

# Why Restaurants Fail

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**The following is an extract from a 2005 report commissioned by The Centre of Hospitality Research at Cornell University on restaurant failures**

## Elements of Restaurant Success and Failure

### *Elements of Success:*

1. Have a distinctive concept that has been well researched.
- 2. Ensure that all decisions make long-term economic sense.**
- 3. Adapt desirable technologies, especially for record keeping and tracking customers.**
- 4. Educate managers through continuing education at trade shows and workshops.** An environment that fosters professional growth has better productivity.
- 5. Effectively and regularly communicate values and objectives to employees.** In one instance, new owners credited communication of their values and objectives to their employees as a major element in the successful repositioning of their restaurant to better meet the needs of the growing neighborhood businesses by adding lunch to their dinner-only concept.
- 6. Maintain a clear vision, mission, and operation strategies, but be willing to amend strategies as the situation changes.**
- 7. Create a cost-conscious culture, which includes stringent record keeping.**
8. Focus on one concentrated theme and develop it well.
9. Be willing to make a substantial time commitment both to the restaurant and to family. One successful owner refused to expand his business into lunch periods because he believed that his full-service dinner house was demanding enough from his family.
10. Create and build a positive organization culture through consistent management.
11. Maintain managerial flexibility.
12. Choose the location carefully, although having a good location seems to be more a moderating variable than a mediating (causal) variable in restaurant viability.

### *Elements of Failure:*

- 1. Lack of documented strategy; only informal or oral communication of mission and vision; lack of organizational culture fostering success characteristics.**
- 2. Inability or unwillingness to establish and formalize operational standards; seat-of-the-pants management.**
3. Frequent critical incidents; managing operations by “putting out fires” appears to be a common practice.
4. Focusing on one aspect of the business at the expense of the others.
5. Poor choice of location.

6. Lack of match between restaurant concept and location. A night club failed, for instance, because it opened across the street from a police station. The owners thought that the police station would be a deterrent for potential criminal elements and bar fights, but unfortunately it was also a deterrent for customers, who were afraid of police scrutiny and potential DUI tickets. The club was closed within eighteen months.
7. Lack of sufficient start-up capital or operational capital.
- 8. Lack of business experience or knowledge of restaurant operations.** The owners of a successful night club expanded their business by investing more than \$1.5 million in renovating an old bank building for a fine-dining restaurant. With no knowledge of restaurant operations, they opened the restaurant with zero marketing budget as they relied primarily on free publicity and word of mouth. In less than one year, the restaurant was closed, with more than \$5 million in debt. The owners tried to salvage the business by converting it into a night club, but with no success.
- 9. Poor communication with consumers.** One restaurant failed to take off after a major renovation because the owners did not communicate to their clientele their reason for closing or their timetable for reopening. Their customers were long gone by the time they reopened.
10. Negative consumer perception of value; price and product must match.
- 11. Inability to maintain operational standards,** leading to too many service gaps. Poor sanitary standards are almost guaranteed to kill a restaurant. One operation was exposed by a local television station for poor sanitary practices. Though the sanitary conditions subsequently improved—as reported by the same television station—the damage was done and the restaurant was closed. It later reopened as a successful full-service restaurant.
12. For ethnic restaurants, loss of authenticity; for all restaurants, loss of conceptual integrity.
- 13. Becoming everything to everyone;** failure of differentiation or distinctiveness.
14. Underestimating the competition. A contemporary restaurant located near an established restaurant adjacent to a golf club failed when it could not draw the golfers from their traditional haunts. Owners thought that their new restaurant would have no problem attracting the golfers.
15. Lack of owner commitment due to family demands, such as illness or emotional problems. In an extreme example, a child with a long-term illness prevented an owner from devoting necessary time to the restaurant, which soon closed.
- 16. Lack of operational performance evaluation systems.** In one instance, new owners did not know how to calculate food cost and relied on employees to maintain proper inventory controls.
17. Frequent changes in management and diverse views of the mission, vision, and objectives. In an example that is common in partnerships, the owners of a failed restaurant could not agree on its direction after just one year of operation.
18. Tardy establishment of vision and mission statements of the business; failure to integrate vision and mission into the operation; lack of commitment in management or employee ranks.
19. Failure to maintain management flexibility and innovation.
20. Noncontrollable, external factors, such as fires, changing demographic trends, legislation, economy, and social and cultural changes.
21. Entrepreneurial incompetence; inability to operate as or recruit professional managers.