

Recipes for success

2009 was a tough year for the hospitality sector. Yet some restaurants and cafes not only survived but thrived. So what are their secrets – and how can you put them to work in your own business? The Commonwealth Bank's **Bernard Tanner** investigates.

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Just a whisper of the word 'recession' can make consumers nervous. In the June quarter of 2009, the 'r' word appeared in Australian newspapers a record 4912 times. Little wonder many Australians continued to keep their wallets in their pockets, waiting for the much talked about economic recovery to become a reality.

That made life difficult for sectors like hospitality, which rely on discretionary spending to survive. In the September quarter of 2009, spending at cafes and restaurants was flat, with zero growth from the previous quarter. Sales of takeaway food, on the other hand, were up 3.9%, perhaps reflecting a popular preference for staying at home with a pizza and a DVD, rather than splurging on a three-course dinner. The anecdotal evidence is that restaurants, particularly those at the higher end, have been doing it tough.

The paradox is that the economic reality of the last 18 months has often been better than the perception. "When people started focusing on their budgets rather than the media, they realised they were actually better off," says Craig James, CommSec Chief Economist. "Interest rates were lower, petrol prices were down, the Government was giving people money and retailers were cutting prices."

The result is that consumers have still had money to spend, provided you could tap in to the prevailing mood. And some restaurants and cafes have succeeded spectacularly, continuing to thrive where others merely survived.

In the eye of the storm

Back in late 2008, Angela Vithoulikas and her brother Con had just started a major refurbishment of their successful VIVO cafes, located in the heart of Sydney's financial district. Then the global financial crisis hit.

Suddenly, being in the middle of Sydney's CBD looked like a challenge, rather than a competitive advantage. Almost overnight, the fortunes of some of the world's largest financial institutions took a turn for the worse. As the layoffs began, VIVO saw its customer base shrink. At the same time, companies slashed their food and entertainment budgets, affecting VIVO's corporate catering business.

Yet, by the end of 2009, Angela and Con were again able to report that business was growing.

They made some shrewd decisions. First, they decided to continue trading throughout the 10-month renovations by dividing the cafe in two. "It was a nightmare," Angela says. "But we had to keep a presence. We didn't lose a day's trade."

VIVO also introduced a prepaid electronic coffee card, giving their customers a 20% discount – not just on coffee, but on anything they chose.

"We already had a huge coffee trade, so we didn't need to build on it," Angela says. "But customers could use the card to spend on food or any other drinks, and they were rewarded instantly. So customers who usually only bought coffee with us might decide to also buy lunch with their card to get the discount, rather than

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Using just the right
ingredients to ensure
business success

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going elsewhere. It really helped keep customers loyal.”

The prepaid card meant VIVO collected the money upfront, helping their cash flow. The card also appealed to companies, who could give them as gifts to staff. So staff could still have lunch on the company, but at a fixed cost – and a discount.

It’s all about the customer

Another family-run business, Café Laurella, also managed to ride out the downturn. Café Laurella was launched in 2007 by Afif Asmar and his family, with outlets in the Sydney north shore suburbs of Wahroonga and Berowra. But according to Charlene Asmar, who runs the Berowra cafe, they began to feel more than a little nervous when the downturn struck.

Their response was to focus on providing outstanding customer service to keep customers coming back. Their philosophy is simple: they aim to provide the same products and service they would want to receive themselves.

They also re-examined their pricing to ensure they could continue to appeal to cost-conscious consumers. While avoiding any price increase on their standard menu items, they introduced midweek specials, so their customers could still enjoy a meal on a budget. “Most people have two incomes and they still want to go out,” Charlene says. “Eating out is just a way of life.”

Keep it fresh

What lessons do businesses like these have to teach us?

First, it’s essential to understand your target market and design your value proposition around them. As always in hospitality, that begins with the basics of location and fit out. You not only need to create the right look, you also need to keep it fresh.

VIVO’s renovations were major, yet Angela felt they were essential. “We did a massive gutting of our store and completely changed the look and the layout.

We tripled our 2.5 metre display of food to go, allowing us to offer a much bigger choice.”

As a result, VIVO can now capture more business from its time-poor corporate clientele and earn a higher return per square metre by increasing take-away sales. Their new fit-out also helps to keep the attention of fickle city diners who are spoiled for choice when it comes to eating out.

But creating an appealing environment doesn’t have to be expensive. Café Laurella at Wahroonga has played to its physical strengths, with an outdoor section featuring awnings and trees. That kind of approach can help you cater to the more relaxed pace of life in the suburbs, while lower suburban rents can make a spacious design a profitable proposition.

Get the mix right

VIVO and Café Laurella also illustrate the importance of having the right product mix, with a variety of price points to capture maximum share of wallet, regardless of each customer’s budget. As well as fast take-away options and less expensive cafe fare, VIVO has more sophisticated offerings to appeal to the serious business luncher. Similarly, Café Laurella has been careful to include items for customers on gluten free and vegetarian diets, who may be willing to spend a little more for a quality product that fits their needs.

But simply having a variety of choices isn’t enough. You also need to carefully track what’s selling and what’s not, then have the flexibility to change your product line rapidly in response. That allows you to adapt to changing circumstances and discover where customers are willing to pay a premium and where they’re not.

It also helps you keep costs under control. Owners of hospitality businesses are generally very conscious of the fact that a longer menu can mean higher overheads. That’s because it complicates ordering, with more potential for wastage, and requires more preparation time from skilled staff. (Think of the difference between a production line model, like McDonalds, and a five-star restaurant, and you’ll get the picture.)

So the more tightly targeted your product line, the fewer ingredients you have to order and the fewer procedures your staff need to learn. But before you can get the mix right, you have to thoroughly understand what your customers are looking for right now. There are lessons in that for every business.

Doing the numbers

That inevitably brings us to the question of pricing. As always, it's important to understand whether you're selling on cost, quality, service or convenience, then price accordingly. It's also essential to understand the cost structure of your business and ensure that all of your costs are built into your pricing.

Don't underestimate the value of inexpensive, high-margin, high-volume goods like coffee. "Coffee is basically recession proof," Charlene says.

But Angela says it's a mistake to exploit it by overpricing. "Customers are more vocal and more interested in pricing these days," she says. "They know how much a coffee costs. They might buy an expensive coffee once, by mistake, but they'll say to their friends, 'Well it was good, but they ripped me off.'"

Carefully calibrated pricing has helped VIVO continue to make sales during the downturn. "These days, personal assistants are under pressure to provide food for corporate events that fit to a strict budget," Angela says. "So I have to help the personal assistant, and offer advice on what they should buy to fit their budget and also feed everyone."

But accurate pricing is underpinned by good inventory management and cost control. "I have to buy better and make solid business decisions about where I can save," Angela says. "For instance, I know that pies and sausage rolls are a low-cost, yet popular choice on a menu. People don't want them made with organic pastry."

Making a splash

I've written before about the importance of continuing to invest in marketing, even when cash is tight. But good marketing needn't cost the earth, and there are many ways to market where it doesn't.

Like many businesses, VIVO has shown that online marketing can be a cost-effective way to reach a sophisticated audience. As well as their website, they use a blog and Twitter to build their brand and speak directly to customers who live and work online. As a result, most of their corporate catering business now comes via their website.

Done well, publicity can also be a powerful marketing tool, earning your business multiple media mentions for a fraction of the cost of advertising. After winning several small business awards (including the 2006 Small Business Champions Award, sponsored by the

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Commonwealth Bank), VIVO has actively sought a higher media profile.

"We've won awards, but we were aware that the publicity generated by these tended to be a flash in the pan," Angela says. "We consciously decided to seek out leads, to say 'yes' to every opportunity for publicity." She advises businesses to hire a PR company if they are unsure about how to generate publicity for themselves.

The forecast for 2010

So what kind of environment can the hospitality industry expect in 2010?

"The \$64 question is whether consumer conservatism will continue into 2010," says Craig James. "Usually, once stability returns, people tend to spend more."

Nonetheless, we can't rule out the possibility of bumps on the road to recovery, which could see consumers remaining cautious. In a rising interest rate environment, Australians' recent aversion to credit may also continue, with more consumers buying with cash rather than credit cards.

The key is to control what you can, by getting the basics of your business right. "Whether in good times or bad, small businesses need to focus on the nitty gritty," says Craig James.

"They need to keep an eye on their inventory and cost control, as well as ensuring their working capital is in good shape."

That's good advice in any economic environment.



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