perhaps also side orders (e.g. breads and salads) and other product sales. It's the perfect indicator of two things – how much your menu appeals to your customers (do you have all the choices they want, e.g. the right dessert selection?), and how well your staff are selling. This KPI can be a good basis for a bonus system.
- Seating Efficiency – how well your tables are being turned over while still offering high quality customer service. Usually many small things combine to have a large impact – cooking time, seating, service and clearing. The size of tables relative to the average group size will also make a difference.
- Basket Analysis – e.g. how many items do lunch customers buy? What else do morning coffee drinkers order, or red-wine drinkers (mineral water if the servers are awake)? A recent analysis with a client showed that typical diners ordered only 2 items (most ordered nothing after the main course) and many of the lunch customers did not order a beverage. Grab a pile of dockets from a typical day, and look for ordering patterns.
- Linen costs – uniforms, aprons, etc.
- Front of House Labour % – how many hours worked in this section? Compare against sales to measure productivity.
- FOH Labour hours – how many hours worked in this section? Compare against sales to measure productivity
- Customer satisfaction. This is measured in different ways. Feedback forms, complaints and other methods that are hard to quantify sometimes but worth making an attempt.
- Strike Rate – if 500 people came to your club last night and only 100 ate at the bistro, your 'strike rate' would be 1 in 5, or 20%. Good enough? Compare with similar businesses and different times.

- RevPASH – Revenue per Available Seat Hour. The same idea as hotels use to measure Revenue per Available Room. For RevPASH take the total number of 'seat hours' and divide total revenue for a period by this number.

4. Bar & Cellar Management

- Sales per head. Useful to have them separately for alcohol beverages and non-alcohol (juices, mineral waters, soft-drinks and coffee, etc). It's the perfect indicator of two things – how much your beverage and wine appeals to your customers and how well your staff are selling. This KPI can be a good basis for a sales bonus system.
- Gross Profit on sales – the difference between what you sold and what it cost you. The sales mix can influence this heavily. If you are selling two bottles for the same price, but one costs you AU$5 to buy and one costs you AU$7 to buy, you should try to maximise the sales of the one with the highest dollar profit.
- Average Profit % on Sales – useful to see if your sales are holding steady, although ultimately the actual Gross Profit (real money) will matter the most.
- Stock Value – how much cash is locked up in the value of your cellar? Tens and even hundreds of thousands of dollars can be tied up in cellar stock and you don't realise it! It's worth checking with your suppliers and seeing how much you can order 'just in time'. This is where retail business models are useful to compare, because unlike food stock, these supplies are not perishable, which can lead to a temptation to hoard. Also, the romance of wine lists and 'special deals' can lead to stock blow-outs! Weekly stocktakes are essential for proper management.
- Stock turnover – how fast is your cellar stock selling? If you are carrying wine stock worth AU$50,000 and the value (not sales) of what you sell each week is only AU$10,000, it's taking 5 weeks to turn over your stock. That's too long! An accurate figure here will be based on regular stocktakes and accurate sales information.
- Carrying cost of stock – what is the cost of financing this AU$50,000 of stock? Take the current interest rate for borrowing money, apply it to your stock value, and divide by 52 to get a weekly figure. If stock is valued at $50,000 and interest rate is 8%, annual cost of financing the stock is $4,000 or $77 per week.
- Sales / stocktake discrepancies. Alcohol means security problems, and keeping an eye on 'shrinkage', staff drinks and stealing is a constant problem. As an essential KPI, measure the difference between what you used (from comparing two stocktakes) and what your POS system says you sold. You often need to find our why they aren't the same!

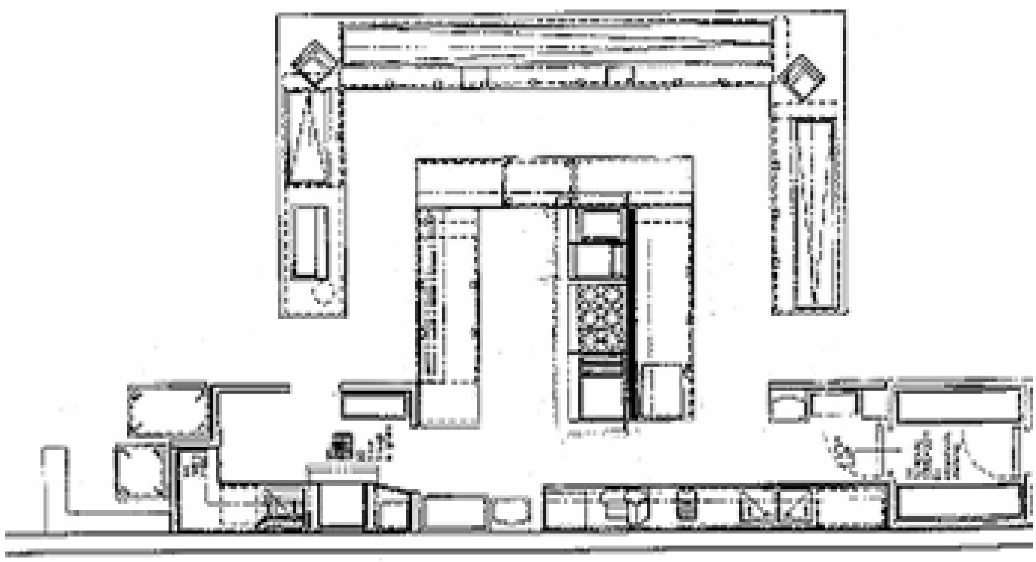
5. Sales & Marketing plus Function Management

- Number of customers – simple! A good measure of popularity.
- Visits by your top 100 or 200 customers – they provide a huge proportion of your sales! Track their frequency and spending – these people are gold!
- Sales per Head – across all areas
- Marketing and advertising costs – the total value of what you spend, always trying to measure it against the response you get. A difficult one to measure, but worth investigating.
- Response rates – how many people responded to different campaigns and what effect did this have on profit?
- Press Mentions – keeping your eyes open for favourable mentions.

- Bookings – in the current week and month and coming up. Also in peak times, e.g. Christmas.
- Function Inquiries – number of inquiries about large bookings and functions, especially if you have undertaken a campaign to promote them.
- Sales inquiry conversion rate – the number of inquiries that turn into actual sales. If 50 people asked for information about your function packages and this resulted in 10 firm bookings, this would be a conversion rate of 1/5 or 20%. You would want to look at why so few people were 'converted' – was it the quality of the promotional material, skill of the sales staff, pricing or make-up of your function menus and facilities?

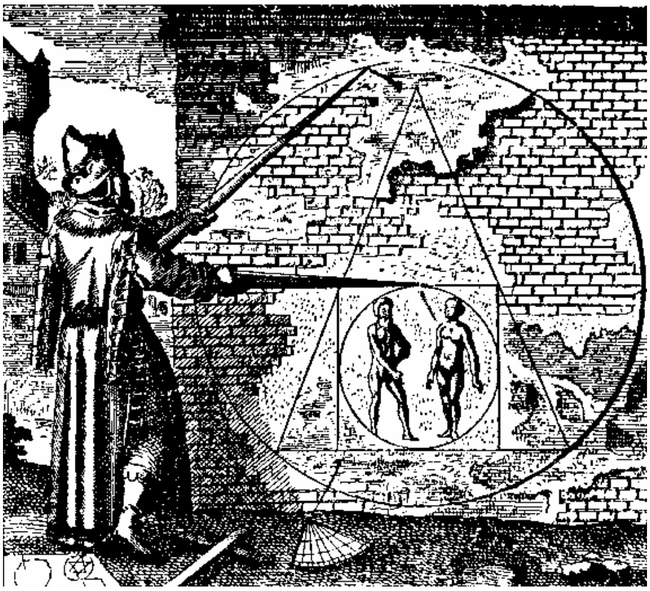
6. Management of Finance & Administration

- Cash position at bank – how much do you have available after reconciling your cheque book?
- Stocktake discrepancies – a measure of the efficiency of each department, but also of the administrative systems in place. They need to be simple and easy for line staff to fill in, and the results should be made known quickly if they are to have an impact.
- Total accounts due – how much do you owe?
- Total accounts payable – not usually a problem in restaurants and pubs, but needs careful management if you have accounts, e.g. large restaurants.
- Return on Investment – the profit your business makes can be measured as a percentage return on the amount you have invested in it (see the Balance Sheet). Is it sufficient?
- Taxes owed – most of these taxes are not paid at the time they are collected. Hence the need to know how much is owed at any one time so it is not 'spent'.
- Sales and costs – actual figures compared to what you budgeted for the period. You will want to see real dollar figures and percentages.
- Administration labour costs. This is often begrudged in hospitality businesses and seen as 'not productive'. But strong and skilful administrative support will be essential to manage the KPIs listed above!
- Computer and technology efficiency – how much down-time for your computer system? How accurate is the POS system? How many of your staff know how to use the equipment they use each day, e.g. telephones – can everyone transfer a call properly?



The Philosophers Stone - Podium!

Mid morning and mid afternoon are times for the Philosophers Stone' Podium to be utilised at the Pascas Café.



Patrons at the Pascas Café will be invited to participate in the preparation of raw food dishes. They will be given the opportunity to assemble a specific dish or drink according to request. Patrons will submit their preferences and progressively they will be given the opportunity to be trained in how to prepare the same dish or drink in their own homes.

Training programs will enable clients / patients of Pascas Clinic to evolve their specific diets to benefit from the high energy super food recipes offered at Pascas Café.

Demonstration classes will be participatory. Patrons and patients will be encouraged to become involved in the preparation and understanding of what is required to prepare raw food with the appropriate procedures for making the dishes and drinks.

Of particular focus is the high energy **Green Juice** drink.

Meals prepared will then be calibrated for their energy level. Blessing of meals will be followed by a further calibration to demonstrate the contribution of prayer (energy medicine).