Fine Dining in a Small Market–Will It Work?

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This case is about the beginning of a high end, full-service restaurant in a relatively small market. As a matter of fact, the owner characterizes this restaurant as a “fine dining experience” and thinks the town needs this business because “everyone needs a fine place to eat and meet”. Of course, included in the case is more detailed information on the process that the owner went through when analyzing whether or not the business has a good chance of success. The time period covered in the case includes the initial planning stages, the opening weeks, and the first six months of operations.

The case opens by describing the town and surrounding trading area, the nature of the competition, and some information about the relevant demographics/psycho-graphics of the population that led the owner to conclude that this type of restaurant will be successful positioned as it is at the “top.”

Also, the owner’s human resources and marketing mix decisions are included in some detail along with the policies and budgeted amounts necessary to carry out these decisions. All of her operational decisions were made with specific market segments in mind.

At the end of the six month period some changes have had to be made in order to adapt to the wants/needs of the market. Some surprises, both positive and negative, have cropped up since the opening weeks, and the owner has planned some changes in the business’s approach (positioning) to address the negative ones.

As a unique feature of this case, the author has included some detailed information on the actual amount of money that was required to open this type of restaurant. All dollar amounts will be as of the 2007-2008 period of time.

Fine Dining Restaurant in a Small Town

Introduction -- The Community

The restaurant (Fine Dining) is a full-service facility in a small town in the Southwest. The town has a population of about 33,000 with around 61,000 in the county. A regional state university with a student population of approximately 11,500 is also in the town and serves as its second largest employer. The largest employer is a chicken processing plant on the South side of town. There are several medium-sized manufacturing facilities in the area, as well as a medium-sized medical community.

Other facts that help describe the town and the county are relevant to this restaurant. There are about 11,600 people living in the county who are between the ages of 18 and 24. This group mostly consists of college students and constitutes a relatively large pool of labor for retailers in the area. The median annual household income in this county is $27,271. Also, only about 22 per cent of the 22,500 (4950) households in the county have incomes above $50,000 per year. This last number is relevant because this restaurant is positioned in the market as a fine dining experience, and it offers the atmosphere and service that goes with that position.

The town is about 20 miles from another county that is a little larger (82,000 people) and wealthier (at least, in terms of income). This contiguous county's median annual household income is about $5,000 more at $32,004. That county has about 25% or 7350 households with $50,000 or more of income. This other county needs to be considered in our restaurant's business plan because the two together are really one trading area for this specialty (or shopping) product. The towns, considered together, are about one or one and a half hours driving time from any other larger town, so this trading area is rather isolated and more rural in nature.

The Owner's Objectives

The total planned sales of Fine Dining for the first year was to be from two sources. The sit-down restaurant receipts were to comprise about 70 to75% of sales, and catering was to provide the rest. Sales from catering is more profitable, usually, so this aspect of the restaurant was expected to yield from 35 to 40 % of the profit. Catering is composed of both inside parties and outside events.

Figure 1: The projected annual profit and loss statement for FD is as follows:

Sales		$1,530,500	100.0%
COGS		566,031	36.9
Gross Margin		964,469	63.1
Expenses:			
Payroll	464,640		
Operating	168,900		
R&M	16,800		
G&A	94,360		
Rent/Taxes/Ins.	122,389		
Total Expenses		867,089	56.7
Net Profit		$ 97,380	6.4%

The owner of Fine Dining stated that net profit for this type of business is about 5-7% of sales, and if her estimates were on target, the profit percentage fits into this amount.

Her Strategy--Positioned at the Top

Fine Dining has four competitors, but none of them would be considered as direct (head-on) competition. The competitors are positioned toward markets segments based on the food specialty each one has as well as the level of service offered. At the full service level there are four serious competitors in the town where Fine Dining is located. One offers Italian food; one is Chinese; the third has a "mixed" menu, and the fourth is a closed (members only) club at the local, full-service hotel. The manager of Fine Dining has the idea that her restaurant should be positioned at the top in terms of food quality, service, atmosphere, and prices.

In the other small town (but the same trading area) is a country club with its attendant golf course and restaurant. Also, some higher end chain restaurants that offer good levels of service are located there, but they do not have quite the same level of fine service as is planned at Fine Dining.

The Restaurant Building, Grounds, and Location

The building is an old, "historic" house on 2.8 to 3 acres of land on a main street, which is the "business" part of a major state highway, and a small cross street in town. The building is two stories with a total space of 10,000 square feet, and the parking lot was built to hold approximately 112 cars. Also, the building was remodeled years ago to accommodate people with disabilities. The grounds around the building and parking lot have been landscaped and are well maintained, so as to be compatible with the image of a high end restaurant.

This restaurant was bought "turn-key" which means it was virtually ready to be opened, and only relatively minor adjustments were needed. Since the building was a restaurant in the recent past, the equipment, building and fixtures were in place and were not run down. The only equipment that needed some up-dating was the computer system.

In years past the restaurant's building housed an old "up-scale" Mexican food restaurant, so the location is very well known by people who have lived in the town for more than, say, fifteen years. It is located across the street from a chain pharmacy and a small Cajun restaurant and next door to an empty restaurant building that recently went out of business.

Human Resources and Some Policies

The owner has hired four full time managers. These were a General Manager, an Assistant Manager, a bar/floor manager, and a catering manager.

In order to try to assure high quality food preparation, three chefs were hired. The executive chef and the chef de cuisine were full time positions, and the pastry chef was part-time. All of the managers and chefs were salaried positions. The business plan also called for hiring from 24 to 25 servers which consisted of 2 to 3 head waiters, 2 cocktail waitresses, 4 to 5 bartenders, 2 bar backs, 6 service assistants (bussers), and 6 janitorial staff. The wait staff was to be paid a beginning salary of $2.15 per hour plus tips. A tip pool system was used to help reward bussers and others who do not usually receive tips directly from customers.

The owner was very specific and insistent about some policies relative to the wait-staff and their appearance and behavior. The servers were to wear uniforms which reflected the image of a fine dining establishment. The servers must buy their shirts and aprons and the clothes had to be either solid black or dark blue. The shirts could be open at the neck because no ties were required. Any tattoos could not be visible to customers, so, usually, the shirts had to be long sleeved.

Fine Dining is a totally non-smoking establishment, even in the bar area. Because of this, the employees are not permitted to smoke anywhere on the premises, especially while in "uniform". They were told to not smoke even off premises while in the FD "uniform". The penalty for being caught smoking while in uniform is immediate dismissal. As one can tell, these policies are to protect and enhance the image of the restaurant in this small town.

The Owner's Assessment After Six Months of Operations

Well, it hasn't been great, to say the least. Several surprises have occurred at Fine Dining in the last six month period; some of the surprises are of a positive nature and some are negative. Most are negative, however, so some changes are in store for the future.

One of the positive surprises is that a small market or group of people from the town, "...simply love it”. This small group of people are very loyal to the restaurant, and they illustrate their loyalty by regularly coming to Fine Dining about once or twice every week at both lunch and dinner times.

Also, the bar area has a loyal following, and that group of customers is a different group from the diners. This loyal group comes to Fine Dining perhaps because the bar area is very nice (up scale) and quiet, so people can carry on a conversation without much interference from television noise or loud music. The bar area was non-smoking, also. (At the time of this case only about 20 per cent of the restaurants in the town were like FD, i.e., smoke-free establishments.)

A few months ago, Fine Dining was reviewed favorably by a Texas magazine, and since that time, a rather regular clientele has come to “check out” FD from out of town, especially on the weekends. This group is made mostly of retired people and those just taking holiday excursions.

These positive surprises are all fine and good, but the groups of loyal customers and relatively frequent “out-of-towners” are just not enough to sustain Fine Dining’s objectives for any length of time.

Some of the negative feedback had to do with the “formality” of the restaurant, i.e. the ambiance or atmosphere. From the owner’s informal marketing research, she concluded that the restaurant is perceived to be too formal for a lot of people in this relatively small trading area. One result of this perception is that many potential customers said they felt uncomfortable bringing their children to the restaurant. They seemed to think or feel that Fine Dining was mainly for the parents on a special night out, but was not an appropriate place to eat out for the whole family (this was especially true for families with very young children).

Also, for a lot of the children who had eaten at Fine Dining during this six month period, the food was not appropriate for them; the fare was more for adult tastes. Basically, the kids didn’t like the food. FD was not appealing to the children, and they knew it.

There were a few internal human resource problems cropping up about this time, too. Over the period there had been a relatively high turnover of kitchen workers, and after one incident with some workers on the wait-staff, the head chef quit. He tried to come back the next day, but the owner thought that a poor precedent would be set by hiring him back, so she refused and began to look for another chef. During the time period of his absence, she and the other chefs took over many of his duties. His absence, of course, strained the duties and tempers of the remaining employees.

The actual human resource turnover amount is rather difficult to figure with this type of business because of all the part-time students coming and going. There were some problems, of course, but the normal attrition served to handle these issues. Most of the employees who gave her feedback about the working environment were positive. Many employees stated that they enjoyed working in an environment in which they were never yelled at, intimidated, or lied to.

During this time period (August of 2007 until February of 2008) the economy in general began to worsen, and almost any business that offered luxury goods/services was put on notice by the markets. If the average consumer could down-size, he or she would. Well, probably, for most people, eating out at a fine dining establishment fit into that category of products that could be either eliminated entirely or drastically scaled down.

Weekly sales by this time were about 20 to 30 per cent off from what was expected and wanted. In terms of dollars, the owner was expecting about $50,000 a week in sales and was only getting about $35,000 to $40,000. For one especially poor week in February of 2008, the sales were $30,000, a 40 per cent drop from the expected/planned amount. The cost of goods sold and expenses remained about the same, so, as one can guess, this situation either had to be improved or the exit strategy had to be considered.

Figure 2: Following is a actual profit and loss statement for FD after six months of business:

Sales		$526,144.26	100.0%
COGS		203,407.37	38.7
Gross Margin		322,736.89	61.3
Expenses:			
Payroll	214,078.52		
Operating	53,861.13		
R&M	7,715.70		
G&A	36, 823.14		
Rent/Taxes/Ins.	55,483.88		
Total Expenses		367,962.37	69.9
Net Loss		($45,225.48)	(8.6)%

Comparing Fig. 2 with Fig. 1, one can see that sales were not even half of what was projected at the beginning of the business.

What to do?

Overall, the owner did not want to make a "big splash" in the local media to try to solve the problems. She felt that a "big splash" or a major change strategy would send the wrong signal to the market, and would result in the beginning of a downward spiral. If Fine Dining indicated that they were in trouble financially, many consumers would stay away, and a self-fulfilling prophesy would occur. Instead, the owner decided to take a more subtle approach to the market and make some minor changes.

One of the minor changes she made was to try to make the atmosphere "less formal", and therefore, more inviting for people who don't like a formal setting at a restaurant. This was a relatively simple alteration and only involved removing the table cloths. Table cloths are one "signal" that a restaurant is "formal". Hopefully, this change would signal that FD is a place to have fine food in a more relaxed atmosphere. Another subtle change was to remove the more "formal" photos and pictures on the walls and change the subjects of some of the paintings to appeal to the children who might come in with their parents.

Based on some feedback from customers, children had no food to choose from that was specifically "for them". Children don't eat Chilean sea bass much, so she added some "child friendly" food to the menu in an attempt to bring in more families with smaller children. A few spot advertisements on local television were used to communicate these changes in Fine Dining to the market.

Even with these changes for the market, the owner of Fine Dining was not optimistic as to the future of her restaurant. Perhaps her exit strategy would have to be implemented, but that is a continuation of this case at another time.

Teaching Notes

1. Was the original profit goal of 6.4% ($97,380), while within the national average for this type of restaurant (5-7%), a reasonable goal for this target market given the market's demographics and psycho-graphics?

2. Which demographics or psycho-graphics would be indicators of potential success or possible

problems for this restaurant?

3. What factors do you think the owner should have considered in the original SWOT analysis? Was her analysis sufficient or not? Why?

4. Was using the benchmark of $50K households useful or not?

5. Was positioning at the top, in fact, a good idea? Why or why not?

6. Can Fine Dining be turned around or not? Will the planned “subtle” changes work or will they send the wrong messages? What other changes could/should have been made? What other options should the owner be considering?

7. Given what you know about the facts of Fine Dining, were these the right product, price, distribution and promotion decisions for this market?

8. If you were called in as a consultant at this point in time, what would you tell the manager/owner of Fine Dining to do? Why?