

## **SMART BUSINESS DECISIONS, BY DESIGN**

Two women walked into a restaurant equipment showroom. No, this is not a really bad joke. It is a true story. Full of energy and excitement, they were planning to open a new restaurant and had done some homework on the equipment they thought might be required. It is a common place for aspiring restaurateurs to begin the development process. They had an equipment flyer full of notes, circled items, and folded pages that had clearly been well used.

As they entered the store, they asked to speak with someone about the design of their new restaurant. That is when they met me, and the conversation took a turn that they never expected. These well-intentioned women started showing me each piece of equipment that they had selected. They were quite confident about the options and finishes that they would need. But in reality, they were far less prepared than they realized. I allowed them to finish sharing their equipment selections, and then explained that I wanted to focus on some questions that were not directly related to the design of their new restaurant. Here are the questions I asked, and the answers I received.

*Question: Are you planning to lease a location for this new restaurant?*

*Answer: Yes.*

*Question: Have you signed the lease yet?*

*Answer: No.*

*Question: How long is the term of the lease the landlord is offering you?*

*Answer: One year.*

*Question: What kind of tenant improvement (TI) allowance is the landlord offering?*

*Answer: None. I did not know that was an option.*

*Question: What type of business last occupied the space?*

*Answer: A bookstore.*

With this information I abruptly blurted out “Don’t Do It!” before one of the kind women could even finish her last answer. I had heard enough. These two

women were shocked, to say the least, and had a look of bewilderment that they found difficult to shed. They were clamoring for a more detailed answer and an understanding of why I wanted to squash their dream with such conviction. After all, they came in asking about design and equipment, not leases and TI allowances. They, unfortunately, did not see what I saw.

### The Stop Sign

Restaurant development can be tricky, particularly for first timers like these two women. It was clear that they had never developed a restaurant before. In a nutshell, this is what I read from the situation. The space was previously a bookstore, not a restaurant. That meant that there was a significant amount of building improvements that would be required to support a restaurant. The underground plumbing system would have to be added, the electrical system upgraded, and the HVAC modified to accommodate the new hood system. There was a lot of work to do. With no offer of TI dollars for building improvements from the landlord to offset some of the construction costs, the tenant would have to pick up all expenses for the building modifications. Finally, the one year lease option would place all of the funds utilized for building improvements at tremendous risk, many of which would be permanent and not transportable.

It was pretty clear to me that the landlord did not believe that these women would succeed. This was evidenced by the offer that the landlord presented.

Furthermore, he was placing nearly all of the risk on his potential tenants. If the restaurant were to succeed, the landlord would win because he would have a tenant at desirable rates and bumps in the rent scheduled to follow a very short initial term. If, on the other hand, the restaurant were to fail in the short term, the landlord would win once again. With a building full of recent improvements and an infrastructure required to support a restaurant – funded by the tenant – the landlord would be free to lease the upgraded space to a new tenant at a higher rate than the facility would have retrieved before the improvements. The tenant would have no ability to recapture the money used to fund the building improvements. In this scenario, the tenant would carry a disproportional amount

of risk, and I felt obligated to point this out ... before these women made what I felt would be a horrible mistake.

### Supporting the Business Decision

I could have developed the world's greatest design for these two women, but if the design did not support the *business decision*, then even a great design would have been a waste. The design needs to support the objectives of the business, not the other way around. This is true not only on small restaurant projects, but on projects of every shape and size. Too often I have seen designers obsessed with the design objectives related to a project, and blind to the business decisions behind the project. Often, this has resulted in designs that may look great, but do not work ... for the business. This is a variation of a common theme I have shared in the past – form follows function.

These design professionals must remember that their purpose is to develop a design that will support the objectives of the owner. Granted, sometimes the design style may in fact be an integral part of the business objective, which is perfectly acceptable. The scenario I am concerned with is when the design objectives begin to override the business objectives. To ensure that the design stays on the right track, it is incumbent upon the owner to clearly share the business objectives with the design team on a regular basis. The owner (or the owner's representative) should take a hands-on approach to ensure that the design process is headed in the right direction. Also, the entire development team should schedule dedicated times during the design process to stop and review the current direction versus the business objectives. If all is well, then by all means – proceed. If corrections need to be made – make them.

### A Sobering Experience

So, you may be wondering about the final decision made by the two women in my earlier story. Well, I successfully talked them out of pursuing that opportunity. Eventually they saw the potential risk associated with the scenario presented by the landlord and determined that the risk-reward scenario was not favorable. It was the right decision. Once the initial shock wore off, they realized that I was

trying to act in their best interest. Though these ambitious, aspiring restaurateurs were in search of assistance with equipment selection and design, our discussions were focused on more pressing needs of the business they were looking to start. We never did discuss the design. Before they left, I asked if they had perceived my approach as negative. “No,” they told me, “it was sobering ... exactly what we needed.” They thanked me for helping them avoid what could have been a very big mistake. No problem. It’s all in a day’s work.