

## **Beware of Hidden Development Costs**

Recently, I was in a coordination meeting for a large mixed-use project that featured several different restaurants within one large complex. The architect, engineers, and a number of other professionals were summoned to help determine the best possible route for exhausting the hoods that were on the lower level. The restaurant on the main floor had several hoods that needed to be exhausted to the outside. The problem was that the building was quite complex, and due to a variety of reasons (aesthetics, structural elements, codes, etc.), the routing of the exhaust duct was also complicated. The building was over a dozen stories tall and many of the “available” potential areas where the exhaust could be dumped were either too close or in sight of areas accessible by the patrons. So after several hours of planning and coordination, the proposed duct runs were determined ... some were real intricate, navigating structural elements, and VERY costly. Then it hit me!

If this were a free standing restaurant, not a restaurant that was part of a larger, overall development by the same owner, then the project would likely be very difficult to justify financially. There was easily an additional \$100,000 in cost due to the required duct runs. An amount of money this size is substantial to the independent restaurateur. In a project this large, however, believe it or not ... a cost like this can get buried! How, you ask, can you bury a six-figure line item? Easy - this chunk of change will be lumped in with the overall ventilation budget for the entire project, a number that is not likely to be itemized. Based on the size of the ventilation scope of work for a project of this magnitude, this extremely large number will be lost in the mix and considered a justifiable cost of doing business.

This is just one example of the hidden costs in development – costs that owners and developers pay for, but aren’t necessarily aware of. There are others.

Other Examples

Many restaurateurs starting out are looking to save money any way possible just to get the doors open. One common way to save money and meet the established budget is to purchase used equipment in lieu of new equipment. Now don't get me wrong – I am the first to admit that used equipment has its place. After all, as long as a table is made from the proper materials, what can really go wrong with a table? A scratch, a dent ... for the most part, it still works. When it comes to some more complicated pieces of equipment (i.e. refrigeration, fryers, and other items that require care and maintenance), used equipment is not the best option.

Nevertheless, many restaurateurs believe that they are buying their equipment at 20 or 30 cents on the dollar. The truth of the matter is that they are likely paying more, as the used equipment dealer will have to invest time and effort to prepare the used equipment pieces for sale. And let's be honest, the used equipment dealer is not performing these services for charity – he or she needs and deserves compensation. The end result is that restaurateur may wind up paying 70 or 80 cents on the dollar, for a piece of equipment with a checkered past and no warranty. Once the equipment fails and requires repair out of warranty, any potential savings may quickly disappear. Hidden costs!

In yet another example, the utilities used for some of the foodservice equipment are rarely allocated to the appropriate budget. Consider the fuel for a chafing dish. If the chafing dish is designed to operate off of canned fuel, the fuel typically comes out of the foodservice budget. If, on the other hand, the chafing dish is electric and plugs into the wall, the "fuel" for this item is combined with the property's total electrical bill. There is really no practical way to separate this item's electrical draw from the electrical usage of other equipment throughout the property. So, the cost of operating this piece of equipment is paid for by different departments depending on the fuel source. Hidden costs!

### A New View?

Referring back to the original example, how could this additional cost have been avoided? Well, there are options. For instance, a focus on this additional cost

could have justified a relocation of the restaurant facility to a different part of the building that would allow for easier, more efficient exhaust duct runs. If such relocation were not possible, then a revision to the concept, menu, and equipment requirements might have been appropriate. The real lesson here is to break down a project into smaller pieces so that you can justify the individual components. In the multi-use complex described earlier, this approach would require that the owner look at each restaurant individually and itemize the costs associated with each facility. This itemization will allow for more accurate, cost-based decision making.

This technique is not limited to large-scale projects, and can be used for facilities of any size and scope. Let's assume that you have an existing operation and are considering adding a catering component. It is easy to consider the initial construction costs, but what about the operational costs? What if your peak season is in the summer and you will be leaving the back door open to your air-conditioned kitchen ... will your electric bill rise? By how much? Whenever a facility is sharing resources for more than one function, it is difficult to itemize and associate the appropriate costs. It takes a conscious effort and commitment to do so. Although this can be time consuming, it is the only way to accurately track your costs. I am a firm believer in the theory ... if you can't track it, you can't manage it. So, take a look at your facility and operation. Are there any hidden costs that are going unnoticed on a regular basis?