Small Wonder: The Case for Smaller Restaurants and How to Maximize Them

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Abstract
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The Case for Smaller Restaurants and How to Maximize Them

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By Stephani Robson

Small is beautiful. You hear it when people talk about urban housing or electric cars, but not often when we talk about restaurants. But for operators in the start-up and expansion mode, or any restaurateur entering a competitive market with a high rent factor, a small-footprint restaurant might be the way to go.

Of course, small is a relative term. Let’s define a small restaurant as one with fewer than 50 seats and fewer than 20 tables. A small restaurant can work as a quick-service restaurant (QSR) or a full-service establishment, takeout Chinese or high-end French cuisine. What makes small so beautiful, however, are the economics.

The Rent Factor

Let’s start with rent. Common sense tells us a small space costs less overall than a large one, as in most cases your lease will be priced on a per-square-foot basis. These lower costs mean that your restaurant has a better chance of generating sufficient revenue to cover rent and all the associated occupancy costs such as common area maintenance (CAM) charges and your share of property taxes and insurance.

One good rule of thumb is that the total occupancy costs for your operation should not exceed 10 percent of the total revenues you bring in. Let’s assume you are considering renting either a small space (roughly 1,000 gross square feet) that can accommodate 30-40 seats or a much larger one (2,500 gross square feet) that gives you room for about 100 seats.

If the annual rental cost per square foot is $25, including all CAM and other charges, your total rent for the small space will be $25,000 and $62,500 for the larger one. To safely cover this rent expense, you would need to generate a target revenue of $250,000 for the small space each year versus $625,000 in sales for the larger one.

A good way to estimate how realistic these sales levels might be is to figure out how many covers you would have to do to hit these targets. Here’s how you might approach this calculation:

Step 1: Target Revenue ÷ Number of Days You Plan to be Open Each Year = Target Daily Revenue

Step 2: Target Daily Revenue ÷ Your Anticipated Average Check = Daily Covers Required

Step 3: Daily Covers Required ÷ Number of Hours You Plan to be Open Each Day = Covers Needed per Hour

Now take a look at that “Covers Needed per Hour” number. How realistic is this for the market you are considering and for the kind of experience you want your guests to have? A smaller restaurant, by definition, will result in fewer covers needed per hour and is therefore much more likely to be financially feasible, all other things being equal.

Other Benefits

With restaurants, turning people away because you are full can actually be good for business. Small restaurants can more easily convey the impression of being busy, and most diners prefer to go to a busy restaurant. There’s safety in numbers; a busy restaurant instills confidence. Generally, a full restaurant is a popular restaurant, and a popular restaurant is more likely to be considered to be a good one by your customers.

By constraining your supply of dining seats, you are
increasing their value to those who want to dine with you. This encourages them to use strategies like calling ahead for reservations or trying to get a seat on a slower night of the week, both of which will help you balance out demand and plan ahead for busy times.

Rent is not the only economic benefit of a smaller restaurant. Only having 20 tables means you can generally run with a much smaller staff. Most operators assign no more than 20 seats or five tables to a single server, so a small place allows you to operate with only a few servers, and you can also have a manager or host provide additional service support in busy times. You’ll also need only one bartender most of the time, and probably only one person on dishes and pots. As for the kitchen, of course it depends on your menu and preparation style but, in general, fewer covers probably means fewer people working on the line.

Fewer covers also mean a smaller inventory of food, beverages and serviceware. This is good news on two fronts: space required and capital tied up in inventory. A small restaurant can get by with much smaller storage areas, particularly if you are in a location where frequent deliveries are possible.

A very rough calculation for storage in a restaurant is 1 square foot of dry food and paper goods storage per meal served per day plus about 1.5 cubic feet of usable refrigerated storage space per meal served per day. (Note that walk-in refrigerators lose quite a bit of space to the walkway between shelves and to space above and between the shelves for air circulation so that only about 40-45 percent of a walk-in box is actually usable space.) The amount of space you need for serviceware (china, glass, silverware and linens) is also likely to be lower for a small restaurant.

That said, your style of service and beverage program is the main factor in sizing these spaces. If you are planning on doing flights of wine or offering white tablecloth service, you’ll need twice the serviceware storage as you might with a casual place of the same size. And your inventory of kitchen smallwares — pots, pans, utensils and other cooking tools — will be lower too if your restaurant is small.

**Starting Small From Scratch**

Then there is the build-out cost. Fewer square feet typically means a smaller budget for construction, furniture, fixtures and equipment as well as potentially a faster construction period, which saves you money two ways: You can start bringing in revenue sooner and you don’t have to spend as much in preopening rent and other occupancy costs. Based on a review of the start-up restaurants featured in this magazine over the past five years, typical restaurant build-out costs average about $85 per square foot for existing restaurant spaces and more than $200 per square foot for spaces that are built from the ground up or in spaces that weren’t restaurants to begin with, as illustrated below:

<table>
<thead>
<tr>
<th>Type of Space</th>
<th>Avg. Build-out Cost per Square Foot</th>
<th>Avg. Build-out Cost per Seat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing restaurant - renovation</td>
<td>$85</td>
<td>$2,222</td>
</tr>
<tr>
<td>Completely new restaurant</td>
<td>$242</td>
<td>$6,790</td>
</tr>
<tr>
<td>Overall Average Costs</td>
<td>$183</td>
<td>$5,077</td>
</tr>
</tbody>
</table>

(Data Source: Restaurant Startup and Growth magazine. Period studied 2007-2012)

Not all restaurants are average. Lots of factors will influence your overall cost per square foot or per seat. The materials you choose, the kitchen equipment you need, the availability of utilities and ventilation in the building, the age of your building and its overall conditions — all of these can push these numbers up or down.

And certainly the type of restaurant matters, too. Quick-service restaurants where guests order and pick up at the counter generally are cheaper per square foot but may have a higher per-seat cost than other kinds of restaurants, mostly because these sorts of fast-food places may have a relatively small number of seats and rely more heavily on takeout business. “Fast casual” restaurants are a bit harder to define, but generally these are restaurants where customers may order at a counter but have their meals delivered to them at a table, and the front of house may be more attractive and fitted out with higher-quality furnishings and lighting than what traditional fast-food places normally have.

This results in a higher cost per square foot for buildout for fast-casual concepts but a lower build-out cost per seat because the seat count is generally higher than in fast-food restaurants. Full-service restaurants use servers to both take and deliver orders and often have a bar, which pushes up build-out costs significantly.

<table>
<thead>
<tr>
<th>Type of Restaurant</th>
<th>Avg. Build-out Cost per Square Foot</th>
<th>Avg. Build-out Cost per Seat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast Food (all self service)</td>
<td>$63</td>
<td>$3,250</td>
</tr>
<tr>
<td>Fast Casual (some table service)</td>
<td>$158</td>
<td>$1,866</td>
</tr>
<tr>
<td>Full service</td>
<td>$192</td>
<td>$5,576</td>
</tr>
</tbody>
</table>

(Data Source: Restaurant Startup and Growth magazine. Period studied 2007-2012)

**9 Tips to Maximize the Small Restaurant**

Small restaurants require careful planning and attention to detail; there is usually little room for error when you have
a very limited space. Here are a few suggestions to help you get the most out of the square footage that you have.

**Carefully plan your mix of tables.** All of the restaurant data that I see suggests that the majority of party sizes at full-service restaurants, even when you account for split checks, is two people, and yet many restaurants supply mostly four-top tables. It is a much better choice to have restaurant. This was a smart move, as booths and banquettes lots of tables for two that you can combine as needed to accommodate larger parties. This takes up less space and also ensures that you have flexible seating. One small restaurant I know has been very successful with a long banquette at the front of the dining room with six tables for two along it, supplemented by four booths for four near the back of the restaurant. This was a smart move, as booths and banquettes take up fewer square feet per seat than freestanding tables.

**Lay out the front of the house so that the entire dining space can be seen from the front door.** There are two good reasons to make sure that the entire space is visible from the front of the restaurant. It makes your restaurant look bigger and it also saves on labor. Your manager can double as a host, greeting and seating people as well as keeping an eye on how the room is running at all times. On quieter days, the servers can seat people as well because they can easily see when someone arrives.

**Ensure your menu and service style works for small spaces.** In a small restaurant, tabletop space is at a premium. If your menu includes lots of small plates, family-style platters for sharing, flights of wine or beer, or other “space-hogging” selections, you’ll need a wider tabletop, which can eat up valuable square footage. Think hard about your menu and how you plan to serve it, and about what other tabletop items you might need before you select your furniture. Choose the table size that just meets your needs but is no larger than it absolutely has to be.

**Capitalize on bar space.** If your restaurant has a bar, make sure you design it so that it is easy to serve meals there. Consider comfortable leg room and bar height for your guests, select bar stools with backs, and plan for cutlery wraps, a bus tub, and support items like menus and table condiments to be stored right at the bar. Think about how food will be delivered to bar diners: by servers on the floor or by the bartender.

If your concept is a quick-service restaurant, provide bar-style seating at a raised counter that is about 12 inches wide. This is a great way to accommodate lone diners (without having them tie up a larger table) and also saves on space. The 12-inch width is wide enough for someone to comfortably eat but not so wide that it encourages “camping out.”

**Make storage part of the décor.** When it makes sense for your concept, use shelving above the seating in the dining room to store attractive items, such as food, wine and glassware. In other words, use inventory as decor. I think the Five Guys burger chain is especially smart for using the queuing and dining areas to store cases of ketchup and bags of potatoes rather than have a larger back-of-house storage room for these items.

**Use all three dimensions in the back of the house.** Space in kitchens is often underused. Erect shelving above workspaces and sinks to store light but bulky items like boxes of paper goods where you can get to them without taking up valuable floor space. Seek out nooks and crannies of unused space for additional storage: under worktables, underneathe stairs, on hooks behind doors, maybe even above the walk-in box if doing so won’t block airflow to your refrigeration system.

**Design your menu to require only a few, flexible pieces of equipment.** A well-crafted menu not only pleases your guests and generates good contribution margins but also makes effective use of the equipment you have. Eliminate any item on the menu that is the only dish that uses a particular piece of equipment. Think about equipment that inherently offers flexibility: sauté ranges, griddles, combi-ovens or convection ovens.

**Work with your vendors to get more frequent deliveries.** You can keep your storage space down if you can get small deliveries three or four days a week rather than one big delivery once every week or two. In fact, many small restaurants are able to manage with just reach-in refrigeration as long as the inventory of chilled or frozen items is kept to a just-as-needed level. More frequent deliveries also mean your food is fresher, which your customers will appreciate.

**Go digital wherever you can.** Don’t make or save paper copies of documents if you can avoid it. Use a service like Dropbox.com to both store and back up all your files so that you will always be able to get access to all your documents, from anywhere, even if your computer crashes. Ask your vendors to provide e-invoices as much as possible to save on filing space. (Back these up to Dropbox or a cloud service, too, just to be on the safe side.)

**Small Is Not a No-Brainer**

Creating and running a small restaurant can be challenging. You need to have a good eye and good head for detail. You also have to be comfortable with the limits the small size places on the operation. It’s hard to do big banquet or catering events, for example. You need to get your head around these limitations.

But a smaller place is easier to fund, uses fewer people to operate and can be more profitable on a per-seat basis than a big place that’s hard to fill every day. You can always grow into a bigger space once your restaurant finds its audience and you’ll find that banks are much more receptive to loaning to a growing restaurant than to a brand-new operation. You also reduce your overall risk, which is good sense in a risky but highly rewarding business like restaurants.

And no doubt, the smaller capacity puts some constraints on your revenue-generating potential. If you can pack the house, and manage your costs, a large footprint can mean great income. For a start-up restaurateur, or the operator who is expanding to additional concepts, it is far better to begin with a smaller initial investment and grow than to be locked into a much larger space from the start.