

Restaurant Accelerator Conceptual Idea

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In recent years, the single-location restaurant industry experienced a major slowdown due to the struggling economy. This, along with increasing regulatory and financing requirements has compounded the situation and stifled the growth of small businesses across the nation. It is difficult to track exactly how many businesses opened and closed in Kosciusko County in the past five years. However, the National Restaurant Association states that 30% of restaurants fail during the first year and 60% fail within three years, statistics that are corroborated by other studies. Some studies also reference a 75% failure rate for restaurants within five years. For small businesses in general, Small Business Administration (SBA) studies indicate a 50% survival rate at five years for firms having employees, which is significantly better than the survival rate for restaurants. This white paper will discuss possible ideas of how to create a restaurant accelerator to improve these statistics within Kosciusko County.

Starting a restaurant could require anywhere from \$450,000 when leasing a site to upwards of \$1,000,000 when purchasing land. These costs include everything from building expenses to business tax expenses, not to mention the start-up costs of registering the business and paying all the city, county, state, and federal fees. A standard SBA loan requirement is for the borrower to have 20% of liquid assets and strong collateral to cover the rest of the loan. For the lower end of capital requirements, this would mean that owners would have to have a minimum of \$90,000 in liquid assets and enough collateral to cover the remaining \$360,000. For many potential restaurateurs, this would typically involve putting personal home equity at risk. This high level of risk is enough to keep potential restaurant owners out of the game entirely.

Although the high failure rate of restaurants and capital requirements makes them an undesirable option for bank loans, it is not money alone that hopeful restaurateurs lack. If it were, the ones who successfully received bank loans should, in theory, have similar failure rates

to other small businesses. Because their success rates differ drastically from other businesses, there must be some other issue at hand. If true, this hypothesis would have a profound impact on our project, as it means we need to expand the scope much further than tracking down the money or real estate needed for hopeful restaurant owners. Our hypothesis was that restaurant owners lack one or more of these critical skills: basic business knowledge including business set-up and tax knowledge, understanding of public needs, food preparation and presentation skills, or quality employees.

To test our hypothesis, we interviewed Caleb France, the co-founder and co-owner of Cerulean restaurant. Located in the heart of Winona Lake, Cerulean has an outstanding reputation - both locally and across the nation - for quality food, a relaxing atmosphere, and knowledgeable wait staff. Whether a customer is looking for a place to host a business dinner for a dozen corporate executives or simply looking for a relaxing atmosphere on a warm summer night, Cerulean is designed to accommodate the customer's needs. Since France has been in the restaurant business for several years, and has the added experience of opening another restaurant in Indianapolis, we figured he could shed some light on our accelerator questions.

France stated that the foundation of Cerulean is based upon the Passion Statement: "Cerulean, through food, at its best and at every level, is about communication, communion and joy, while encouraging a modern sensibility that inspires." The Passion Statement is part of his training program and the employees embrace the statement in every aspect of their job. Mr. France believes that, "The success of a restaurant depends on the overall balance of every element of the business, including the management, while keeping at our core the belief that if all we think about is the bottom line then important jobs which require our attention will inevitably be neglected."

France believes that there are multiple reasons why restaurants seem to fail in Warsaw.

Some thoughts that were discussed:

- Owners may not love the job as much as they thought. Restaurants can be a 24-hour business. Studies have shown that restaurant owners get burned out quickly, losing the passion to continue being an entrepreneur. Owning a restaurant takes dedication and service – one thing that the owner needs to not only understand but ultimately embrace.
- Owners focus on profits only – and the rest of the business is neglected. There is a balance between making a profit and the business costs, service, and food quality. When owners put profits above everything else, the business begins the spiral downward toward eventual failure.
- The food and service does not match the culture. In today's culture, good food with good service is a necessity to maintain success.
- The restaurant concept is not secure. In other words, the restaurant needs to create a culture that the area can embrace and be drawn to. The culture needs to be relevant to the area and then push the envelope to continue growth and excitement.
- Understanding of state and federal tax regulations. When asked the one thing that he wished he understood when opening Cerulean, France quickly answered, "Taxes!" Restaurant owners need to know about the legal set-up of the business, tax implications, and accounting practices.

Inspired by the previous information, the concept of this white-paper project is the proposal of a restaurant accelerator in Kosciusko County. A restaurant accelerator is not a novel concept. In fact, various models have popped up in dozens of cities across the United States over the past decade or so. Larger cities can often support a wider variety of business models based

on the needs of businesses and the demands of a wider customer base. Although Kosciusko County is smaller than, say, Boston or Chicago, a restaurant accelerator of sorts can be successful here if the business model fits the demographics of this area. We will take a quick look at some of the business models for restaurant accelerators that have been attempted across the country.

Concept Model #1: Restaurant Accelerator

The first model is a straightforward restaurant accelerator. This would be a single building on a central piece of property, easily accessible to a wide demographic of people. This building would consist of two or three separate dining areas that could be decorated accordingly to fit the restaurant's theme. There would be separate kitchens to some extent, but some of the larger capital equipment would be shared if possible, including freezer space, dry goods storage, unloading docks, etc.

A restaurant would be able to rent out a space for a block of time, typically six months to two years, and attempt to attract customers to fill the seats to sample their menu items. If the restaurant was successful, it would have a proven sales history and a loyal customer base where they could then expand out into the community and start their own restaurant. With the customers in place and the proven sales record, they would not only be a more attractive loan for a bank but they would have a much greater chance of succeeding compared to a brand new start-up. The benefits to the restaurant owner are substantial, but the value to the community is also not to be overlooked. Local patrons would be able to visit a single location and find regular new food items to sample simply by coming back to the same location every few months. This would help to lessen the complaints about not having many food options in our community.

Concept Model #2: Food Accelerator

The second model is aimed more at food in general, rather than only at restaurants. Whereas some entrepreneurs desire to start an entire restaurant, others may dream of launching a single product line, whether it be selling cookies to a major retailer, designing a gourmet dog food, or baking cakes for weddings. The start-up costs can be a huge hurdle for these aspiring businesses, and a food accelerator with plenty of work stations could provide the necessary kitchen equipment to get their ideas off the ground. In addition, the accelerator would make sure the facility met all the state requirements for health inspections, fire inspections, and building inspections. These can be daunting tasks for entrepreneurs who only want to focus on perfecting a single recipe. A work station could be rented out for an hourly, daily, or weekly rate with additional payments for any necessary storage, thus limiting the costs involved for entrepreneurs. This business model has the potential to reach as many as 40 or 50 small businesses each year, in contrast to the 2 or 3 that the restaurant accelerator could accommodate. The downside is that there would be much less of a community involvement in satisfying customers looking for more variety for their date nights or business dinners.

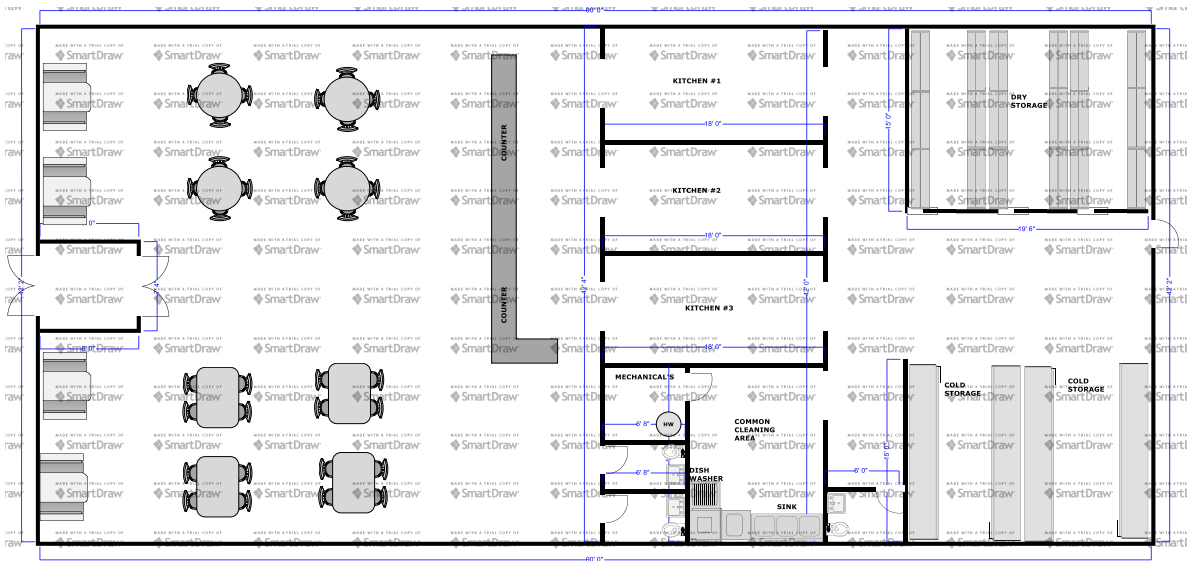
Concept Model #3: Food University

A third model would be a food university. Instead of focusing on a bricks and mortar approach to restaurant start-ups, this model would work to be the go-to source to educate, mentor, and coach those in the food industry. The food university could offer training programs for local servers and hostesses, where local restaurants that may not have formal training programs in place could send their employees to receive in-depth job training. The university

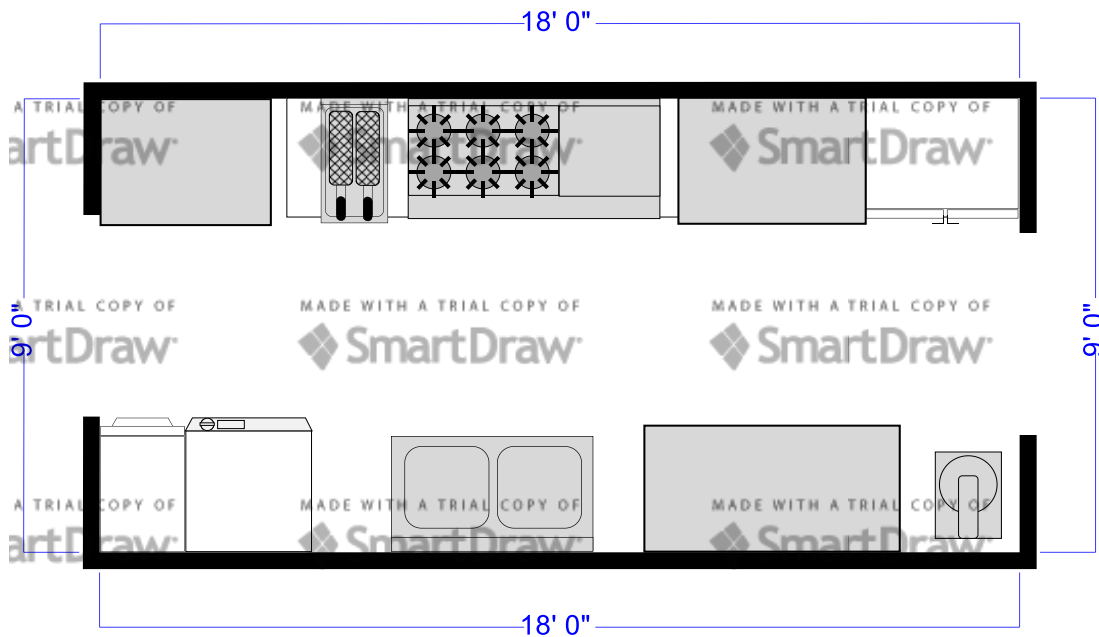
could also have sessions for chefs to improve their culinary skills. Lastly, there could be a focus on restaurant management with sessions related to managing finances, marketing, management, and more. This resource would improve the overall quality of the food industry in Kosciusko County and help to meet more of the needs of restaurant entrepreneurs and give them a greater chance of success before they even opened their doors for business.

There are many other models that exist across the country, but these three seem to embody the major themes of those currently in operation. Some elements may work better in large markets, while others are more suited to the demographics contained within a more niche market. For Kosciusko County, we believe a reasonable model would be to meld certain elements of the three models into a single operation. There is no denying that the food university could play a large role in our community, especially since the high failure rate of start-up restaurants points to a bigger problem than merely a lack of adequate funding. The restaurant accelerator would be a great testing ground for new restaurants and would also give the community a place to sample new cuisines on a regular basis. Lastly, the food accelerator concept would expand the reach of this project to dozens of entrepreneurs each year.

Our accelerator would need to have a building with a logical floor plan and plenty of space. An example of the floor plan for such a building is shown below:



There are three kitchens shown here with a common seating area for customers. There is adequate dry storage and cold storage, and the delivery dock would be behind the building for ease access for shipments. In this particular model, two of the kitchens would be reserved for restaurant use and the third kitchen could be modified into several work stations that could be rented out to multiple food entrepreneurs.



This drawing is a close up view of an individual kitchen.

Funding for the accelerator could be derived from any number of ways:

- Rent could be paid for the restaurant space by the lessee. Two restaurants would be able to rent space at the same time, and would sign leases for a period of time up to two years. The start-up costs for the lessee would be substantially lower than opening a restaurant from scratch. The building, equipment, storage, furniture and utensils would all be included within the lease. The lessee would also have to pay for the necessary food inventory, any special equipment, and the expenses of establishing a business in Kosciusko County.
- One of the kitchens would be separate from the main restaurant kitchens and could be rented out by the hour, day, or week. This would be perfect for small businesses who need more kitchen space to prepare for a banquet, catering job, or some other event. All of the standard equipment would be provided as part of the rent expense.
- If the accelerator has enough adjunct office space for a food university, courses could be offered at a minimal rate to offset the building and equipment expense. Established local restaurant owners, local businesses, and financial institutions could donate their time to teach the classes. The classes would range from establishing a business entity and learning about taxes, customer service, business skills, cutlery skills, food safety, and food presentation, to name a few.

In conclusion, an accelerator focused on restaurants and food would be a great addition to Kosciusko County. Although adequate funding and a quality location for this venture still need to be worked out, the key elements of the business model have been outlined in this document. This accelerator will impact three primary groups of people in our county: consumers, restaurant owners, and entrepreneurs. Consumers will enjoy a central location where they can sample new

foods on a rotating basis every few months. Current restaurant owners will have access to programs to train their employees and improve their own business skills through the food university. Entrepreneurs will have a vehicle to test out food ideas and restaurant concepts with decreased personal risk and better mentoring along the way. In today's challenging economic environment, small business owners need a hand up through training and coaching, not merely a handout of loans or angel investments. The restaurant and food accelerator aims to be that hand up for aspiring entrepreneurs in Kosciusko County.

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