



A Restaurateur's Guide to Growth

Succeeding amid tight margins and fickle customers



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With 2017¹ sales reaching nearly \$800

billion, the restaurant industry is thriving. It employs nearly 10 percent of the U.S. workforce and added more than 200,000 jobs over the course of the past year.

But few undertakings are as difficult as the opening of a new restaurant and building it for the long term. Nearly 60 percent of independent restaurants fail within the first three years, and profit margins tend to be thin.²

Successful restaurateurs are passionate about their businesses and are motivated to find ways to navigate these challenges. In the starting years, they focus on cash flow and the ups and downs caused by seasonality as well as ways to control inventory costs. But as they grow, they seek out ways to hire reliable employees, attract new customers and, eventually, to expand or even franchise.

This guide is based on an exclusive survey of restaurant owners, government and industry data, and interviews with Kabbage restaurant customers. In it, we'll take a deeper look at the challenges inherent to the restaurant business and offer advice from industry veterans on how to best navigate them, so you, too, can open a business that's built to overcome those obstacles and is primed for growth.

¹Source: National Restaurant Association

²Source: "Why Restaurants Fail," H.G. Parsa et al, Cornell University



1

Cash flow and seasonality

In a business that's subject to dramatic fluctuations in revenue, particularly in the first year, cash flow is crucial for new restaurants. It's what allows them to hire employees, deal with seasonal ebbs and flows, determine how much to spend on inventory, and cover unexpected expenses. In fact, 33 percent of first-year restaurateurs cite cash flow as their biggest concern.

As restaurants make it past their first year, cash flow issues tend to subside, and they start focusing more on attracting new customers and dealing with competition. Still, 27 percent say unpredictable cash flow is the biggest threat to their business, which could be due to competitors and especially seasonality.

Seasonality brings highs and lows for any business, often dictating when restaurants tap into sources of capital: 81 percent tend to borrow ahead of the slow season, particularly in the fall months.

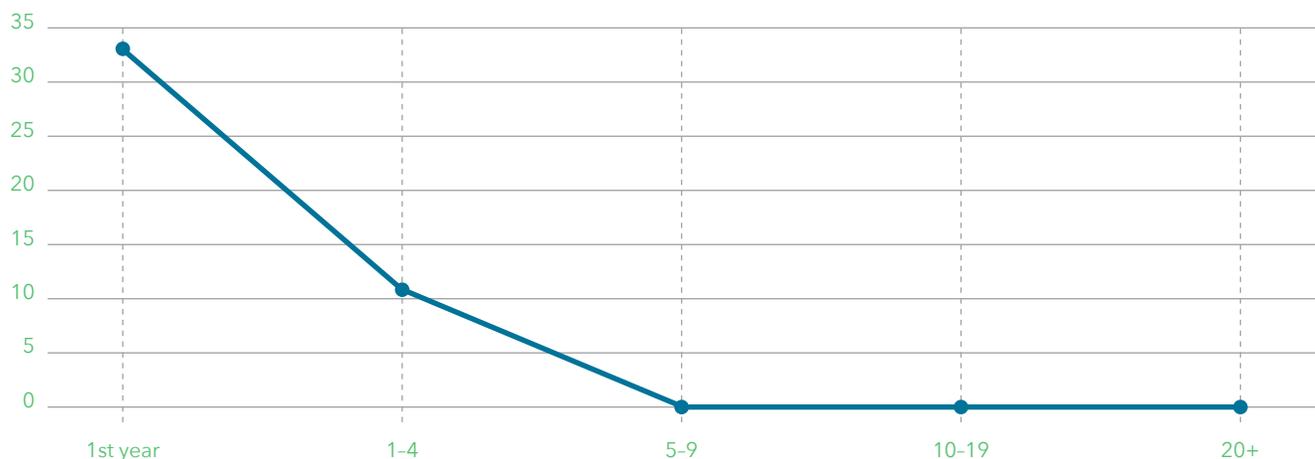
Biggest threat to profitability

- 27% Unpredictable cash flow
- 27% Fatigue/simply keeping up
- 18% Losing the steady flow of new customers
- 18% New competition
- 9% Inability to staff for growth

TIP

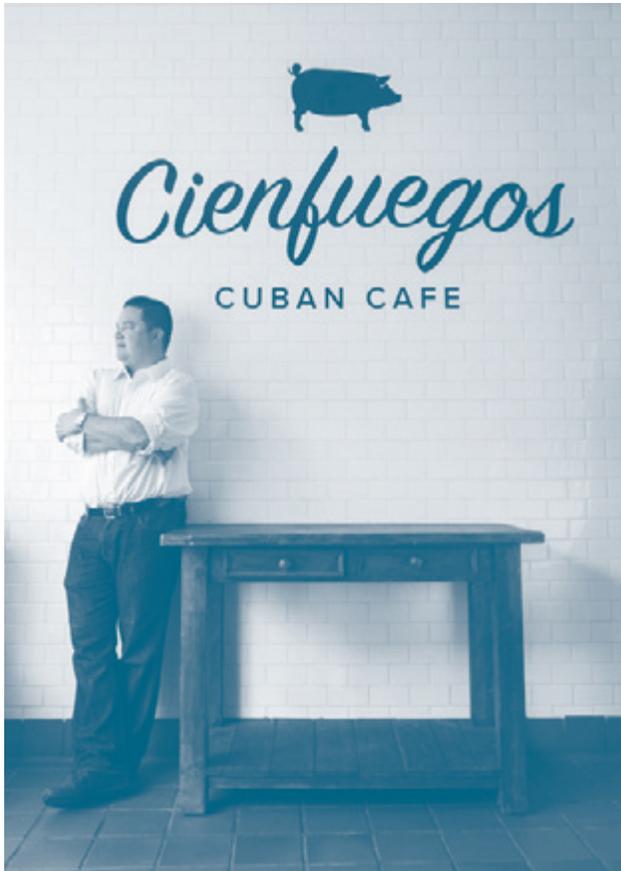
Secure as much access to funds as possible in your first few years to take care of unforeseen cash flow gaps

CASH FLOW IS LESS OF A CHALLENGE AS RESTAURANTS MATURE





BUILD A CUSHION



68% of funds borrowed from Kabbage by restaurateurs and bar owners are used for cash-flow issues

COMPANY: Cienfuegos Cuban Cafe

OWNER: Tony Hernandez

LOCATION: Los Angeles, CA

Tony Hernandez grew up in the restaurant business. His father owned a Cuban restaurant in Los Angeles, and, after years working in the entertainment industry, Tony decided to open a café of his own. He utilized that family knowledge to prepare himself for the inevitable challenges that would ensue.

Tony understood cash flow would be his biggest challenge once he opened a brick-and-mortar location. He tried to stem some of that by building a following through farmers market appearances and street festivals, and testing out his concepts. Then, when he felt he was ready, he “liquidated everything I had,” he says.

His precaution has proved necessary. During the slower winter months, Tony needed some extra capital to help cover payroll. So he picked up some catering jobs. He’s also had to deal with unexpected expenses like a new floor sink and recoating his countertops.

“Every book I read said cash flow is king,” Tony says. “If I was going to rewrite that statement, I’d put flashing red lights around it. Secure as much cash as possible.”





2

Inventory and supplies

Restaurateurs overwhelmingly say that the biggest expense they face at each stage of their business life is inventory and supplies. Fifty-four percent of restaurateurs cite it as their largest cost category in the first year. This is largely because they deal with inventory-specific challenges like food waste, counting errors, optimizing supply chains, and minimizing losses from spoilage.

Inventory-management systems and other technology can help maximize efficiency while minimizing waste. However, while most restaurateurs want to keep costs down, they still remain wary of these systems or don't know how to use them.

With the proper inventory management systems in place, restaurateurs can get a competitive advantage over those who fail to adapt.

Top challenges

KEEPING COSTS DOWN

72% Restaurants/bars
50% All businesses

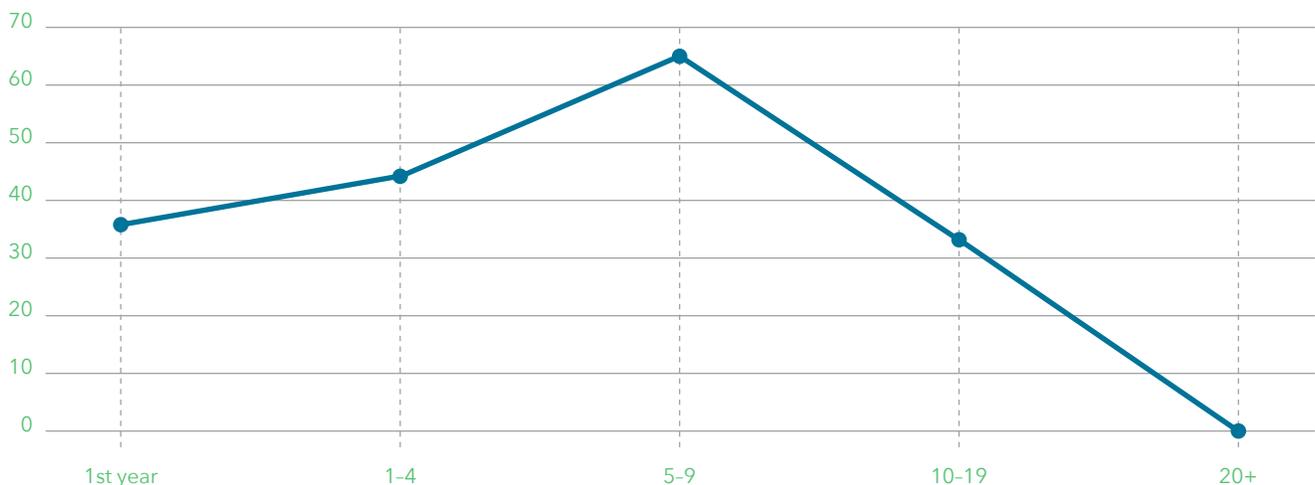
KEEPING UP WITH TECHNOLOGY

20% Restaurants/bars
31% All businesses

TIP

If you make the effort up front to acquaint yourself with a reliable inventory-management system, it can save you time and money in the long run

RESTAURATEURS WISH THEY INVESTED MORE IN INVENTORY AND SUPPLIES





SAVING TIME WITH TECHNOLOGY



As of 2015, 48% of restaurants either didn't track inventory at all, or used a manual method¹

NAME: Lamar Moore,
chef and industry consultant

LOCATION: Chicago, IL

Lamar Moore has worked as a chef and consultant for restaurants large and small, so he's learned over the years how to build out an inventory order. Technology has made that job far easier than it used to be, when he had to call in his inventory orders to his suppliers late at night at the end of a 15-hour shift.

By using an online inventory-management system, Lamar avoids mistakes and get things done faster—all without having to build an order guide on paper. Beyond that, it gives him the gift of extra time, which he can use to train his line-level staff.

“When [suppliers] have new items or specials or things on sale, you can see them immediately, with pictures,” Lamar says. “And when the prices change, I can see that versus somebody vocally telling me that.”

While Lamar recognizes that these systems can sometimes feel more impersonal, he also believes the amount of time and money he saves makes it well worth the additional investment.





3

The guest experience

While cash flow and hiring issues tend to subside for established restaurants, finding new customers remains a constant issue.

Almost half of restaurateurs want to learn new marketing strategies and channels in order to acquire new customers – something they wish they'd learned earlier on in business.

This is where marketing, advertising and improving the guest experience come into play. From paid social to search engine optimization, restaurants can expand their marketing reach to get a much larger, loyal following.

Fortunately, these days, some of those goals can be accomplished without spending a ton of money. Often, simply by surveying customers, listening to their concerns and being proactive on social media, restaurateurs can find a foothold in their communities.

Top challenges

FINDING NEW CUSTOMERS

- 40% Restaurants/bars
- 36% All businesses

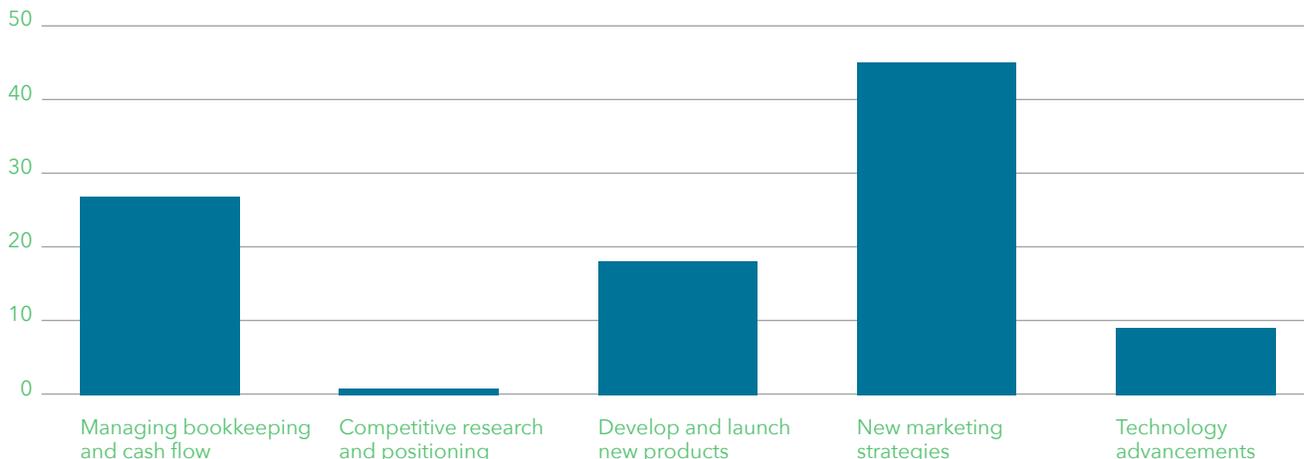
RETAINING CUSTOMERS

- 44% Restaurants/bars
- 30% All businesses

TIP

Find ways to survey and engage the local community from the start, and they'll feel more connected and loyal to your business over the long term

PARTS OF BUSINESS THAT RESTAURATEURS WISH THEY KNEW MORE ABOUT





ENGAGING THE COMMUNITY



33% of first-year businesses say finding new customers is a major challenge

COMPANY: Hobson's Homemade

OWNER: Laura Hobson

LOCATION: Maynard, MA

From the beginning, Laura Hobson sought to forge bonds with the local community as she and her husband built their baked goods business. They began by selling at local farmers markets, and, after building out their mailing list, they sent out a SurveyMonkey link. This helped them gauge customer interest in a potential brick-and-mortar location.

They acquired space in a local cafe and have since taken over the whole location from its previous owner. Along the way, they've continued to rely on community input and data to shape their guests' experiences and to build their customer base.

They've narrowed down what products weren't selling and cut them out and replace them with something their customers wished they sold. For example, when a roast-beef sandwich on the menu wasn't selling, they replaced it with a ham salad sandwich that had proven popular with customers they'd surveyed.

"We've been able to have the community really involved," Laura says. "Then, they feel like they're invested and are more likely to come."

They're currently surveying customers to ask what sort of weekend experiences they'd want in a cafe and may do it again as they consider moving to a larger space.





4

Payroll and hiring

In a robust labor market, hiring is a constant challenge for most businesses and perhaps even more so for restaurants: 66 percent of restaurant owners cite hiring the right people as a top challenge and 33 percent struggle with employee turnover.

Building the right team is crucial for any business. You need a talented, loyal team that wants to help your restaurant reach its goals.

But hiring is a two-way street: Your team should want to see you succeed, and you should want to see your team succeed. After all, creating employee loyalty means creating a great company culture.

While hiring concerns drop as restaurants mature, payroll and hiring remains a constant challenge throughout the life of a restaurant.

But successful restaurateurs who find innovative ways to attract good employees – and build a culture that helps retain them – will find themselves poised for growth.

Top challenges

HIRING THE RIGHT PEOPLE

- 66% Restaurants/bars
- 47% All businesses

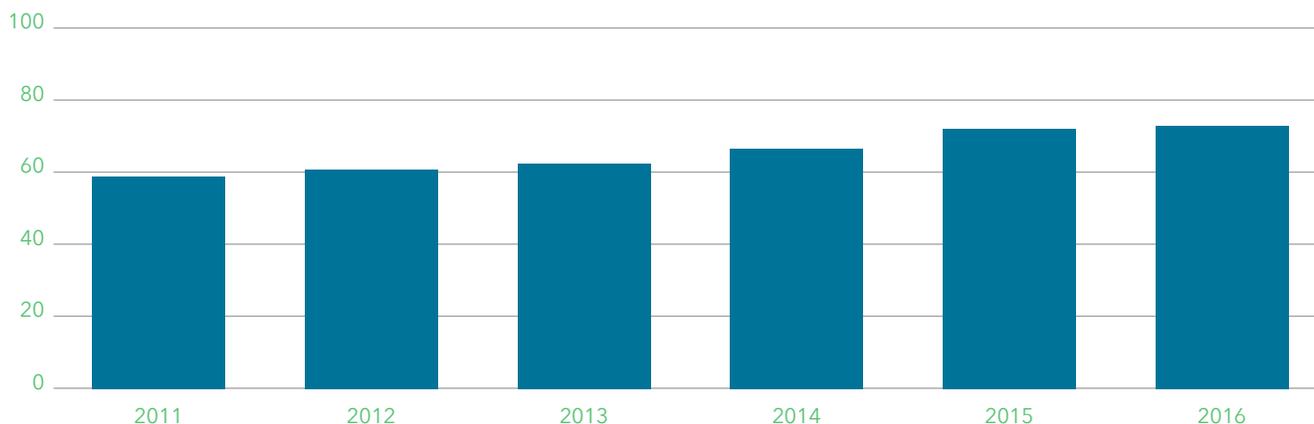
MARKETING AND ADVERTISING

- 42% Restaurants/bars
- 25% All businesses

TIP

Creating a clear employee handbook and building a positive culture for all levels of employees can be a powerful factor in aiding retention

ANNUAL EMPLOYEE TURNOVER RATES¹



¹Source: National Restaurant Association





HAVING FUN AT WORK



The U.S. restaurant industry will have 16.3 million employees by 2027¹

COMPANY: Si-Pie Pizzerias

OWNER: Simon Mikhail

LOCATION: Chicago, IL

Simon Mikhail knew from the start that he wanted to build his pizza business into a franchise. His business is thriving, but finding good employees to help him build the company has been a constant challenge in a robust job market.

Simon opened his second Si-Pie location this summer near Wrigley Field, and is working on opening a third on Chicago's North Side. He prides himself on customer service, was a constant presence in his first shop, and responded promptly to complaints. But as his business expands, he knows he can't be everywhere at once.

That's why Simon is working on an employee handbook to encourage employee retention and allow Si-Pie to shape its overarching culture, like offering small bonuses to employees who are mentioned by name in five-star reviews. He also offers his employees attractive benefits like healthcare and a 401(k) plan, so they're willing to embrace that culture.

"I want to make them feel like they should enjoy and have fun at work," Simon says. "Then they'll come there and give 110 percent."





5

Expansion and Growth

Expansion and growth can mean different things for different types of restaurants. In certain cases, it may mean franchising. In other cases, it could mean buying a food truck, opening a brick-and-mortar location, making farmers market appearances, or embracing a pop-up experience. For some, expanding and changing the existing business becomes the focus.

In fact, 54 percent of restaurateurs surveyed say changing and expanding their offerings is the business decision that led to their biggest jump in profits.

Eighteen percent of restaurateurs say they wished they'd been more knowledgeable about developing and launching new products and services as they prepared to grow, and 27 percent say they would focus on launching new products and/or upselling current customers to ensure future growth.

Agree with this statement

"I have a definite plan for my business and where it should be going."

84% Restaurants/bars

89% All businesses

"I'm so busy with the day-to-day running of my business that I haven't thought much about my long-term vision."

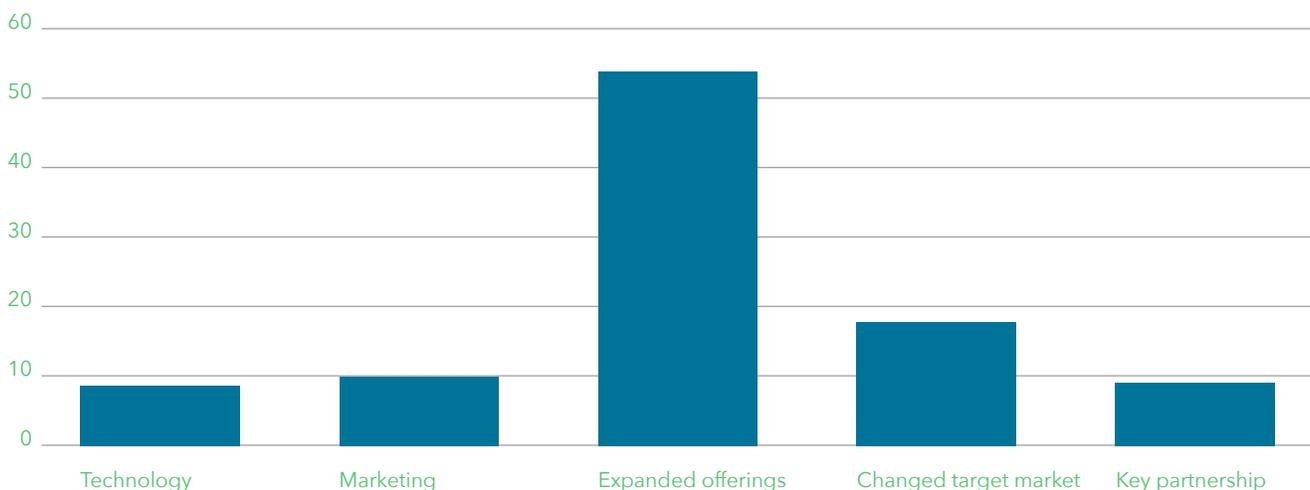
44% Restaurants/bars

37% All businesses

TIP

Focusing on consistency of your processes, both in and out of the kitchen, makes it easier to scale

THE BUSINESS DECISION THAT LED TO THE BIGGEST JUMP IN PROFITS



EXPANSION AND GROWTH





ROLLING ON TO BIGGER THINGS



Franchised restaurants averaged more than 7% growth in output in 2016–17, as opposed to 4.8% for all restaurants¹

COMPANY: Rolling J's Mobile Bistro

OWNER: Jacob D'Angelo

LOCATION: Chattanooga, TN

Jacob D'Angelo's food truck, Rolling J's Mobile Bistro, has become a fixture on the Chattanooga culinary scene. But it wasn't an easy road to get there.

In 2017, the engine of Jacob's food truck literally exploded. He took out a business loan to buy a new truck and persevered. Gross margins are up 40 percent since then, which means Jacob can now cast an eye toward expansion.

Jacob has six employees and is hoping to expand Rolling J's to a brick-and-mortar restaurant, which will allow him to build a larger and more diverse menu. As he plans his future, he's also trading ideas with other small-business owners in Chattanooga, both through local associations and informal groups.

"We're excited to move into a restaurant and not just a one-item truck," Jacob says. "It's a natural progression. If you've found what you love, take the risk. It's worth it."





Setting your sights on growth

Tips to set your restaurant business up for long term success

CASH FLOW AND SEASONALITY

- ✓ Research and plan for the inevitable cash-flow issues that will arise in the first year.
- ✓ The more cash you have access to in the first year, the more you'll be cushioned from unforeseen expenses.

INVENTORY AND SUPPLIES

- ✓ Technology can be intimidating and feel impersonal, but it can also help you spend more time in the kitchen.
- ✓ Reliable inventory management systems can help save time and money—if you're willing to do the research and learn how to utilize them.

FINDING NEW CUSTOMERS AND IMPROVING GUEST EXPERIENCE

- ✓ The sooner you engage the community in your business, the more invested they'll feel.
- ✓ By incorporating your customers' opinions into the big decisions you make, you can set yourself up for success.

PAYROLL AND HIRING

- ✓ Create a specific set of rules for employees to follow, so they understand and embrace the culture.
- ✓ Find incentives that will encourage workers to stay with you long-term.

EXPANSION AND GROWTH

- ✓ Focus on the consistency of your processes to set the table for growth.
- ✓ Use the resources within your community to help generate ideas on how to expand.



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