

## 8. Carmine's Italian Restaurant

Rita Carmine, the owner and manager of Carmine's Italian Restaurant, is reviewing the slow growth of her restaurant. She's also thinking about the future and wondering if she should change her strategy. In particular, she is wondering if she should join a fast-food or family restaurant franchise chain. Several are located near her, but there are many franchisors without local restaurants. After doing some online research, she has learned that with help from the franchisors, some of these places gross \$500,000 to \$1 million a year. Of course, she would have to follow someone else's strategy and thereby lose her independence, which she doesn't like to think about. But those sales figures do sound good, and she has also heard that the return to the owner-manager (including salary) can be more than \$150,000 per year. She has also considered creating a Facebook page for Carmine's Italian Restaurant but is not sure how that will help. She knows people go to Carmine's web page for directions and to see the menu—but why might she need Facebook or some other social media?

Carmine's Italian Restaurant is a fairly large restaurant—about 3,000 square feet—located in the center of a small shopping center completed early in 2013. Carmine's sells mainly full-course “home-cooked” Italian-style dinners (no bar) at moderate prices. In addition to Carmine's Italian Restaurant, other businesses in the shopping center include a supermarket, a hair salon, a liquor store, a computer repair business, and a vacant space that used to be a hardware store. The hardware store failed when a Home Depot located nearby. Rita has learned that a pizzeria is considering locating there soon. She wonders how that competition will affect her. Ample parking space is available at the shopping center, which is located in a residential section of a growing suburb to the east, along a heavily traveled major traffic route.

Rita graduated from a local high school and a nearby university and has lived in this town with her husband and two children for many years. She has been self-employed in the restaurant business since her graduation from college in 1998. Her most recent venture before opening Carmine's was a large restaurant that she operated successfully with her brother from 2004 to 2010. In 2010, Rita sold out her share because of illness. Following her recovery, she was anxious for something to do and opened the present restaurant in April 2013. Rita feels her plans for the business and her opening were well thought out. When she was ready to start her new restaurant, she looked at several possible locations before finally deciding on the present one. Rita explained, “I looked everywhere, but here I particularly noticed the heavy traffic. This is the crossroads for three major interstate highways. So obviously the potential is here.”

Having decided on the location, Rita signed a 10-year lease with the option to renew for 10 more years, and then eagerly attacked the problem of outfitting the almost empty store space in the newly constructed building. She tiled the floor, put in

walls of surfwood, installed plumbing and electrical fixtures, added an extra washroom, and purchased the necessary restaurant equipment. All this cost \$240,000—which came from her own cash savings. She then spent an additional \$3,000 for glassware, \$4,000 for an initial food stock, and \$4,250 to advertise the opening of Carmine's Italian Restaurant in the local newspaper. The paper serves the whole metro area, so the \$4,250 bought only three quarter-page ads. These expenditures also came from her personal savings. Next she hired five waitresses at \$550 a week and one chef at \$1,100 a week. Then, with a \$48,000 cash reserve for the business, she was ready to open. Reflecting her sound business sense, Rita knew she would need a substantial cash reserve to fall back on until the business got on its feet. She expected this to take about one year. She had no expectations of getting rich overnight. (Her husband, a high school teacher, was willing to support the family until the restaurant caught on.)

The restaurant opened in April and by August had a weekly gross revenue of only \$4,800. Rita was a little discouraged with this, but she was still able to meet all her operating expenses without investing any new money in the business. She also got a few good customer reviews on Yelp. By September business was still slow, and Rita had to invest an additional \$6,000 in the business just to survive.

Business had not improved by November, so Rita stepped up her advertising—hoping this would help. In December, she spent \$2,400 of her cash reserve for radio advertising—10 late-evening spots on a news program at a station that aims at middle-income America. Rita also spent \$1,600 more during the next several weeks for some Google Local advertising.

By April 2014, the situation had begun to improve, and by June her weekly gross was up to between \$6,100 and \$6,600. By March 2015, the weekly gross had risen to about \$8,400. Rita increased the working hours of her staff from six to seven hours a week and added another cook to handle the increasing number of customers. Rita was more optimistic for the future because she was finally doing a little better than breaking even. Her full-time involvement seemed to be paying off. She had not put any new money into the business since summer 2014 and expected business to continue to rise. She had not yet taken any salary for herself, even though she had built up a small surplus of about \$18,000. Instead, she planned to put in a bigger air-conditioning system at a cost of \$10,000 and was also planning to use what salary she might have taken for herself to hire two new waitresses to handle the growing volume of business. And she saw that if business increased much more she would have to add another cook.

*Evaluate Rita's past and present marketing strategy. What should she do now? Should she seriously consider joining some franchise chain?*