



Rollover to get acquainted.

Entrepreneur.com

Why Now is the Time to Open a Restaurant

Rents are dropping, talented chefs are up for grabs and, most important, smarter diners are looking for value, not glitz.

By Regina Schrambling | [Entrepreneur Magazine](#) - November 2009

URL: <http://www.entrepreneur.com/magazine/entrepreneur/2009/november/203700.html>

Last year, Philip Hoffman did something most people would call crazy in this economy: He opened a restaurant.

Taking over the lease on a failing French bistro in New York's Greenwich Village, Hoffman and his team stripped out the Gallic bric-a-brac, leaving the room with a cool, spare look. They hired a tiny staff and created an eclectic, accessibly priced menu--overseen by a chef with three-star experience. Then they threw open the doors, and lo and behold, The New French, as they slyly named it, has been such a success that sales were up 7 percent this summer over last. Now the restaurant is expanding, with a sidewalk cafe and possibly into a space next door. On a recent holiday weekend, chef Livio Velardo served 150 brunchers in a single afternoon.

This in the worst economy since the Great Depression.

"I don't think there's a good time or a bad time to open a restaurant," says Hoffman, who started cooking at 15 and stayed in the business until 1999 before founding a private-label manufacturing business called FoodSwing. "But if you do your job well, you'll do well. People want to get cared for in a recession. People want to get drunk in a recession."

Everyone knows the prevailing wisdom about the restaurant business: It's a bad bet, notorious for failure, with three out of four places closing within the first three years.

But consider this: Studies have found the risk of closing is the same in good times and bad, according to Andrew Rigie of the New York State Restaurant Association. And the upsides to a down economy make it a risk worth considering. Rents have dropped by as much as 66 percent in prime locations, and landlords are actually offering abatements. There's a huge pool of talented chefs and workers desperate for jobs and willing to work for much less. And, as Hoffman says, "There's money sitting on the sidelines" to be tapped for investments, even if banks are not loaning at all.

Today, a new restaurant will likely need much, much less of it. Just a few years ago, startup costs could easily be in the millions, with most of that shelled out to a designer and publicist. Like many restaurateurs today, Hoffman and his team were able to open on an apron string--a mere \$30,000 investment--in part because the expectations for the restaurant experience have changed so radically.

Plush dining rooms, star chefs and menus built around foie gras and truffles feel outdated--while rooms that are simple, with a personal touch, feel right. The trendiest dishes of 2009 were built around less expensive ingredients, such as bacon, seasonal produce and good ground beef--which means restaurants can charge less per dish but still make more money on them. A new generation of diners watching the Food Network and "Top Chef" is more interested in what's on the plate than if a headwaiter is on the premises: They want value, not glitz.

No wonder more restaurants have begun opening at an amazing clip: In cities as far-flung as Philadelphia and Kansas City, Mo., the rate of openings this fall is the highest in recent memory. Applications to open food establishments in New York City were up 25 percent over 2008 in the first four months of the year.

But rarely are these showy, splashy temples of design.

Consider Animal in Los Angeles, a stark box with bare tabletops and 47 wooden seats that are among the most sought-after in town. Owners Jon Shook and Vinny Dotolo started with a catering company that "took off like wildfire" and are now renowned as the Food Network's "Food Dudes," the makers of gutsy dishes like poutine with oxtail gravy.

"When we opened, we originally wanted to be a neighborhood restaurant serving tasty food," Dotolo says. "The bare-minimalist style came from Jon and I floating all the cash for this business. People go to restaurants to eat. We knew if we made the food good, it didn't matter what we hung on the walls."

David Chang in New York City has become a phenomenon on par with the city's four-star establishments by adopting the same food-first attitude at his four Momofuku restaurants. "I play to my strengths: offering something excellent in the most

spartan of environments." And people go to absurd lengths to snare a backless stool at one of his counters in a cramped room, especially since he does not even employ a reservationist, saving money by only taking reservations online.

"If we knew how to operate a real restaurant, with people in penguin suits, I would name it Hubris," he says. "We don't do that well."

Donatella Arpaia, who has four restaurants in New York City and Miami, agrees with the sentiment: "People are being careful. They only want to go out for reliable food."

Her rustic-looking neighborhood restaurant Kefi--opened last winter with chef Michael Psilakis--is known for doing 500 covers a night with new Greek entrées that top out at \$15.95. "Kefi is a massive success because it's the right location and the right concept in this economy," she says. The partners' high-end restaurant Anthos, by contrast, is struggling because it caters to a corporate crowd in Midtown Manhattan. "People are afraid of Anthos-style restaurants now," Arpaia says. Even diners on expense accounts who in previous downturns would drop \$1,000 on a bottle of wine now worry that "it looks bad."

Which makes the hoariest cliché in the restaurant business even more true today: Location, location, location. And, once again, the outlook is encouraging. Venerable Hudson Street, where The New French is thriving, is one long strip of "for rent" signs, including one right next door where the restaurant is considering expanding.

"It's a good time because you can get into a space really, really reasonably," says Rob Levitt, chef/owner with his wife Allison of Mado in Chicago. "A nice-size space that five years ago was \$5,000 or \$6,000 a month is now \$2,000."

He opened in a gentrifying neighborhood where young people are moving for low rents and want great food, just not "super-fine dining," and has built a devoted following with a local/sustainable menu built around the farmers market.

Celina Tio, who left the American Restaurant in Kansas City, Mo., to open her own restaurant, was ready to move to Charlotte, N.C., when she found a spot closer to home that "I never thought would be possible." She is remodeling a space in the Brookside area that has two essential elements: Heavy pedestrian traffic and strong local support for the restaurant that had been there 20 years.

And Peter Oleyer of Calexico in Brooklyn, N.Y., says he and his partners spent a year searching in the rough-and-tumble Red Hook neighborhood, educating themselves by watching what was available, how much it rented for and to whom. Opening a French bistro there would be a disaster, he says, but "people can eat tacos twice a week, and they do. In this economy you have to focus on your neighborhood."

Similarly, Yassmin Sarmadi, owner of Church & State in Los Angeles, says opening a simple bistro downtown has worked brilliantly. "As people started moving back," she says, "there was more need for eateries for people who wanted to go out and not spend a lot of money." Most of her entrées are less than \$28.

Restaurateurs agree: You can't underestimate the value of location. "Never gamble on an iffy location," Arpaia says. "You can have less staff, less infrastructure, but you need to study the location really well." And negotiate intensely, trying to get as many concessions as possible.

Restaurant owners have also gained the upper hand in negotiations with service providers from upholsterers to contractors, who are strapped for cash and anxious for jobs. There are "deals" to be made on staff too. Says Hoffman, "A chef who wanted \$100,000 before may now deal for as little as \$35,000. It depends on the players involved."



Velardo of The New French says many chefs who trained at the top, in three- and four-star restaurants, now want to work in less formal environments. The restaurant world is also attracting professionals from other industries, whether Wall Street or interior design. Arpaia says she used to be overwhelmed with culinary school graduates "who couldn't hold a knife and wanted \$50,000 to \$60,000 a year, and now I get career-changers who are overqualified but willing to work to make their dream come true. The era of the celebrity chef hit a high point. Now we're going back to basics."

Tio hired her whole staff without any advertising after she received 40 to 50 applications for 15 positions. The owners of Church & State snared Walter Manzke, the former chef at two L.A. temples of fine dining, Bastide and Patina, when he approached them.

Even with all the bargains and opportunities in a beaten economy, it takes money to make money with a restaurant. Animal's founders spent "substantially less than a million" to open but say it was still "insanely expensive" given the size of the place. Tio budgeted as much as \$120,000 for her restaurant with 50 seats inside and 50 outside. In New York, Chang says a small restaurant could cost \$300,000 while a four-star aspirant might be \$10 million. But as Mendes of Aldea in New York warns: "If you spent \$5 million on building a restaurant, entrées would have to be \$36 and you'd be dead by now."

Banks, Sarmadi observes, always resist lending to open restaurants, which rank second to retail in profitability. But credit is so tight now that they are really pulling back. Hoffman's business associate Ron Feldman says the bank he approached for an expansion loan told him, "We only loan to people who don't need money."

Investors are the usual solution, but the Calexico partners took a more clever route: They started with a taco truck on the streets of Manhattan and built both a clientele and a pile of savings. Originally they had drawn up a business plan for four small taquerias and gone so far as to gather investors before getting cold feet and trying to "baby-step it." Three years later they opened a restaurant with a kitchen big enough to serve as a commissary for the trucks--and a ready-made clientele.

As always, the bottom line really is the bottom line, which is why successful restaurateurs hammer on the importance of a business plan. "You can't think you are going to open a restaurant and only pay the bills," Mendes says. "You really have to have a strong plan. It's tedious, it's a test of patience. But it's key." More important, "don't open with zero in the bank --I've been open for six months and am still paying bills for construction."

Arpaia and others lament that culinary schools graduate chefs with no serious training in business beyond managing food costs. And so she advises: "Partner with people who know what they are doing and not be undercapitalized. If you think you need \$50,000, you really need \$100,000. You need to cover payroll, food and wine. People who are undercapitalized make it to nine months; most don't make that first year."

Even so, she says: "There are tremendous opportunities to get into the business now--if you're capitalized, you're smart, you know what you're doing and you're committed to service."

Once upon a time, the business plan for opening a restaurant required an expensive section on marketing: Hire public relations firm, print up fliers, stage a press party to kick things off. Nowadays three words nearly suffice: Facebook. Twitter. Blogs.

In a business where word of mouth can make or break you, a restaurateur now has serious megaphones for spreading the word. And they're all free. The food truck phenomenon illuminated the way, as cooks who had no land lines or set location have been able to alert aficionados by tweeting their whereabouts and daily offerings.

Restaurants have been quick to follow. Mado in Chicago, which buys a whole hog every two weeks to butcher and cook, tweets when it has porchetta on the menu, and reports that within minutes the phone is ringing for reservations. Twitter is also a useful way of tracking customer reactions and quelling complaints before they spread.

Facebook is most valuable for building a fan base for a restaurant, chef or both, but is also an effective way to disseminate specials or other deals. Animal in Los Angeles has a fan page with much of the information a diner might search for on a website.

Beyond social media, blogs are the new promo launch pads. Sites such as Eater and Grub Street need to feed an insatiable tip machine and will announce openings well ahead of even daily newspapers. And it just takes an e-mail to make it happen.



Brooklyn: Peter Oleyer, left, and David Vendley of Calexico started with a food truck
Photo© David Johnson and Jeff Clark