

Restaurants and the Three Mice Theory



By Brian Madigan LL.B.

You might wonder what this is about. If the second mouse gets the cheese, what's left for the third mouse? Actually, the money!

So, here's the basic theory. The restaurant is started by an adventurous entrepreneur with lots of ideas, lots of investors and lots of money. The new theme restaurant is outfitted elaborately with the best of everything. One problem, with all the costs, you just can't make any money. The capital can't be amortized over the lifespan of the operation. This project just isn't going to make any money, even though it's busy and doing a regular business.

Now, the cost cutters come in. The value is decreased. The portions are trimmed, the quality is lessened, the management cuts back on the wait staff. Now, the clientele starts to look elsewhere. So, there is a second round of cost cutting, fewer wait staff, more waiting time, less quality and smaller portions again. The inevitable result is that the remaining loyal clientele disappears and the restaurant closes its doors.

The proprietor places the business for sale at a fraction of the cost of the investment, often about 50 to 60 cents on the dollar. Frequently, a buyer is found who takes a bite at the cheese. However, we have the same old routine in motion all over again. Decreasing quality, decreasing service and decreasing clientele.

This next stage offers one further substantial reduction. Either this time, the second owner takes a further 50 cent hit, or the Landlord steps into the fray for non-payment of the rent. The cost of the restaurant now is about 25% of the real cost, or less if the Landlord is involved and the third owner can make a go of it.

One thing to keep in mind: restaurants are risky and costly. So, it's best to start out with a plan and stick to it. It can be very tempting to let costs run up, if others are involved. Select a restaurant management consultant. Know what it is going to cost. Determine your market niche and devise your plan accordingly.

It is very, very easy to lose money in the restaurant business. And, the easiest way to do that, is to invest too much capital in the first place. The caution here is to be careful. In this scenario, you want to be the third mouse!

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