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A Business Plan for a Successful Family-Run Restaurant in Heber City, Utah

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Part One

Introduction

Business plans are considered to be an important, “even crucial,” part of opening any business (Lange, Mollov, Pearlmutter, Singh, & Bygrave, 2007). Because of a gap in the literature directed toward successful business plan strategies specific to the family-run restaurant sector, this paper is going to consider the available information regarding family-run businesses in general and apply them to the restaurant industry.

First it will discuss, through the literature review, business strategies for family-run businesses. A family-run business in this case will be broadly described as any business that is owned and managed by one or more members of a family (Hollander & Elman, 1988). As the literature narrows it will go on to address strategies of family-run businesses in small communities, e.g., 500 to 10,000 people, and then talk specifically about how these strategies can be applied to the restaurant industry (Besser, 1999). From there the strategies discussed will be applied to a viable business plan of a family-run restaurant in the small town of Heber City, Utah.

The exciting aspect of this paper is that the business plan appearing in Part Three will be implemented for the purpose of opening of Small Plates Restaurant, a long-time dream of the future owners who first met while employed as cooks at a major Las Vegas restaurant kitchen.

Purpose

The purpose of this paper is to create a viable business plan for a family-run restaurant that will be opened in 2013 in Heber City, Utah.

Objectives

Although the literature provided a wealth of information regarding successful strategies for family-run firms, there was a dearth of material with respect to family-run restaurants and even fewer articles addressing family-run restaurants in small communities. One of the main objectives of this paper is to interpret existing research about family businesses generally and to apply those strategies in a practical and relevant manner to the subject restaurant's business plan. The business plan will include a detailed SWOT analysis which will discuss the internal strengths and weaknesses of the restaurant, as well as the competition, opportunities and threats. There will also be a financial analysis including start-up costs and projected profit and loss statements, as well as a marketing analysis. Clearly the strategies that are offered in the literature are extremely valuable to any business, but particularly to one in the volatile restaurant industry.

Justification

It is common knowledge that family-run firms may not have the available resources of most corporate firms, thus making it more challenging for small family businesses to succeed. Therefore, because the subject restaurant will serve as the primary source of income for its owners, any and all research which may serve to enhance its success is a worthwhile endeavor.

Part Two

Introduction

The literature review that follows will discuss the definition, according to the literature researched, of a family business, a small business, strategic management and a small community. It will then go on to suggest important strategies that small businesses should implement to reach their desired goals. It will then proceed to suggest different strategies that can be applied which are based on the business's specific priorities, then going a step further and describing ways they can be put into practice. In the next section the positive attributes of a small family business will be discussed along with some of the factors that make running these kinds of businesses uniquely difficult. To ease this difficulty, the importance of financial planning and the role of a SWOT analysis will be discussed along with a conclusion.

Strategies to utilize

The literature provides the following definition of a family business: "The family business is made up of a system of interrelated individuals, both family members and non-family employees. A sub-system of this system is the sentient system that has the family at its core and is made up of individuals bound by strong emotional and loyalty bonds" (Davis, 1983 p. 51). Success is defined differently within different segments in the market, and for small business that can include factors in addition to financial considerations (Besser, 1999). The segment of small business is defined as one that employs fewer than 23 persons, according to a study done by Miller, McLeod, and Young Ob (2001). The success of a small family restaurant in a small community (population of less than 10,000) is an important topic that current literature hasn't fully addressed (Miller et al., 2001).

With the above terms defined, there is another aspect that most of the literature agrees is vital to a small family business in a small community, which is a strategic plan at any stage of the business (Sharma, Chrisman, & Chua, 1997). Management of a strategic plan occurs when goals are being pursued, a strategy designed to achieve those goals is in place, then implementing the strategy and controlling the firm's progress (Sharma et al., 1997). These goals need to be viewed as the highest priority of the business and that priority is what all decisions are measured against (Sharma et al.,1997).

These strategies or priorities can include, but are not limited to: Cost leadership (price being better than that of the competition); differentiation (products and services being superior or different); time-based (seizing market opportunities quickly); high quality; customer relations management (increasing customer loyalty) (Cooper, Upton, & Seaman, 2005); and quality management (products and services reflect the business's reputation) (Danes, Loy, & Stafford, 2008). Another possible strategy could include the business's commitment to the betterment of its local community (Besser, 1999). Besser (1999) found a significant relationship between the owner's commitment to the betterment of the community, i.e., social responsibility, and the owner's assessment of the business's success.

A SWOT analysis is a useful tool for determining strategic direction and setting realistic goals and objectives for the business (Simoneaux & Stroud, 2011). "A SWOT analysis is an important aspect of strategic business planning and should always be performed in conjunction with the initial creation of a company's business plan"(p. 75). Included in a SWOT analysis are the internal strengths that are the positive characteristics that give the business the competitive edge, as well as the weaknesses which are the areas internally that can put the business at a disadvantage if they are not corrected. The other sections of the SWOT are the opportunities and threats. The opportunities represent the external areas where the business could grow or increase profitability or efficiency. Finally, threats are made up of external forces that could cause significant stress or economic downturn to a business. After going through this process of analyzing the business, the information that has been obtained can help form its goals, objectives and strategies and will promote proactive thinking instead of reactive decision-making. Simoneaux and Stroud (p. 78) highlight the importance of the SWOT analysis by saying, "The SWOT process forces you to focus and capitalize on the firm's strengths that are most valued by customers. You will also be better able to articulate your firm's core competencies after going through the SWOT exercise, which will help you in marketing and communication efforts." As with all strategies, integral to their success is employee buy-in. Always communicate your SWOT findings with employees so they can implement the strategies that were established (Simoneaux & Stroud, 2011).

Forecasting and budgeting are forms of strategic planning as well as being a vehicle to reaching goals for the business (Schmidgall & DeFranco, 1998). Forecasting gives the owners projected levels of sales in the short term and can be used as a tool for control in managing business flow (Schmidgall & DeFranco, 1998). Budgets alert them to significant expenditures in the future and shortfalls in revenue, and in comparison to forecasting, budgets cover a longer period of time. Long-range budgeting is a form of strategic planning that can include several years of financial projections, a coordinated management policy and a comparison of actual results to estimates. The Schmidgall and DeFranco (1998) study found the majority of the business owners surveyed agreed that the operations budget was an integral part of the business and that the owners prepared their budgets once a year. Prior to that preparation, they did set a financial goal specific to their operation such as net income levels or goals based on sales. The budget, for the businesses surveyed, was used as a standard by which the operation was managed as well as a planning tool. Schmidgall and DeFranco (1998) did note that budgetary planning is not an exact science and adjustments should be expected throughout the year.

The Danes et al. (2008) study demonstrated that preparing proper financial records was crucial for both the family and the business. Another study showed that unless the start-up business owner needed to raise capital, there was no compelling evidence in favor of writing a formal business plan (Lange, Mollov, Pearlmutter, Singh & Bygrave, 2007). A formal business plan may not be necessary, but the business should look at expected sales revenue and operating costs that include material, labor and capital assets necessary to open and launch the business (Lange et al., 2007). In terms of fundraising, writing a business plan was shown to be highly advantageous, as discussed earlier regarding the use of the SWOT analysis, for forecasting and budgetary planning (Lange et al., 2007).

Once the strategy has been prioritized, the next step is to go beyond the idea of the strategy and share it with the rest of the business owners and employees, while taking into account how this strategy will look in the long run across generations of ownership. Communicating these priorities to them will create a shared sense of purpose and legitimacy. It will also demonstrate to the employees that there is a high level of concern and care for their needs as individuals (Davis, 1983). The employees' behavior is guided by the strategic plan itself as well as the business owner's commitment to expressing it to them (Tagiuri & Davis, 1992). In the family business setting the owner/manager usually has a stronger voice in articulation and implementation of company goals and creating clear objectives for employees (Tagiuri & Davis, 1992). It is also important that the family members support each other and, in furtherance of that support, develop communication skills (Davis, 1983). Communication is key in building motivation for maintaining quality and reputation and has been shown to aid in the expansion of the business (Upton, Teal, & Felan, 2001).

Once the appropriate strategy has been defined, Davis (1983) showed that it can be applied to the current state of the business and be implemented for the long run. Having this strategy in place will serve to definitively establish the business. It will be what many customers may think of when they visit the business and, in the case of a family business, what they will think of when they see or hear the family name. The family name is represented by the quality of products and services. The outcome of a successful strategy would be to create customer satisfaction and loyalty (Davis, 1983).

The study that follows demonstrates the importance of customer loyalty in any business setting. Dube and Renaghan (1999), found that the factors that contribute to customer loyalty can only improve profitability. This improved profit comes from the fact that it costs the business less to market to loyal customers because they do not need incentives to try the product or service because they already have, and it has met or exceeded their expectations and they perceive its value. It is essential that businesses pinpoint attributes and business practices that are most critical in the creation of customer value. The top three attributes that Dube and Renaghan (1999) found when hotel customers were surveyed that contributed to customer loyalty were the physical property management, the quality of employee interactions and services offered, as well as the quality of the reputation. Although this study done by Dube and Renaghan (1999) was to determine the effects of customer loyalty in the hotel sector of hospitality, the results, given above, can be generalized to apply to the restaurant industry because of the fact that both sectors cater to customers in a hospitality setting. This study was conducted over a decade ago but has become even more relevant now because in today's hospitality industry, managing customer value is considered a critical component of a strategic marketing plan (Dube & Renaghan, 1999).

The above study looked at the importance of customer perception from the customer's point of view and the following study, done by Danes et al. (2008), looks at it from the business's standpoint which found that 44.6% of business owners surveyed believed that positive customer perception of reputation was the most important business goal. Another study found that atmosphere and server responsiveness were the main predictors of customer satisfaction (Young, Clark, & McIntyre, 2007). Server responsiveness was also a significant predictor of the customer's intention to return and the positive state of the atmosphere made customers more likely to recommend the business to others (Young et al., 2007). When customer loyalty increases, these customers are less affected by price increases or offers by competing companies (Cooper, Upton, & Seaman, 2005). Implementing strategies that may positively affect customer loyalty, a.k.a. customer relations management, can lead to the installation of expensive new software and training for employees, as well as marketing programs that can take the form of individualized messages, products and services, so it is no surprise that most small family businesses know of its importance but have no formal plans to invest in it (Cooper et al., 2005).

Merely identifying the strategy that applies to one's highest priority of business and communicating that thoroughly to the entire establishment does not mean that it will instantly go into effect (McCann, Leon-Guerrero, & Haley Jr., 2001). Strategic plans may take up to one year to affect revenue because of the various levels of moving parts that a plan may encompass (McCann et al., 2001). The strategic plan is based on the specific goal of the business, which could be a long-term financial goal such as a certain amount of profit made, or more of a short-term goal like implementing a happy hour to attract customers away from local competition

(Sharma et al., 1997). These, along with other possible strategies, may contribute to the length of time that these plans take to affect the revenue. It is also important to note that any one strategic plan may not be effective for all businesses (Sharma et al., 1997). Initiating strategic plans as a small family business can be a streamlined process since it does not have to go through many tiers of management to be approved or critiqued, and they can be put into action relatively quickly depending on the scope of the goal that the plan hopes to achieve (McCann et al., 2001).

Strategic planning is possible with small family businesses because of the positive attributes they possess (Cooper et al., 2005). For example, they can quickly meet customers' needs without going through levels of management, an important factor which builds loyalty and trust among employees and customers (Cooper et al., 2005). When a customer has a complaint or suggestion, it can be immediately addressed by the owner to ensure that the issue is resolved or the suggestion is implemented. Family characteristics that may trickle into the daily operations of the business create a unique environment, a factor which is considered to be yet another attribute (Davis, 1983). Smaller family businesses rely on strong networks of resources in order to access information and gain knowledge about new competition or new market opportunities (Gudmundson, Hartman, & Tower, 1999). McCann et al. (2001 p. 53) commented on the idea that they "can be very innovative and aggressive in their markets due to their relatively smaller size, greater local market knowledge and relative financial independence." Olson and Bokor in 2005 (as cited in McCann et al., 2001) found that this innovation of new products, services or ideas helps to create a competitive edge in market positioning against competition and offers the greatest potential for high performance by the company. With respect to customer service, the small business is "nimbler, more customer-oriented and quality focused, and more attractive in communities" (Ibrahim, Angelidis, & Parsa, 2008, p. 95).

All of these aforementioned attributes are important to remember because many hardships can arise when owning a family business, and one method of overcoming those hardships is understanding the concept of congruity.

Congruity is the owner's assessment of harmony among family members. This includes ideas about decision-making and activity coordination for the business. Congruity is an idea used as a measure of success for a business in addition to financial growth (Danes et al., 2008). It seems that this can be a tradeoff for the family owners, because putting the needs of the business above the needs of the family may make a profitable business, but may also prove to have a negative effect on the family (Danes et al., 2008). For example, it was found that owners who put the needs of the business ahead of the family's needs had businesses that grossed an average of $512,480 more annually than those businesses that didn't (Danes et al., 2008). Moreover, each additional hour worked in the business by the owner resulted in an average increase of $20,302 in gross revenue annually (Danes et al., 2008). The tradeoff was that both of these business positives had negative effects on family congruity, a unique problem for family businesses (Danes et al., 2008). A major factor contributing to poor family business congruity was meeting the business's cash flow problems with household income, or self-financing, a circumstance which puts undue stress on the family dynamic (Danes et al., 2008). In that same study, they found that male business owners enjoyed a higher level of congruity in their businesses than did female owners (Danes et al., 2008).

In the case where husband and wife are co-owners of their family business, or copreneurs, the congruity between business and family was found to be highest when both spouses were supportive of one another and the roles they played in the business (Marshack, 1994). They also found that this support worked best when the individual worked within the traditional models of masculinity and femininity, i.e. the man dealing with maintenance and decision-making and the woman focusing on housework and bookkeeping support (Marshack, 1994). One study's results, after surveying 231 family businesses, found that running a family business successfully meant creating healthy, constructive tension among family members as well as a willingness to co-develop all three dimensions of the family business -- the business, the family and the individual family member -- all of which are deserving of continuous attention and work, but can prove to be difficult to maintain (McCann et al., 2001). Managing these tradeoffs is a difficult task, but it all goes back to the strategy that has been prioritized for the business and for the family and making the decision that produces the most "desirable outcome mix" (Sharma et al., 1997).

Besser discussed that this idea of congruity can be amplified when the small family business is located in a small community; therefore, having a secure grasp on the business's strategic plan and priorities becomes even more important. It was pointed out earlier that a strategic plan for a business could be a commitment to the betterment of the community, and it has been shown that businesses that make such a commitment are rewarded by the support of the community's local residents. The benchmark of success for these businesses in the smaller communities could well be based on their level of social responsibility. This level of success can enhance rural and small community development through avenues such as manufacturing, finance, transportation and construction (Besser, 1999). It can also aid in the distribution of agriculture, goods and services, as well as serving to create an increased tax base which can directly create an improvement in quality of life for the local community (Miller et al., 2001). The shared sense of community that a business exhibits will result in higher employee morale, performance and lower turnover, as well as better interactions with customers and suppliers

(Besser, 1999). This low turnover and high employee loyalty will allow family businesses the ability to invest in an effective management and employee team, and acquire enough resources to expand and develop new products and services (McCann et al., 2001).

It is important for small businesses in rural areas to implement solid strategies for success. From 1960 to 1990 the proportional presence of retail businesses in small communities decreased from 60% to approximately 23% of all the local businesses (Miller et al., 2001). A contributing factor to this ostensibly high failure rate was hypothesized to be attributable to the failure of these small businesses to develop strategic plans during the formative stages of the business (Miller et al., 2001).

The normal family dynamic becomes exaggerated while under the type of extreme stress that a family business can bring about; therefore, having strongly defined plans and priorities in place can be highly beneficial when it comes to maintaining a healthy, happy family along with a successful family business (Davis, 1983).

Conclusion

In conclusion, small family businesses offer unique challenges that can hinder their success and positive attributes which give them a competitive edge. Using these strategies, the challenges can be overcome and the attributes can be highlighted.

A note to the reader

The business plan that follows is available by contacting the author at brittanymbennett@msn.com.

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