A Guide to Starting and Operating a Restaurant Business in Nova Scotia

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SECTION 1

INTRODUCTION

1.1 Purpose of the Manual

This is one of a series of tourism development manuals commissioned by the Tourism Division of the Nova Scotia Department of Tourism, Culture and Heritage to assist Nova Scotians in the establishment of tourism businesses and in the planning for the delivery of tourism services in the province. This manual deals with the establishment and operation of a Restaurant. There are other manuals that deal with establishing different kinds of tourism businesses such as an accommodation property, a campground, a local sightseeing tour operator, a tourism retail business, an adventure tourism operation and a receptive tour operator. There are also manuals on how to plan for, develop and market tourism in your community, on establishing an attraction, on marketing for tourism businesses and on establishing a visitor information centre. The manuals were originally prepared in 1996 and 1999 and were updated in 2005. A new manual on community festivals and events was also prepared in 2005.

The purpose of this manual is to provide you with some of the information necessary in establishing, improving, and operating a restaurant in Nova Scotia. It should be noted that this information is a guide only.

It is strongly suggested that the reader undertake efforts to verify any information on which their business plan is based and not rely solely on the information in this manual. There are areas where you may want to consider retaining the appropriate professional expertise to assist you. While the information contained in this manual is believed to be accurate, as of the Winter of 2005, it is not so warranted. The reader should note that federal, provincial and municipal regulations, taxes, etc. change frequently and it is recommended that you check with the appropriate authorities listed in the Appendix, including representatives of the Tourism Division, Department of Tourism, Culture and Heritage and your local Business Service Centre (on line www.gov.ns.ca/snsmr or at Access Nova Scotia centres around the province), to obtain up-to-date information on these matters.

1.2 Contents of the Manual

Each manual provides information and advice on a variety of topics which will be important in understanding the requirements for success, in assessing opportunities, in planning and development and in starting operations. In this manual, the following topics will be covered:

- The market for restaurants in Nova Scotia;
- Requirements for success;
- Preparing a strategic plan;
- Feasibility assessment;

- Design;
- Legal, regulatory, and tax matters;
- Planning for operations;
- Business systems;
- The marketing plan.

Appendices at the back of the manual cover the following:

- Calculation of net income, cash flow and return on investment;
- Business structures;
- Financing;
- List of contacts;
- Standards and certification.

SECTION 2

The Market For Restaurants in Nova Scotia

SECTION 2

THE MARKETS FOR RESTAURANTS IN NOVA SCOTIA

2.1 Introduction

So, you want to open a restaurant!

Be sure you go into this venture with your eyes wide open. Many people think that the restaurant business is going to be relatively easy, but a restaurant can, in fact, be a most difficult type of business to operate. It is both a service business and a manufacturing business, with all the problems of both. It is highly sensitive to a number of different things, including location, menu, food quality, and service.

It may be a difficult business but when it works there is probably no greater satisfaction. It can be a wonderful business, fun to operate, and financially rewarding.

In this section of the manual, we provide you with some key information on the restaurant business in Canada and in Nova Scotia.

In 2003, there were some 63,500 commercial foodservice outlets in Canada. Total sales in the foodservice industry were $43.3 billion (preliminary data) an increase of only 1.4% over 2002. The small growth in sales in 2003 reflected a relatively weak economy as well as the impact of SARS. Foodservice sales were projected to increase to $44.9 billion in 2004[1].

Exhibit 1 describes the 8 diverse sectors of the foodservice business, and their total sales in Canada, as well as their market share, during 2003. Full-service restaurants (licensed and unlicensed) generated almost 40% of all sales, with 28% of sales coming from limited service restaurants and 10% of sales arising from foodservice facilities located in hotels, motels, and resorts

Exhibit 2 illustrates the number of commercial foodservice units and average sales per unit in Canada as well as the share of eating out meal occasions by time of day. The average sales per unit for all commercial foodservice establishments in Canada is some $614,000.

Exhibit 3 describes the top ten menu and beverage items at Canadian restaurants in 2003. French fries continue to be the favourite food, followed by unsweetened baked goods, hamburgers and pizza. The top beverage is coffee, followed by soft drinks, tea, and juice.

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1 Canadian Restaurant and Foodservices Association, Foodservice Facts 2004, page 4

EXHIBIT 1
FOODSERVICE OUTLETS AND SALES BY SECTOR FOR CANADA (2003)

ELEVEN DIVERSE SECTORS	TOTAL SALES (Projection)	PERCENT OF TOTAL SALES
Full-Service Restaurants **Licensed and unlicensed, fine dining, casual and family-style restaurants**	$16.6 million	39%
Limited Service Restaurants **Quick service restaurants, cafeterias, food courts**	$12.3 million	28%
Accommodation Foodservice **Foodservice in Hotels, motels, and resorts**	$4.2 million	10%
Institutional Foodservice **Foodservice in hospitals, residential care facilities, schools, prisons, factories, and offices**	$2.7 million	6%
Contract and Social Caterers **Social caterers for home or office social events and contract caterers serving offices, institutions, and recreational facilities**	$2.6 million	6%
Taverns, Bars & Nightclubs	$2.1 million	5%
Retail Foodservice **Department store cafeterias and restaurants**	$0.8 million	2%
Other Retail Foodservice **Includes vending, sports clubs, movie theatres, stadiums, etc.**	$1.9 million	4%

Totals may not add due to rounding.

Source: Canadian Restaurant and Foodservices Association (CFRA), Foodservice Facts, 2004.

EXHIBIT 2

NUMBER OF COMMERCIAL FOODSERVICE UNITS AND AVERAGE SALES PER UNIT, CANADA - 2003

	NUMBER OF UNITS	AVERAGE SALES PER UNIT
Full-Service Restaurants	53,586	$717,000
Limited Service Restaurants		$593,000
Contract & Social Caterers	4,357	$439,000
Taverns, Bars & Nightclubs	5,594	$431,000
Average		$614,000

Source: Canadian Restaurant and Foodservices Association (CFRA), Foodservice Facts, 2004. Data from Statistics Canada

EATING OUT MEAL OCCASIONS BY TIME OF DAY

	SHARE OF MEAL OCCASIONS	
	2002	2003
Supper	35.9%	35.8%
Lunch	28.7%	27.4%
Breakfast/Morning Snack	18.8%	19.8%
PM Snack	15.6%	16.3%

Source: CREST/NPD Foodservice Information Group in Canadian Restaurant and Foodservices Association (CFRA), Foodservice Facts, 2004

EXHIBIT 3
TOP TEN MENU AND BEVERAGE ITEMS
AT CANADIAN RESTAURANTS
2003

TOP TEN MENU ITEMS		TOP TEN BEVERAGE ITEMS	
French Fries	1	Regular Coffee	1
Unsweetened Baked Goods	2	Regular Soft Drink	2
Hamburgers	3	Diet Soft Drink	3
Salads	4	Hot Tea	4
Chicken	5	Juice	5
Pizza	6	Milk/Chocolate Milk	6
Sandwiches	7	Beer	7
Sweetened Baked Goods	8	Iced Tea	8
Desserts	9	Espresso/Capuccino/Specialty Coffee	9
Ice Cream/Frozen Yogurt	10	Wine	10

Source: CREST/NPD Foodservice Information Group and CRFA
Canadian Restaurant and Foodservices Association (CFRA), Foodservice Facts, 2004.

According to CRFA, less than 10% of all Canadian meals are sourced from restaurants (this includes take home food) - 10% of dinners, 11% of lunches and 3% of breakfasts are actually eaten in a restaurant. Exhibit 4 describes the average number of household visits to different types of restaurants over a two week period. Canadian households visit restaurants for a meal or a snack an average of 11.3 times over a two-week period.

It has been said that restaurants have the second highest failure rate of any business in North America, following closely behind service stations, which are number one. In fact, 11% of all bankruptcies in Canada were associated with the accommodation and foodservices sector in 2004. According to CRFA, based on Statistics Canada data, "new accommodation and foodservice entrants have a 60% chance of surviving beyond their second year and a 22% chance of surviving beyond eight years".[2]

Restaurants and service stations share a common reason for their high failure rate; too many good mechanics become service station owners and too many good cooks become restaurant operators. To be successful in the restaurant business it is not enough to be a great cook; you must also have good management skills. Out of every five restaurants that open, only one will survive the first year intact. Some close and others change ownership.

If anyone sees the restaurant business as a goldmine, they should look carefully at the data presented in this report. Average sales per unit (foodservice outlet) vary between $431,000 and $717,000. Pre-tax profit, is on average, in all sectors, just 5%.

2.2 Types of Restaurants

The restaurant sector breaks down into two basic types: individual and chain restaurants. Both of these types can be owned by an independent operator.

The individual restaurant is one not associated with any chain or franchise. The owner(s) come up with a unique concept and name and promote their restaurant as a freestanding entity.

Often, however, the owner(s) wants to benefit from the name recognition and pre-built reputation that comes with a franchise operation. There are many franchise operations available within the restaurant market. A franchise is the right to operate a particular concept and brand name within a specific geographic location for a specified period of time.

Whichever approach you eventually decide on, there are a number of operational styles from which you can choose.

[2] Canadian Restaurant and Foodservices Association; www.crfa.a

EXHIBIT 4

AVERAGE NUMBER OF HOUSEHOLD VISITS PER TWO WEEK PERIOD

TYPE OF RESTAURANT	**2002**	**2003**
Quick Service	9.2	9.2
Family/Midscale	3.2	2.9
Casual Dining	2.8	2.9
Fine Dining	1.8	1.8
Other	4.9	4.7

Source: CREST/NPD Foodservice Information Group and CRFA Canadian Restaurant and Foodservices Association (CFRA), Foodservice Facts, 2004.

Quick/Limited Service Restaurants

This has been perhaps the fastest growing segment of the restaurant market. It is clearly the largest eating out segment and is dominated by the major fast food chains. It has grown so rapidly that there are many locations where this type of operation is saturated and the establishment of a new restaurant should be very carefully evaluated. Almost 65% of restaurant meal occasions occur at quick/limited service restaurants.

If you are going to operate an individual restaurant in this sector you must have a unique product or niche because competing with the major chains head on is a risky proposition. However, there are probably a number of franchise concepts and locations available in your community and if you are interested in being in the quick service segment, you should investigate these closely.

Many of the large franchise companies have realized that the expansion possibilities in the large centres where they have concentrated in the past are limited and so they are looking at smaller versions of these operations for smaller centres.

The growth of this market segment is a function of today's lifestyle. Food from a limited service facility is served quickly, often ordered at a counter, and eaten in a very casual manner. The major group of people who patronize these types of restaurants are baby boomers; they, and their children, will remain the dominant factor influencing eating out trends over the coming 20 years. Eating out has become a way of life for today's generation and, as tastes mature, there will be more and more opportunities for new and innovative concepts to serve this market segment.

Family Style Dining

This market segment is primarily dominated by large chains and dinner house restaurants. Many of these operations are company owned and not available to be purchased by individuals. A number of them, however, are franchise operations and the rights to the concept for a particular area or location can be purchased by an individual operator.

These are sit down restaurants, offering full-service casual dining; they are generally licensed for alcohol, and often revolve around a theme. Frequently they have limited menus, offering foods in keeping with their theme.

They are a logical extension of the fast food business and have been frequented by the baby boomer generation. As this population group matures, and their children begin to leave home, their tastes are changing, and they are now looking for less elaborate, healthier meals, served in a home-like atmosphere.

Full Service Restaurants

This segment contains a wide range of full-service dining experiences, from family-style dining, to elegant, fine dining establishments. They generally offer a broad menu selection.

The costs to open a full service facility vary widely. Generally, the higher the level of dining you want to provide, the greater the investment required. In addition, the level of skills required increases with the level of service and the quality of product.

A comparison of the average check (spending per customer) at these different types of restaurants, and their relative share of meal occasions and spending, is illustrated in Exhibit 5.

2.3 Trends and Consumer Expectations

Foodservice sales in Canada have experienced steady growth over the last decade, rising from under $30 billion in 1994 to an estimate of almost $45 billion in 2004. Sales for the 2000 through 2003 period were relatively flat, hurt by a combination of a weak economy, SARS, and declines in tourism as a result of the 2001 terrorist attacks and the Iraq war. In the past couple of years, Limited service restaurants, which includes take out and delivery, experienced the largest growth in sales. The number of meals eaten at restaurants has fallen whereas the number of meals sourced from restaurants (e.g. take out) has grown. It is expected to be a continuing challenge to encourage consumers to eat out; and service, value, and convenience are seen as the key selling points in this effort.

As noted earlier, the baby boomer generation has dominated the food industry for the past twenty years or more. They are the largest demographic segment of our society and they are moving to through middle age. Within the next 15 - 20 years, they will become the senior's market, and it will become the fastest growing market. These aging trends in a market segment which has been so dominant in the eating out industry mean that there will be a major shift in eating habits. This factor alone will create many opportunities for new and innovative concepts in the foodservice industry. Today, the marketplace is also being significantly impacted by the next two cohorts - Generation X (born after the baby boomers) who now are in the young family lifestage, and today's 20 somethings many of whom have significant levels of discretionary income.

Healthier food has become the watchword of this group. They are careful of what they eat, as evidenced by a concern for cholesterol levels and the resultant move away from fried foods, as well as increased consumption of chicken and fish, and decreased consumption of red meats. The emphasis in foodservice today is on taste and healthy cooking methods. Consumers are looking for broiled, char-broiled, or grilled food, lots of spices, and interesting and unusual food combinations. They are also seeking out home cooking. There is an increasing focus on fresh produce and salads (including organic produce), and items such as sun-dried tomatoes which add taste.

Meat is declining as the focal point of the meal—more and more consumers are seeking out meatless entrees. As well, consumers are cutting back on dairy products because of their high fat content. Regional cuisine, focussing on dishes based on seasonal, market-fresh ingredients, continues to grow in popularity. As Canada becomes increasingly multi-cultural, there is also growing interest in ethnic foods.

All of these trends suggest a need for chefs and restauranteurs to be much more conscious of the healthy diet revolution in planning recipes and menus. Chefs must work to create menu items low in fat, cholesterol, sodium, and additives. They are also having to experiment with ingredients and cooking techniques to produce dishes which are both tasty and eye-appealing.

These demographic and socioeconomic trends are also driving the increasing demand for full-service restaurants catering to families. These restaurants feature healthy food choices but also cater to the younger members of the family with children's menus and activities to keep children

EXHIBIT 5

AVERAGE CHECK AT DIFFERENT TYPES OF RESTAURANTS

TYPE OF ESTABLISHMENT	AVERAGE DOLLARS 2002	AVERAGE DOLLARS 2003
Quick Service Restaurants	$4.03	$4.05
Family/Midscale	$8.84	$9.02
Casual Dining	$12.25	$12.48
Fine Dining	$23.72	$25.47
Other	$3.85	$4.11
Average	**$5.91**	**$5.98**

Note: Average check includes taxes but not tips.

Source: CREST/NPD Foodservice Information Group
Canadian Restaurant and Foodservices Association (CFRA), Foodservice Facts, 2004.

SHARE OF MEAL OCCASIONS AND SPENDING BY TYPE OF RESTAURANT

	SHARE OF DOLLAR	SHARE OF MEAL OCCASIONS
Quick Service Restaurants	43.4%	64.2%
Family/Midscale	20.6%	13.7%
Casual Dining	24.0%	11.5%
Fine Dining	5.6%	1.3%
Other	6.4%	9.3%

Source: CREST/NPD Foodservice Information Group
Canadian Restaurant and Foodservices Association (CFRA), Foodservice Facts, 2004.

occupied while waiting for their orders. While the focus of these restaurants is on families, they are also finding that they have to reach a much broader customer base to stay in business.

Within all sectors of the foodservice industry, consumers expect good value and this includes good food (quality, freshness, presentation) and good service. Good value and excellent service are particularly important in the upscale, fine dining market. Today's foodservice consumers are also seeking out convenience and variety, demands which are driving the growth in quick-service restaurants.

Restauranteurs must be prepared to respond to the increasing number of requests for details on ingredients, driven by concerns about food allergies. (Some 25% to 35% of the Canadian population have food or additive allergies.)

2.4 Nova Scotia's Tourism Sector

While many restaurants do not think of themselves as being in the tourism industry, the data clearly illustrates that tourists are an important market to the restaurant sector. This section of the report provides a brief overview of Nova Scotia's tourism industry.

Tourism in Nova Scotia is big business with almost $1.3 billion in direct spending by tourists (includes spending by out-of-province visitors as well as Nova Scotians travelling within the province) in 2004. Tourism directly or indirectly employs over 33,000 people in the province and generates some $119 million in provincial and municipal tax revenues.

There were 2.24 million visitors to Nova Scotia during 2004, up 5% from 2003 levels. Increases were seen in almost all modes of travel (except recreational vehicles), but particularly in arrivals by air which were up 12% over 2003 levels. The increase in air arrivals in 2004 continues a longer term trend in arrivals by this mode of transportation which were up 12% in 2003 (the only mode showing an increase in 2003), and 7% in 2002.

This data includes visitors travelling for all purposes - for vacation/pleasure, to visit friends and relatives, for business and for personal reasons.

The majority of visitors to Nova Scotia are from other parts of Canada, particularly Atlantic Canada which accounted for 55% of visitors (1.24 million persons) during 2004, up 6% from the preceding year. Visitors from the US also increased in 2004, by 8%, with 304,000 Americans visiting the province. Some 67,000 visitors from overseas came to Nova Scotia in 2004. The origin of visitors to Nova Scotia for the total year is illustrated in the graph.

Up-to-date information on the volume of visitors to Nova Scotia and their mode of transportation is provided in *Tourism Insights,* a publication of the Tourism Division, Department of Tourism, Culture and Heritage. It can be found on-line at www.gov.ns.ca/dtc/pubs/insights/

Nova Scotians themselves are also a major factor in the province's tourism industry, making over 5.8 million person trips annually within the province. Some 3.8 million of these are same day trips and just over 2 million are overnight trips.

2.5 The Nova Scotia Tourism Partnership Council

The Nova Scotia Tourism Partnership Council (TPC) is an industry and government partnership that shares in planning and decision making for tourism marketing, research and product development in Nova Scotia. The TPC works with industry stakeholders to realize Nova Scotia's potential as a world class four season destination. It was established following a 1996 Tourism Strategy for Nova Scotia that, among other things, called for a true partnership between the tourism industry and government in everything from marketing to research and tourism development.

The Council consists of 16 members, 14 of whom are tourism industry leaders, managers and business owners. Members of the TPC are selected through an industry call for applications. They must be owners, operators or senior managers of tourism related businesses, and consideration is given to various other criteria, in the selection of members.

The TPC has three core committees - an Executive Committee, a Long-Term Integrated Planning Committee and a Short-Term Integrated Planning Committee.

The TPC oversees the development of the Tourism Plan annually which is presented to the industry at the TIANS fall tourism conference. The Council is also involved in a wide variety of other programs and initiatives. Visit their website at www.nstpc.com for up-to-date information.

2.6 Nova Scotia's Vison for Tourism - Challenging Ourselves

"100% Tourism Revenue Growth by 2012"

The Tourism Partnership Council's Vision Committee spent two years (2000-2002) developing a process to create a Vision for Nova Scotia's Tourism industry. The Committee looked at issues that the tourism sector could influence or change that would help to create growth and improve industry performance. After a process that included industry workshops and consultations, 11 Vision recommendations were identified for implementation.

These recommendations cover product development, environment, the administration of tourism, marketing, technology, quality, human resources, transportation and research. Responsibility for leading the implementation of the recommendations has been divided between the Tourism Partnership Council, TIANS and the Department of Tourism, Culture and Heritage. For up-to-date information on the implementation of Nova Scotia's Vision for Tourism, check the Tourism Vision section of the TPC's website (www.nstpc.com and select Tourism Vision from the menu bar).

The Tourism Vision is a catalyst to assist Nova Scotia's tourism industry to evolve and grow. It is not cast in stone and is an "unfolding process". Achieving the Vision will require change - by all tourism stakeholders including individual businesses - in how tourism is managed and delivered in Nova Scotia so as to improve quality and generate increased tourism revenues.

Success will be measured "not only by growth in revenues but our ability to work together, maintain our culture and authentic character, develop new markets and products, attract new visitors and improve the recognition of our sector's contributions to our province and various levels of government".

For more information on how you can be involved in the Vision for Tourism visit www.nstpc.com

SECTION 3

Requirements for Success

SECTION 3

REQUIREMENTS FOR SUCCESS

The key requirements for developing and operating a successful restaurant are explored in this section.

Each of these are principles of what it takes to succeed. They should be read as an overview of what you need to accomplish. How you accomplish them is the subject of the rest of the manual. The first ten are critical to your success, if not survival.

Critical Factors

3.1 The 'Marketing Concept' Approach to Designing Your Business

To be successful today, owners and managers of tourism businesses have to have a marketing orientation – a customer focus. That means everyone in the business must make decisions by asking the question, "How can I best meet the needs of the market and the individual customer?" Marketing orientation can be defined as follows:

> *"Marketing orientation is a way of thinking - a frame of mind. It is, if you like, a business philosophy. If you adopt a marketing orientation, it means that whenever you think about your business, you do so from your customers' point of view, not from your own. It means accepting the idea that the purpose of your business is to serve the wants and needs of your customers, and to meet or exceed their expectations.*
>
> *In other words, it means putting your customers first. For this reason, it is sometimes also called a customer orientation.*[3]

Why is this so important? Why can't we just do what we think is best? Because satisfying a customer's expectations involves doing a lot of things right, and that doesn't happen easily.

The premise is that you need to focus on the needs and wants of your customers in all aspects of managing your business, and that all management actions should link back to providing the customer with what he or she needs or wants. It forces the manager to look beyond the day to

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3 The Economic Planning Group, Tourism is Your Business: Marketing Management, prepared for Tourism Canada, 1986

day demands of the business and focus on the customer in decision-making and at how the decision will benefit the customer.

Customer loyalty comes from providing what the customer is looking for. With customer loyalty comes repeat business, word of mouth referrals, and a willingness to pay the price for the product. If enough customers do this, your business will be a success.

3.2 Location, Location, Location

Someone once said "The three most important things for a retail business are location, location and location. And this certainly applies to the restaurant business. The location should be readily visible, easily accessible, and close to the market. A better location than your competitor's is a major competitive advantage.

Often new operators are enticed into taking over an existing facility which isn't doing too well or which has closed. Be very careful if you are considering this type of situation! You need to find out exactly why the previous operation failed. Often it failed because the location was poor.

You can rarely overcome a poor location. Section 4 will consider this topic further.

3.3 Good Menu Concept, Good Food, Good Ambiance, Repeat Business

Your menu will be one of your most important tools. It should be well matched to the market segments you are targeting. It should promote your offerings, it should inform, it should inspire and it should whet the appetite.

Needless to say, good food is critical to your ongoing success, since favourable word of mouth promotion and repeat business are essential.

Having unique and appealing decor and ambiance are also very important to most restaurants. It helps transform eating into a dining experience; it adds value and helps support better pricing.

Repeat business is a requirement for success in the restaurant business. Customers who are not happy will not come back. You can't count on the customer telling you when they are unhappy because research has shown that over 95% of customers will not complain, but won't return. Customers vote with their feet. It is interesting that customers won't tell you about a problem but will tell other people about their bad experience. Lots of other people!

On the other hand, positive word-of-mouth advertising is the best type of advertising you can have. Finding a restaurant which really delivers exceptional service and food is worth talking about and your customers will certainly take the opportunity to do so, if they find them in your establishment.

Section 4 deals with menu concepts, while Section 8 deals with food and service quality.

3.4 Quality Service

If you are able to give the customer a level of service that goes beyond their expectations, you will impress them because the customer today has become accustomed to poor service. They may overlook a deficiency in the food product but they will never overlook poor service. Success in the restaurant business hinges on your staff and the relationship they develop with the customers. It is crucial that your staff be well trained in customer service skills, as they will make or break your restaurant.

Good service is an essential component of any business today, and this is particularly true for the restaurant sector. You cannot afford to have customers leave your restaurant dissatisfied with the service they received: they will not return and, in addition, they will tell their friends not to go to your restaurant.

In foodservice establishments, research has proven that guests develop attitudes toward restaurants based upon their service experiences with staff. If friendly, knowledgeable staff provide quality service to guests, then the restaurant or chain is described in those terms. Similarly, when service was not to the guest's satisfaction, the negative attitude developed from that experience is reflected in their opinion of the whole establishment.

To provide good service you yourself have first to understand the elements of good service in a restaurant, and then make sure that your staff are appropriately trained to provide good service.

3.5 The Strategic Plan

Developing your business in the context of the marketing concept requires a strategic plan for the business, one that identifies the best market opportunities along with all the key business features necessary to successfully and profitably pursue those opportunities. The strategic plan is an overall, long term plan for the business, setting out the following:

1. The long term vision and goals, and the measurable objectives for the business
2. The markets to be pursued and the marketing strategies and networks to be employed
3. The products and services to be developed and delivered that will have the features necessary for them to succeed in the competitive marketplace
4. The resources that will be brought to bear in achieving success and profitability
5. The tracking tools to measure progress

The restaurant business is a thin margin business; 5% net margin on revenue is common even with a well managed restaurant. And it's easy for that to slip if your plan isn't strong or if you aren't on top of things all the time. To get you off on the right foot, retain the services of a restaurant consultant before you get too far along in your planning and design work. Getting it right the first time is best!

3.6 Entrepreneurship, Leadership and Management

Entrepreneurship is the art of being an entrepreneur. An entrepreneur is a business person who, in operating their business, is constantly responding to market opportunities and challenges. In other words, an entrepreneur sees his or her business as a mix of assets and people who can respond to unfulfilled market opportunities that may arise, rather than as a fixed, unchanging product. The entrepreneur operates on the assumption that markets are changing constantly, that competitive advantage is a temporary thing, that customer loyalty is fickle, and that opportunities come and go.

This is in contrast to the business owner who, once they have opened their business, waits for the business to come in and never seeks to modify their product. The business assumption of such an operator is that the market changes little over time and that their customers will keep coming. Too often restaurant operators adopt this latter attitude, while, in reality, the marketplace is much closer to that perceived by the entrepreneur.

Taking an entrepreneurial approach to planning and designing your business is vital; but it is also important to continue this management approach in the ongoing management and marketing.

In fact, entrepreneurship is more than just an approach; it is really a state of mind, a perception of how the world works, an attitude about what is the real role of owners and managers. An entrepreneur believes that the role of the owner or manager is to be creative, constantly on the lookout for information and ideas on how to change and improve.

A leader is a manager that inspires his/her staff to adopt and support the same vision for the business and motivates them to work effectively in achieving it. A leader builds a team culture of common values and mutual support. This is particularly critical in the restaurant business as there is little room for error in maintaining quality of product and service, and in cost control.

Skills and knowledge in food preparation, menu planning, purchasing, cost control, marketing, customer service, and staff supervision are also critical to the success of your business. Exhibit 6 presents a summary of the key management skills required in the restaurant business.

We will deal with this topic in more detail in Section 8.

3.7 Affordable Investment

Too much debt can cripple your business. It is vital that your total investment and level of debt can be carried by the net income of the operation. The feasibility assessment discussed in Section 5 will be important in helping you assess this.

Opening a restaurant can be a huge investment. The high failure rate of restaurants has caused lenders to be very cautious in advancing funds for foodservice operations.

You may have a better chance to obtain funding if you purchase an established franchise — one that is a proven concept and has a well developed business plan.

It is generally harder to get financing for an independent restaurant concept. You will be required to have an extensive business plan and will likely have to put up a substantial percentage of the capital, as well as providing a personal guarantee.

EXHIBIT 6

BASIC MANAGEMENT SKILLS
REQUIRED FOR OPERATING A RESTAURANT

ENTREPRENEURSHIP

- understanding and acceptance of the **marketing concept**
- ability to adapt to changing market situations
- knowledge about how to reach the customer and what will appeal

FOOD AND BEVERAGE

- food and beverage administration
- purchasing
- quality controls
- service management
- menu planning and pricing
- inventory management and control
- internal controls for foodservice
- Operations

MARKETING

- advertising media
- market research
- promotions
- marketing effectiveness measurement
- ad design
- publicity
- public relations

HUMAN RESOURCES

- hiring and training
- staff motivation
- organizational structure
- supervision
- performance measurement

ADMINISTRATION

- accounting and cash flow management
- property management
- finance
- payroll
- business regulations
- planning and budgeting

Suggestions on how to acquire these skills are considered in Section 8.

3.8 Sufficient Working Capital

Perhaps one of the commonest reasons for restaurant failure is a lack of operating capital. Undercapitalization at the beginning or capital cost overruns can lead to the business not having enough cash to pay its bills. In addition, restaurant operators often underestimate how long it will take for the business to reach a level of profitability adequate for carrying all its costs. As a result, cash flow often becomes a problem for new restaurant operations.

Another problem which stems from cash flow difficulties is loss of credibility with your banker due to unrealistic income or revenue projections. When preparing their business plan, potential operators usually try to put their best foot forward and sometimes they include overly optimistic revenue and income projections. When the restaurant fails to live up to these optimistic projections (even though it may be profitable), the operator loses a degree of credibility with the lender that can strain relations. This is the last thing you need! Keep your banker happy. Forecast cash flow shortages realistically. Cash flow problems are a normal course of business and are dealt with by banks regularly. What bank managers hate is for a customer to be always coming into the branch in a panic because of poor cash flow forecasting.

3.9 Pricing, Cost Control and Financial Management

Pricing menu items properly is essential if you are to operate a profitable restaurant business. There are a variety of approaches that you can use in pricing your menu. You should, however, be careful not to use the most common technique, which is looking at what your competitors charge and then charging a similar amount. Although being sensitive to competitors' prices is important, you could end up seriously underpricing the product and causing your business financial difficulties.

Techniques for pricing your menu items are described in Section 8.

Lack of internal information controls is one of the major pitfalls in food and beverage operations. A large volume of products and cash flow through a restaurant operation, margins are tight and you must be careful to ensure that opportunities for theft and waste are minimized.

There are a variety of controls which you should have in place in your restaurant. They are described in Section 9 of the manual.

In order to be financially successful in the restaurant business you either need to be very lucky or have accurate, timely information available that you can use to make good decisions. You need to know exactly where you stand at any given time.

It is recommended that a restaurant plan to complete a profit and loss statement and a standard cost analysis (i.e. labour, food, beverage, and supplies) weekly, looking at what the actual costs were compared to what they should have been. Other types of analysis which should be carried out by the manager are:

- Seat turnover;
- Average daily check and average breakfast, lunch and dinner check with a separate analysis of liquor sales;
- Average daily check per server;

- Number of covers;
- Menu engineering analysis.

More information on management reports, together with examples, is provided in Section 8.

3.10 The Right Markets and Effective Marketing

It is also important that you market your restaurant appropriately, particularly in the early stages. There are a number of marketing issues that go into this:

Market Segmentation

Given the vast amount of competition in the restaurant business, you must be very careful to design your business to cater to select target market segments that have potential for growth and make sure your menu concept is suitable for them. Trying to be all things to all people is not a smart strategy in today's restaurant market.

Competitive Advantage

Whatever market niche you choose, you need to develop a competitive advantage. You can do this by offering an unique menu concept that will appeal to your customers along with an exceptional level of service. Better value, entertainment, an appealing setting, attractive decor; all of these factors can also contribute to a competitive advantage.

Positioning and Brand

Positioning refers to how you make yourself unique in the competitive marketplace. Branding is how you communicate that positioning in a graphic and/or brief text statement.

In the Nova Scotia Tourism Partnership Council's 2005 Tourism Plan, under 'Brand Positioning Statement' on page 9, the text reads, "The brand positioning statement is the "unique point of difference" we are trying to create in the minds of potential visitors. It aims to define who our customers are, how we would like them to perceive us - and our unique attributes."

Having a positioning and brand strategy is important to businesses promoting themselves in a very competitive marketplace, in which the target audience is bombarded with constant marketing message. The brand and positioning statement helps you get through the clutter for the necessary moment it takes to connect with the audience.

Sufficient Market Potential

The market simply has to be large enough to support your business. Finding an area with enough customers and not too many competitors is very important. We will address this topic further in Section 5.

Multi-Season Potential

The more seasons in which you can operate profitably, the more profitable the business as a whole will be. You therefore need to target a mix of markets, including those that can offer business in all seasons.

Nova Scotia has worked diligently to extend its tourist season and hopes eventually to make this province a year-round destination. The fall season has grown very strong and makes a big difference in the viability of seasonal restaurants.

Sufficient Marketing/Quality Marketing

Even if you have all the foregoing things, you still need to put the appropriate marketing program into place to let the customer know that you are open for business. Section 10 will deal with this topic.

Good Market Information

Useful market information can be vital in both the pre-development and operational phases of a restaurant business; in fact, its absence is often the cause of business failure.

The most useful types of information for a restaurant operator include:

- Knowledge about your customers: what they like and dislike, why they come, etc.;
- Information on the demographics and characteristics of your potential markets;
- Knowledge about your competition and their strengths and weaknesses;
- An understanding of your competitive position in the marketplace and what your strengths and weaknesses are relative to those of the competition.

Having good market information will help you to design special appeals and promotions to give yourself a competitive advantage.

3.11 Other Important and Valuable Success Factors

Flexibility to Adapt and Grow

Part of successful planning for a restaurant business is anticipating the need to adapt and grow. Increased demand may dictate an expansion at some point in the future. Initial planning should, therefore, anticipate the possibility of future expansion.

Similar attention should be given to the possibility of making changes in the business. It may be necessary to change the menu concept or maybe you will have to change the target markets for your facility if the initial ones you identified do not generate sufficient business.

Your original planning and design should anticipate possible future changes such as these.

Staffing and Training

Human resource development (HRD) or performance management is crucial to the success of any restaurant. HRD includes the recruitment, training, and management of all restaurant staff, including yourself! The key is to hire the right people, train them well, and then manage them competently.

It is important to recognize the benefits of training. Proper training will help ensure that staff are able to meet your standards of service. The specific benefits of staff training are:

- Increased skills and knowledge;
- Increased success in performing job functions;
- Improved attitude, self esteem, and morale;
- Better service, higher productivity, and lower turnover;
- Increased guest satisfaction.

Both business and pleasure travellers have become increasingly sophisticated in their requirements for goods and services. Service has become a significant measure of the long-term success of any tourism business. Front-line staff encounters with the public contribute substantially to the success or failure of a business. Customers often cite the technical skills and attitudes of staff as reasons why they purchase certain products or services.

Section 8 will expand on this topic.

Memberships

Membership in a variety of professional organizations can be a good way to connect with other people in the industry, to seek out partners for marketing, and to compare notes on the operation of your business. We recommend that you consider joining the Restaurant Association of Nova Scotia as well as the Tourism Industry Association of Nova Scotia and your regional tourism association.

SECTION 4

Preparing A Strategic Plan

SECTION 4

PREPARING A STRATEGIC PLAN

4.1 Opportunity Search and Assessment

What type of restaurant should you establish? Where should it be located? Is there likely to be an adequate market for it?

You need to first build a model of your business concept on paper, defining its main features, its location, its unique selling points (USPs) and competitive advantages. You have to draw on your entrepreneurial skills to craft a concept which has a high likelihood of working.

If you've been in the restaurant business before, you have an advantage since your experience will have taught you valuable lessons. If not, you have to work harder to find the information you need to make good decisions.

The starting point has to be with the target customer - their needs and wants. What will your target markets be looking for in a restaurant? What are they buying in other locations?

We suggest that what you need to do first is develop a winning concept for your business by looking into what has worked well elsewhere and getting good market information on its potential in your area. You will also need to have some possible locations in mind where you think there might be enough market potential. And you will need to take a careful look at the existing supply of restaurants in the area to determine whether there is room in the marketplace for another facility.

A detailed market assessment will be made later. At this point you are looking for general information which will help in piecing together a concept for the business and coming up with a short list of locations.

As mentioned, the best way to start the business concept development is to research other similar businesses of the kind you have in mind, both in Nova Scotia and elsewhere. Find out where there are successful examples. Visit them; talk to the owners; find out what makes them successful. What are their USPs? What are the major challenges they face and how do they deal with them? What are their markets? How do they market? How are their markets changing? What menu items appeal to what types of markets? What are the major do's and don'ts of the business? Tell them what you have in mind and ask for their constructive criticism.

While you're talking to them, try to find out what their average check is, that is the average spending per customer, for each meal period and their turnover (the number of times each seat is used) for each meal period. This will give you some idea of the level of revenue different types of restaurants can generate.

As long as these businesses are not going to be competing directly with you in your market area, they are likely to be cooperative. Call them before you visit and get their agreement to talk to you.

Is there enough business in the area to support both the competition and your operation? (A good indicator is the level of business being experienced by competing restaurants in the area.)

Try out the menus and service of your future competitors in Nova Scotia at the locations you are considering. What are they doing right and wrong? How many customers are there in the restaurant in different meal periods? How can you develop competitive advantages over them? How busy are they in each season? Do they seem to be making money? (Good signals include: Are they keeping their restaurant and equipment up to scratch? Do they have the money to advertise?) Are there sites available that have advantages over the competition?

For the locations you have in mind, collect initial information on the markets available in the community. What is the local resident population? What are the key demographic and economic characteristics of these markets? How many tourists come each year? How many meetings and conferences are held?

Talk to members of the business community in the locations you are considering about how they see the opportunity and whether they think there is room for a new operator in the market. What do they think about your ideas? People to talk to locally include:

- Local economic development agency staff;

- Hotel/motel managers, particularly at properties which do not have restaurants (Do they think there are sufficient facilities, and the right types of restaurants, to satisfy their clients?);

- Operators of potential demand generators (i.e. attractions, sports facilities, tours, etc.);

- Local visitor information centres (Do they get a lot of requests for restaurants or for certain types of restaurants?);

- Bank managers and business managers (What is the business climate like in the area? Are there suitable locations for them to take clients for lunch? Dinner?).

If you're thinking of a franchise restaurant, contact the types of franchise organizations you have in mind and ask them for an information package on their franchise. These should give you some guidelines on what market characteristics are necessary for success with their restaurant concept, as well as explain what's involved in acquiring a franchise. They will also be able to advise you on how to assess potential locations for their particular franchise.

4.2 Location and Site Assessment

It was once said that the three most important criteria for success in the restaurant business are location, location, and location. This idea has a large degree of truth associated with it. Poor location is extremely difficult to overcome.

The process for determining where to locate your restaurant or your evaluation of an existing location should be very thorough. There are three types of analysis which should be undertaken when assessing any particular site: site analysis, neighbourhood analysis and competitive analysis. The site and neighbourhood analysis is addressed below, the competitive analysis is explored later in this section of the manual.

Site Analysis

The primary factors which one should consider in selecting a site for a restaurant are:

- Physical characteristics such as size, shape, topography. When you are assessing a site for its physical characteristics, you must consider the square footage of the property. Is it large enough to accommodate the building you have planned to construct? Is there additional space for future expansion? Is there adequate room for both parking and your sign?

  Of course, if you are buying or leasing an existing building, or space in a mall or building, some of these concerns will not be as relevant. However, you will still want to consider items such as whether there is adequate room for parking and signage. Do you have your own outside entrance or are you locked into mall/building regulations and hours?

- Access to and Egress from the Property. Is there easy access to and egress from the site from more than one entrance/exit? Do customers have to cross a busy line of traffic to enter the site? Are there traffic lights or a left turn lane?

- Visibility of the Site. Customers who are not familiar with your restaurant need to be able to readily identify it in advance, without having to pass it and turn around to get to you. Good visibility is important but good signage is also essential if you are to avoid problems in this area.

- Access to Utilities such as electrical, water, sewage, refuse removal. There have been instances in Nova Scotia, particularly in rural areas, of a restaurant ready to be hooked up in their all-electric kitchen only to find out that the necessary three phase power was not available at the site. You may also incur substantial additional costs to construct an adequate water and septic system if your site is not currently serviced or if it is not currently used for a similar type of business. If you are considering propane, make sure that the bylaws permit its use.

- Zoning laws, Permits, and Restrictive Covenants: Zoning Laws govern what can be built and operated on any particular site. You must conform with the existing regulations or approach the municipal government for an application to re-zone the site. This will likely involve a public forum followed by a vote of the municipal council and can be a long frustrating process involving lawyers and considerable expense.

  Permits govern how your business must operate. Examples of permits are eating establishment permits, liquor license, business license, sign permits, building, and occupancy permits. Restrictive covenants are legal restrictions which might be written into your property deed. Examples are: right of way over your property, access rights to waterfront areas, easements for such things as power lines, etc.

The permits required to develop and operate a restaurant are described in detail in Section 7.

- Surrounding Land Uses. Look at what else is happening around the site. Is it fully developed? Are other kinds of land-use compatible with the type of restaurant you are establishing?

  You want to avoid sites with incompatible or conflicting uses nearby. Things like unpleasant odours and traffic congestion are to be avoided.

- Environmental Conditions of the Site. You should also consider any environmental conditions associated with the site which might cause future problems. Once you have selected a site which you think is appropriate, it is a good idea to have an environmental survey completed to identify any potential problems with the site arising, for example, from contamination by old equipment or gas tanks, or the fill used on the site.

Neighbourhood Analysis

Just as you might evaluate the suitability of a neighbourhood to live in, you should also evaluate the general area in which you are considering locating a restaurant. What is the condition of other buildings in the area of your proposed site? What is the economic trend in the neighbourhood? Is it a neighbourhood in transition? What is happening with respect to development or construction in the area? Is this site safe?

A good way to visualize your neighbourhood is to draw a map which details many of the features of the location. Colour in properties according to their usage: as retail, industrial, shopping centre, office space, residential (single family, apartment complex), etc. This is a good way to look at the density of the area in terms of buildings, variety of operations, and number of people. Indicate the general condition of surrounding buildings in terms of age, type of construction, class, image, etc.

It is always a good idea to discuss the economic trends associated with the locale with local officials and representatives of industry associations such as the Nova Scotia Restaurant Association (RANS), real estate counsellors, the local Chamber of Commerce, municipal planning departments, the local visitors' information centre, TIANS and local/regional area tourist associations, the regional development authority, etc. These organizations can often provide you with information concerning the history of the area, future development plans, new businesses which may be opening, population and building density information, office and retail vacancies, highway traffic counts, unemployment statistics, visitor information, and statistics on general economic conditions.

You will also need to evaluate the labour supply in your proposed market area in terms of supply, levels of training, wage structure, employee benefits generally given, etc. Some questions which you need to ask are:

- What has happened in the recent past with respect to numbers of qualified employees available?

- Are increases/decreases forecasted in the labour pool?

- Are there hospitality training programs in the area (high school, community college, university, vocational, etc.)?

Competitive Analysis

An analysis of the competition is a major component in the development of a concept for your proposed restaurant business. Your analysis at this stage is designed to identify market niche opportunities available. You need to identify which market niches are already occupied by successful restaurants serving the same markets you intend to target, where there are gaps, and where the restaurants serving the market niche are doing a poor job, suggesting an opportunity for someone to move into that niche.

It is common for restaurants to locate in close proximity to each other. You can see evidence of this in the clustering approach of fast food restaurants, where they often all locate in a single location or strip. The concept of clustering stems from identification of a significant number of potential customers who frequent that particular area. Each restaurant does essentially the same analysis and uncovers the same potential. However, it is important to consider the size of the potential market as all the restaurant operations must share that market. While the process of clustering actually enhances the total demand as the mass of restaurants creates its own draw for customers, the size of the total market available will determine how many restaurants can be supported in that location.

Later, in Section 5, we will be analysing the competition as part of the feasibility assessment and will describe how to determine likely market shares.

Assessment of Existing Locations

If you are considering the purchase of an existing restaurant rather than starting a new one, you will have several additional factors to consider. In addition to the factors discussed above, you need to consider the following:

- Why is the current operator getting out of the business?
- What is the sales trend in this location?
- What factors may be restricting volume?
- Make sure that the building is inspected thoroughly by a qualified building inspector to ensure that there are no hidden problems with which you will have to deal.

4.3 Target Market Selection

With some concept ideas in mind and a list of good sites available, you next want to assess the markets available for the better sites. The trick is to massage the concept into one that is going to appeal to the market segments that are available to you.

For example, if you were to locate your restaurant in the suburbs of a city or large town, the family market would probably be your main focus. If it’s downtown, you will be looking for lunchtime business from office workers. If it’s on a highway, you will be targeting pass-through travellers. If it’s in a small community, you will probably be looking for business from a variety of markets.

So, for the locations you have in mind, identify the main markets available, in whatever mix of the following groups is appropriate:

Resident Markets:
- Demographics - age, family composition, incomes, ethnicity;

Local Industry/Business Market:
- Major industry types;
- Major employers and employee counts.

Tourist Markets:
- Season;
- Purpose of trip - pleasure, business, meeting;
- Mode of travel - motorcoach tour, auto.

The characteristics of the prevalent markets available will give you insights into how to make your concept right for them and suggest the types of appeals and promotions that will be most effective.

Exhibit 7 presents some examples of the appeals which will be effective for some of the key restaurant markets.

Many potential operators get the cart before the horse in the initial design of the operation. The first thing that needs to be addressed is who the target market will be and what they want to buy. Only then does one begin looking at how the facility should be designed to serve that market most efficiently. Too often the facility is built first, then the target market is identified, and then the menu is created last.

Consideration of markets is part of the process. The other part is to look at the supply of restaurants in the area. Is there a full range of choices available? If not, what are the gaps? What unserved market niches are there?

Market and Product Trends Assessment

It is also important to look at trends in the restaurant industry and in the markets you intend to target. This study will provide you with ideas on how to create your competitive advantages. New product concepts may help you, as can new trends in consumer demands and expectations.

To learn about current market and product trends, one of the best methods is to use the Internet to do your research. You can use search engines such as Google or Hotbot to look for magazines, news articles, and general information on the foodservice industry. You may also want to visit your local college/university library. Libraries contain valuable resources with information on trends, including trade journals, such as Foodservice and Hospitality, special interest magazines, books, and newspapers.

EXHIBIT 7

EXAMPLES OF CONCEPT FEATURES APPEALING TO DIFFERENT MARKET SEGMENTS

Market	Fast Food	Family	Fine Dining
Resident Markets			
Families	• brand name • economy • theming/novelty • fast service • standardized product	• brand name • economy • theming/novelty	
Young Couples			• romantic setting
Empty Nesters			• quality dining and service
Seniors			• quality dining and service • affordable
Local Industry/Business Markets	• convenience • good food • fast service		• suitable for business entertaining
Tourist Markets			
Business Travellers		• quality dining and service • brand name	• quality dining and service
Pleasure Travellers by Auto		• brand name • economy	
Motorcoach Tours		• brand name • economy	

Another valuable source of information is the Canadian Restaurant and Foodservices Association which maintains a library and research division. Check out their website at www.crfa.ca for information as well as a list of publications and research material you can purchase. You can also check the Tourism Industry Association of Nova Scotia (TIANS) Resource Library, and the Mount Saint Vincent University Library, which are also good potential sources of information on restaurants.

4.4 Concept Development

Once you have gone through the preceding considerations and assessments, you are now ready to refine the concept for your restaurant. This is where you have to blend all the insights you have gained so far and define the mix of elements for your proposed concept. This isn't the final version, since the feasibility analysis will help you refine the concept further, but it should be getting close to being a good, strong concept, if you have done your homework well.

The concept elements you want to settle on at this point include the following:

- The preferred location (or a short list of the better locations);
- The major markets to be targeted;
- The theme and menu concept (or the franchise you prefer);
- The price range;
- The unique appeals for each key target market and competitive advantages for each;
- Size in terms of square footage and seating capacity;
- Proposed construction and opening dates.

Build, Buy, or Lease

The eternal question in any business is whether to build, or buy, or lease an existing facility. You retain total flexibility in design and concept when you build new, but there may be some advantages in purchasing an existing property or leasing space and renovating it to suit your concept. This decision is also impacted by whether or not you want to buy just a business, or a business, building and land. Exhibit 8 summarizes some of the advantages and disadvantages of each approach.

You must also give careful consideration to the site related factors discussed earlier. The property you are looking to buy may be ideal in all other respects but in a totally wrong location for the markets you want to target.

If you are planning to buy a building and renovate it, make sure you obtain professional advice on the condition of the building, the costs and feasibility of renovations you want to make, the required regulations, and any restrictions on the use or expansion of the building (e.g. municipal bylaws).

If you are considering purchasing an existing operation, there are some general rules of thumb for determining the most appropriate purchase price. If the place is relatively old and well worn, the maximum that you should be willing to pay is three times the annual net profit. If the equipment and fixtures are fairly new, the most you should pay is four times the annual net profit. If the equipment is brand new you should pay up to five times the annual net profit.

EXHIBIT 8
ADVANTAGES AND DISADVANTAGES OF BUYING AND BUILDING

ADVANTAGES	DISADVANTAGES
BUY AN EXISTING RESTAURANT	
• Immediate take over and possibly operation - even if you are renovating, it does not take as long as new construction • Possible good reputation provides a base of business to build on • Costs may be less than new construction	• If the existing restaurant has a poor reputation, it might be very difficult to change • Existing design may make it difficult to renovate to contemporary standards or to use the space for your concept • Age may make maintenance difficult • Condition of building may make renovations impossible and/or too expensive
BUILD OR LEASE	
• Size and design of property can be suited to current market conditions and demands • Can design building/space to fit with your restaurant concept and to contemporary standards • Opportunity to establish your own market image and position rather than adapt someone else's • Good design, construction techniques, and efficient equipment can maximize operational efficiencies and minimize maintenance and utility costs	• Construction time will delay opening and revenue generation • Building a customer base and reputation will take time • Costs may be more than buying an existing restaurant

If there is no annual net profit, you should not pay any more than the resale value of the moveable equipment and fixtures.

Franchises

Franchising has become a major factor in the restaurant business, particularly in the quick service sector. The reasons for this are compelling. The advantages of franchises are:

- An established concept with a proven system;
- Reduced risk due to the fact that they have an 80% general success rate;
- Professionally developed advertising;
- Recognized brand name;
- Standardized design and operation;
- Training and pre-opening services;
- Centralized buying;
- Investment profiles based on existing franchisee operations.

All of these features are powerful factors in making a restaurant a success, particularly so if the franchise is a "big name" with a high level of market recognition. If the franchise is a newly established one, or a new entrant in your market, there may be considerably fewer benefits.

Disadvantages include:

- The control of the franchiser means that there is less flexibility in operations;
- Arrangements are for a limited and fixed term;
- The cost of services provided by the franchiser are high, and may include fees such as an initial franchise fee, training fees, advertising fees, and royalty fees;
- Royalty payments are usually required, based on sales.

Franchises generally charge a franchise fee up front and a continuing royalty fee paid indefinitely, based on a percentage of sales. You have no discretion in the operation of a franchise restaurant, as they are based on a standardized formula of proven success. The secret of success of franchises lies in the proven concept and the consistency of product and service delivered by all the units.

A franchise provides a solid base for the inexperienced operator. You receive a complete package on how to do things, training, and pre-opening assistance. You gain from having an image and reputation which is already well established in the marketplace.

If you are considering purchasing a franchise, you should make a point of discussing your plans with current franchisees. Ask questions to try to identify any problems that other individuals may have had. The key thing you should look for is post-opening support. It is common to have a franchisee say that everything was fine prior to and during opening, but “now the only time I hear from them is when the monthly royalty cheque is late.” Look for a company which is interested in your long-term success and will provide ongoing assistance. Their long-term survival depends on having successful franchisees operating in the marketplace.

You must also carefully consider the costs/benefits of the franchise approach. While "big name" franchises have a high level of market recognition and established programs of support, the fees and royalties you will have to pay could eat up a significant part of your potential operating profit.

Finally, you should be particularly careful in considering a franchise which has no history of success and minimal market recognition. While the requirements to become a franchisee may be minimal, you may still have to spend a considerable amount of money and make a long term financial commitment without any proven benefits.

Conclusion

Now that you have developed a concept for your restaurant and have chosen a proposed location or a short list of locations, it is important that you assess the feasibility of the proposal. We will now turn to that topic.

SECTION 5

FEASIBILITY ASSESSMENT

Will your concept work? Can you get the volume of business you are going to need? Will revenues be sufficient to cover operating costs? Will the business make a profit — enough to pay you a living wage, cover your borrowings, and pay you a return on your investment?

These are vital questions you need to address, in order to reduce uncertainties and risk to a minimum. The cost of making major mistakes can be bankruptcy, while the information coming out of a feasibility assessment can help make the business a success.

While you may be reluctant to spend the time and money necessary for this step, or think you don't need to, your financiers are very likely to insist on it.

So, a proper feasibility assessment should be undertaken. You can do much or all of it yourself following the process outlined in this manual.

If your project is a large complex, or if your banker or other sources of financing request it, you may have to have a professional feasibility study undertaken.

There are ways of keeping the costs of a professional feasibility study reasonable and you may be able to get some financial help for the study from prospective investors or a government agency. If you've done the homework described earlier in preparing your business concept and strategic plan, the feasibility study can be done a lot more quickly and economically.

A proper feasibility study, assuming a basic business concept and strategic plan has been developed, consists of the following steps:

- Research and analysis into target markets;
- Competitive analysis;
- Projections of capital costs and financing;
- Projections of revenues, operating costs, debt service, and profits;
- Return-on-investment and break-even analysis.

For those wishing to undertake the feasibility assessment themselves, we offer suggestions in the text below.

5.1 Market Research and Analysis

The first stage of feasibility analysis involves an assessment of markets and a determination of the market potential for your restaurant.

Your previous work in developing the concept for your restaurant business involved identifying the best target markets for the restaurant you are proposing to establish. Now you need to pull together some information on each of these markets. The first key question is:

How big is the market in my area? How many prospective customers are there?

Data is available on resident populations through census data published by Statistics Canada. You can get breakdowns for municipalities, census regions, provinces, etc. You can download this information directly from Statistics Canada's website (www.statcan.ca) by following the links to Community Profiles. Statistics Canada can provide you with a variety of other useful information including Small Business Profiles which provide business financial statistics and can be used when developing your projections of operating expenses, and information on family and household expenditures in Canada.

You will also want to get some idea of the number of people that go past the location you are looking at; curiosity is one of the major reasons consumers choose a restaurant for the first time and curiosity will be increased if potential customers can see your restaurant. If you are in a high traffic area, you will be exposing your restaurant to substantially more customers than if you were located on a back road. This is not to say that a back road location cannot be successful, though it is likely to be much harder to build your business. Your restaurant will have to be more of a destination, i.e. a special trip, and you will not benefit from walk-in traffic.

In Nova Scotia, you should also look to the tourist market as a market for your restaurant. As mentioned earlier, some 23% of tourist spending in Nova Scotia in 2004 was on dining out. This represents a significant portion of total foodservice sales in the province. For data on tourist markets, sources include Nova Scotia's provincial Visitor Exit Surveys , Visitor Traffic Flows and Tourism Insights (all available on line at www.nstpc.com) These sources can give you information on the total spending by visitors on food and beverage purchases in restaurant.

Most of the data reported is on Nova Scotia as a whole, but what you need to try to find out is how big the tourist market is in your community or area. This can be a problem since such data are rarely readily available. Local tourism-related organizations may have done some research on the tourism markets in your area. We suggest you talk to sources such as the local visitor information centre, Chamber of Commerce, Regional Development Authority and/or Regional Tourism Association.

You may need to piece together the market size data using whatever information you can obtain. Whatever combination of means you use, the intent should be to develop a summary of market size estimates for your restaurant, as described in the worksheet in Exhibit 9.

How many of these people might I reasonably expect to buy the kind of meals I plan to offer?

Once you have been able to pin down the sizes of your key target markets, you will need to determine the size of the dining out market represented by your target markets. That is, you need to develop an estimate of the number of dining out occasions, for each meal period and the

EXHIBIT 9

BASIC MARKET DATA FOR A RESTAURANT

Target Market	Market Size	Number of Dining Out Occasions per Person	Total Dining Out Occasions
RESIDENT MARKETS, For example:			
Families			
High Income			
Lunch Time			
LOCAL INDUSTRY/BUSINESS MARKETS			
TOURIST MARKETS			
Overnight Visitors			
Day Visitors			
TOTAL MARKETS			

average check, also for each meal period. Again, Statistics Canada data can help with data on restaurant sales in your province and on the dining out habits of your markets. Another good source of information is the Canadian Restaurant and Foodservices Association, referenced earlier, which compiles a variety of statistics on the dining out habits of Canadians, some of which is provided in Section 2 of this manual. While much of this data is for Canada as a whole, it will give you some guidelines to use in your market area.

What percentage of these dining out occasions might I reasonably expect at my restaurant?

Once you have a good idea of the total number of dining out occasions in your market area, and the average spending, you need to determine what percentage of these "dining out" occasions might be available to you. This requires a market penetration analysis; simply put, you need to estimate the degree to which you will penetrate or share the available market. To do this, you can look at how much business the competition is getting and estimate what share of the market might be available to you. This approach is described in the next section.

Another way of getting a handle on the total market which might be available in your area, as well as to determine your possible share, is to conduct some consumer research.

Consumer Research

You can commission a survey of some or all of the target market types you have identified, and use the results of this survey to develop a measure of the likelihood of consumers buying your kind of restaurant meals generally, and your product specifically.

Such research is expensive and requires great care in questionnaire design and in the interpretation of the data coming from it. As well, it is necessary in this type of consumer research to ask respondents to speculate about what they might do in the future. Such research is fraught with complexities and it should only be undertaken for larger projects which can afford several tens of thousands of dollars for research. As well, it should only be conducted by consumer research professionals.

While we strongly believe in the value of market research, we believe that it is better used for other purposes, as discussed later.

5.2 Competitive Analysis

How much of the potential market can I expect to get?

The foregoing analysis will help you determine the potential size of the market, including both the likely amount of business accruing to the competition at present as well as the additional latent, undeveloped market potential. The next step is to try to figure out how that business might be split up among the competition in the future. The variables here are:

- The amount of competition - other restaurants competing with your concept;
- Proposed changes to the number, size and type of your competition;
- The quality of your location compared to the competition;
- Your product appeals compared to those of the competition;
- Price;
- Reputation for quality, service, value;

- Marketing skills and budgets;
- Business volumes of existing restaurants.

While you might by now have a pretty good sense of the appeals of your product concept, you have to take a good look at the competition, and do so objectively, as would a future customer. You need to try out the competition and ask about them with others in the local hospitality industry. You want to learn about their strengths and weaknesses and try to get an idea about how much business they might be doing.

You should start by drawing a circle on a map around the radius of where you think you might draw potential customers. You should then identify all potential competitors within that radius who would be competing for the same target market which you have selected. Of course, there may also be some restaurants outside your radius which you will have to take into consideration; they might have an impact on your operation because of a specialty theme, exceptional location, etc. You may wish to consider some of the following factors when assessing the competition: menu item listing, prices, interior and exterior appeal, market saturation, and local cuisine trends.

By trying out the product and asking around you can fit together a pretty good picture of all but the last item, business volumes of existing restaurants. With respect to this last item, you might be lucky and have someone who knows the competition quite well tell you what the approximate customer volumes are, and maybe even something about which markets the operation is drawing from. In the more likely event that this doesn't happen, you will probably have to undertake a little detective work. Here are some tricks to piecing together a picture of the business of the competition:

- Talk to local tourism organizations, the local hotel and attraction operators. Some of them will have information on how current operations are doing and if there is a shortage of good restaurants.

- Visit the restaurants at various times of the day and week and count the number of patrons. This way you can get an estimate of the approximate customer counts at various times, and you can get a rough estimate of the number of customers.

- Engage in casual conversation with the staff at the restaurant. Ask them about the operation.

When you're done your detective work, make up a form which allows you to summarize your findings. Use a simple scoring system to rate the competition against how your proposed restaurant would rate. It will be necessary to visit the competition during different meal periods and different days of the week to assess fluctuations in customer demand.

Exhibit 10 presents a worksheet for assessing the competition.

Now, as the final step in determining the likely demand at your restaurant, you need to estimate what share of the business you will get. Exhibit 11 provides a worksheet for calculating market share. Based on your assessment of your market position, and the information you have compiled on the total size of the dining out market within your target markets, and on the share of the market your competitors attract, you have to make an estimate of what share of the

EXHIBIT 10
COMPETING RESTAURANT EVALUATION FORM

Date:____________________ Ref. No: __________

Restaurant Name: ____

Address: ____

Type of Facility:

Dining Room ______
Pub ______
Coffee Shop ______
Cafeteria ______
Fast Food ______

Type of Location:

Store Front ______
Inside Office Building ______
Basement ______
Two Levels ______
Other (specify) ______

____

Overall Site Characteristics:

Visibility: Poor ______
Good ______
Excellent ______

Appearance: Poor ______
Good ______
Excellent ______

Restaurant Characteristics:

Specialty: Type ____
Appearance: Poor __________ Good __________ Excellent ______________

Unique Features: ____

Carry Out Service:		Yes	No
Cocktails:	Table	Yes	No
	Bar	Yes	No
	Both	Yes	No
Price change at dinner		Yes	No
Specials of the day		Yes	No
Accept Credit Cards		Yes	No
Accept Reservations		Yes	No

EXHIBIT 10 Continued
RESTAURANT EVALUATION FORM

With reservations, how long a wait? Minutes: ________________

Other: ________________

Hours of Service (by time and day of week)

Breakfast: ________________
Lunch: ________________
Dinner: ________________
Cocktail Hour: ________________

Seating and Size

Dining Area:	Seats	________	Tables	________	Stand-up Counters	________
Lounge:	Bar	________	Seats	________	Tables	________
Square Footage:		________				
Time Arrived:		________		T	Time Left: ________	

Meal Ordered: (full description)

____

____

Cost: ________________ Tip: ________________
Waiting Time To be Seated: ________________ Served: ________________

Customer Counts
Time In: ________________ Number: ________________
Time Out: ________________ Number: ________________
Number of Table Turns

	Observation	Waitress	Manager
Breakfast	________	________	________
Lunch	________	________	________
Dinner	________	________	________

Rating System:

	Score	Total
Quality of Food	1 2 3 4 5 6 7 8	
Quality of Service	1 2 3 4 5 6 7	
Ambience and Atmosphere	1 2 3 4 5 6	
Overall Value/Price	1 2 3 4 5	
Food Presentation	1 2 3 4	
Cleanliness	1 2 3	________

General Experience ________________

____

EXHIBIT 10 Continued
RESTAURANT EVALUATION FORM

Estimated Sales

Weekly: ____________________

Monthly: ____________________

Yearly: ____________________

Estimated Average Check ____________________

Length of Time at Present Location ________________ Years

Obtained Menu

______Yes
______ No

Reviewers Initials

____

Menu Description:

Appetizers ________ Yes ________ No

Type:

____
____
____

Average Cost: $________________

Salads ________ Yes ________ No

Type:

____
____
____

Average Cost: $________________

Sandwiches ________ Yes ________ No

Type:

____
____
____

Average Cost: $________________

EXHIBIT 10 continued
RESTAURANT EVALUATION FORM

Entrees ________ Yes ________ No

Type:

____

____

____

Average Cost: $______________

Desserts ________ Yes ________ No

Type:

____

____

____

Average Cost: $______________

Source: Adapted from Melaniphy, John C.; Restaurant and Fast Food Site Selection; John Wiley and Sons Inc., NY: 1992. pp. 151-152.

EXHIBIT 11
MARKET SHARE WORKSHEET

Business Name	Estimated Volume (No. Of Customers)			Competitive Ranking	Percentage of their Business I can Obtain			Rationale for Market Share Suggested	# of their Customers I can Obtain		
	Breakfast	Lunch	Dinner		Breakfast	Lunch	Dinner		Breakfast	Lunch	Dinner

business available you could attract.   To do this, you will have to consider your unique selling points as well as how your location, menu and prices compare to those of the competition.

Conclusion of the Market Analysis

The results of the market assessment, market penetration assessment, and the competitive analysis and market share assessment should result in a projection of likely future demand for your proposed restaurant business.

You need to recognize that your calculations to this point are appropriate for some future year after you've established the business and it reaches a fairly mature condition in terms of market penetration and market share. To complete your work, you need to proceed into developing supporting analysis for a projection of revenues. This will involve estimating the business you might get in each year in the future, particularly for the early years of the business.

You should do this for each meal period, and, at the same time, you should also estimate the average spending per customer per meal period, or the average check.

5.3 Capital Costs and Financing Requirements

The next step in preparing a feasibility study should be the development of an estimate of the capital investment required to establish the business, since this can give you an idea of what kind of financing you will need. This in turn will give you the basis for estimating the various numbers you will need in your projections of operating costs.

You don't need a detailed capital cost schedule or financing plan at this point. You are trying to assess the feasibility of establishing the proposed restaurant business, not actually planning the business. What you need is an estimate of the realm of magnitude of your capital costs and financing needs.

Exhibit 12 provides a template or worksheet you may find useful.

There are various sources of information you can pursue in developing this initial capital budget. Suggestions are presented below:

- **Land, buildings, and services**. As discussed earlier, you have the option of constructing a new building, leasing and renovating space or buying an existing restaurant. Real estate brokers can help you by seeking out potential sites and advising on the costs of purchasing or leasing. With new construction, the real estate broker can help with land costs, but you'll need some other help to determine the costs of building construction, services, site improvements, etc. Help here can perhaps be obtained from an architect or restaurant designer or a builder, particularly if you are a prospective client. An engineer may be required to advise on servicing and mechanical costs. A landscape architect can also advise on site finishing costs, including such things as parking areas, lighting, signage, etc.

  If you intend to lease space, and renovate it, then you will need to factor in the cost of leasehold improvements: things such as wall finishes, lighting, carpeting, wall partitions, etc. You may be able to negotiate some of these costs with your prospective landlord.

EXHIBIT 12
CAPITAL REQUIREMENTS WORKSHEET
($)

CAPITAL ASSETS:	
Land	*$* ________
Building (Construction or Renovation)	________
Kitchen Equipment	________
Dining Room Furnishings & Equipment	________
Office and System Equipment	________
Parking	________
Landscaping Services	________
Signage	________
Other	________
Subtotal C	________
PRE-OPENING SOFT COSTS:	
(*Costs prior to revenue being earned)*	________
Salaries	________
Staff Training, Wages & Costs	________
Pre-Opening Marketing and Public Relations	________
Interest During Construction	________
Design and Consulting Costs	________
Other Professional Fees	________
Incorporation/Registration/Licensing Costs	________
Other	________
Subtotal D	________
WORKING CAPITAL:	________
Inventory	________
Prepaid Expenses	________
Other Current Assets	________
Cash Reserve	________
Subtotal A	________
Bank Loan	________
Subtotal B	________
Net Working Capital Required (A minus B) ***E***	________
TOTAL CAPITAL ASSET REQUIREMENTS (Subtotal C)	________
TOTAL SOFT COSTS (Subtotal D)	________
WORKING CAPITAL REQUIREMENTS (Subtotal E)	________
CONTINGENCY	________
TOTAL FINANCING REQUIRED	________

For a preliminary estimate of both construction and leasehold improvement costs, you may be able to use a cost per square foot allowance. You will need some help from local builders and contractors to determine what costs are appropriate for your area.

You would be well advised to retain the services of a professional restaurant designer at this stage, to ensure that the cost estimates for fitting out the restaurant are realistic.

- **Kitchen Equipment.** If you are building a building or leasing and renovating space, then the purchase and installation of your kitchen equipment will be one of your major expenses. You will need to develop a preliminary list of the equipment you will require, and then obtain quotations from suppliers for the purchase and installation costs. Don't forget to include allowances for all of the small equipment and tools that you will need.

- **Restaurant Furnishings and Equipment**. You can use an allowance per seat to cover the costs of tables, chairs, linen, dishes, etc. Again, you will probably need to approach some suppliers of this type of equipment to obtain some estimates.

  Exhibit 13 presents a summary of the main types of restaurant equipment and furnishings normally required.

- **Other equipment, such as computerized systems, office systems**, etc. Equipment suppliers can give you price lists, but can also advise you on your likely needs. It will help if you draw up a list of what you think you might need first and then get their comments.

- **Soft costs**. Soft costs are operating-type costs required to start the business that are capitalized, since they occur prior to the opening of the business. They include such things as operating costs incurred prior to opening: management salaries, office operation, initial marketing, etc. They also include one-time costs such as initial training costs, interest during construction, design costs, consultants' fees, etc. You should try to do a work-up of estimates for each relevant item. Where this is not possible, provide for an allowance to cover the item.

- **Contingency.** A contingency allowance should be planned for unexpected cost increases, overlooked items, unanticipated additional costs, etc. The allowance should be between 5% and 20%, depending on how refined your costing has been and how confident you are in the numbers.

- **Working capital**. Your financing will have to cover not only capital costs and soft costs, but also enough working capital to sustain the operation of the business. Working capital is defined by accountants as the difference between current assets (e.g. cash in the bank, receivables, inventory of resale items and supplies) and current liabilities (e.g. accounts payable, other amounts becoming payable in the current year). In other words, it's the cash available to run the business and deal with short term contingencies.

  When you start the business, your working capital will be in the form of cash. It is highly unlikely that any restaurant will reach a point of profit within the first year of operation. As a result, you will need a significant amount of funds to remain solvent

EXHIBIT 13
TYPICAL RESTAURANT EQUIPMENT AND FURNISHINGS

Service Area	Kitchen
Furniture • Chairs, bar stools, high chairs • Table tops and bases, folding tables • Tray stands Dinnerware and flatware Glassware Table top accessories Beverage and bar supplies, coolers **Storage and Other** • Dry storage • Cool storage • Liquor locker • Freezer • Shelving and other equipment • Transportation equipment • Sanitation and maintenance equipment	Cooking equipment • Range • Griddle • Fryer • Hood/fan • Ovens, broilers • Microwave • Steamer • Tilting skillet/kettle • Kitchenware Preparation tables/counters and equipment Service and holding/warming equipment Refrigerator Dishwasher Sprinkler system Fluorescent lighting

Financing

The total of the above represents the amount of financing you are going to require to start the business. You will now need to prepare a plan of how the financing is to be structured, since the feasibility assessment requires a determination of interest and principal payments on borrowings and the amount of equity to be invested.

5.4 Projection of Revenues and Expenses

The next step is to prepare an estimate of your possible revenues and expenses.

Revenues

First, you need to make an estimate of your revenues. The market analysis, described earlier, along with the concept for your restaurant and your estimate of the number of covers per meal and average checks, will provide you with the information you need to estimate your revenues.

The best way to forecast sales is to break the days down into meal periods, forecast the seat turnover for each period to determine the number of customers or covers, and then multiply by the estimated average check. Exhibit 14 provides a worksheet to calculate your weekly revenues. You may want to develop several weekly estimates for different times of the year, e.g. summer, winter, Christmas, and then multiply by the number of weeks in each segment to come up with your total revenues.

The sale of alcoholic beverages should be estimated as a percentage of total food sales, if you are to be licensed. This percentage can run from 15% to 40%, or higher, depending on the type of restaurant and clientele.

Exhibit 15 presents a worksheet for extending your analysis into projected annual total food and beverage sales. The mature year should be the starting point, based on your expected sales once you have fully penetrated the market. Then sales in each year can be estimated as a percentage of your mature year. This will enable you to estimate the revenues you can expect to achieve from the opening year onwards.

Exhibit 16 presents a summary of revenue and operating 'norms' in the restaurant business in Canada.

Operating Expenses

You need to prepare projections of four kinds of expenses: cost of sales, direct operating expenses, overhead costs, and capital-related charges.

Exhibit 17 presents a worksheet for preparing expense projections. The numbers can be derived either from a detailed work-up, based on an analysis of each item, or industry norms which can be used to provide realm-of-magnitude estimates. The latter method is simpler and probably just as accurate, if not more so. The only caution is that very large items like wages, salaries and marketing can vary widely, depending on your type of operation and its market situation, so a work-up of these items is advised and it should be cross-checked against industry norms. Operating cost norms are generally known by experienced operators, so your research into comparable restaurant operations should involve a question to the owners about the cost norms

EXHIBIT 14
PROJECTION OF REVENUE FOR A RESTAURANT
(Use Separate Worksheets for Each Season)

	MON	TUES	WED	THU	FRI	SAT	SUN	TOTAL WEEKLY REVENUES
BREAKFAST								
# of Seats								
Seat Turnover								
Average Check								
Projected Revenue								
LUNCH								
# of Seats								
Seat Turnover								
Average Check								
Projected Revenue								
DINNER								
# of Seats								
Seat Turnover								
Average Check								
Projected Revenue								
TOTAL FOOD REVENUE								
Percentage of above for Alcoholic Beverages								
TOTAL BEVERAGE REVENUE								
TOTAL FOOD & BEVERAGE REVENUE								

EXHIBIT 15
PROJECTED ANNUAL REVENUES

	MATURE YEAR	YEAR				
		1	2	3	4	5
Breakfast						
Lunch						
Dinner						
TOTAL FOOD						
TOTAL BEVERAGE						
TOTAL FOOD & BEVERAGE REVENUE						

EXHIBIT 16

RESTAURANT OPERATING AVERAGES - Canada[4]

Revenue Mix (2001)	$ or %
Food and non-alcohol beverage sales	86%
Alcoholic beverage sales	**9%**
Other sales	5%
Average Check Per Person (2003)	**$5.98**
Quick Service	$4.05
Family/midscale	$9.02
Casual dining	$12.48
Fine Dining	$25.47
Other	$4.11
Operating Expense Ratios (2001)	
Food and beverage costs	33.5%
Salaries and wages	30.8%
Rental and leasing	5.4%
Repair and maintenance	1.8%
Materials and supplies	3.3%
Advertising and promotion	2.8%
Depreciation	2.8%
All other expenses	14.0%
Pre-tax profit	5.6%

[4] Foodservice Facts 2004, Canadian Restaurant and Foodservices Association, 2004, pages13 - 15

EXHIBIT 17
PROJECTION OF OPERATING EXPENSES
($)

	YEAR						
	BASIS FOR CALCULATION	**Mature Year**	**1**	**2**	**3**	**4**	**5**
COST OF SALES:							
Food	% of Food Sales						
Beverage	% of Beverage Sales						
Total							
DIRECT COSTS:							
Wages	Worksheet* or % of Total Revenue						
Supplies	% of Total Revenue						
Total							
OVERHEAD EXPENSES:							
Management Salaries	Worksheet* or % of Total Revenue						
Fringe Benefits	% of Total Revenue						
Marketing	Worksheet* or % of Total Revenue						
Repair & Maintenance	% of Total Revenue						
Utilities	% of Total Revenue						
Office Supplies	% of Total Revenue						
Telephone	% of Total Revenue						
Rent	% of Total Revenue						
Equipment Leases	% of Total Revenue						
Insurance	% of Total Revenue						
Prop. & Business Taxes	% of Total Revenue						
Bank Charges	% of Total Revenue						
Professional Services	% of Total Revenue						
Travel	% of Total Revenue						
Miscellaneous	% of Total Revenue						
Total							
TOTAL OPERATING EXPENSES							

*Worksheet means that you should develop a worksheet to derive what these costs will be for your business.

in their type of operation. There are also various publications available through associations such as the Canadian Restaurant and Foodservice Association (CRFA), as well as text books, which can describe norms for restaurant operations. (The most recent data from CRFA is presented in the Exhibit 16)

<u>Cost of Sales</u>

Cost of Sales involves the costs of items resold to customers. For a restaurant business, this will include the cost of food and beverage used in preparing the menu items you are selling.

Such costs will vary depending on the menu items involved. Later, in Section 8, there are descriptions of the various methods for pricing your menu items and determining costs. For now, you can use industry norms to estimate your cost of sales.

<u>Direct Operating Expenses</u>

These costs are also referred to as variable operating expenses. Essentially, they include the costs that are directly involved in providing your services to your customers, and they vary with the number of meals you serve. The main variable costs for your restaurant business are:

- Labour - serving staff, kitchen staff, bartender, etc.;
- Supplies used in preparing and selling your meals.

For a restaurant business, they can be calculated as a percentage of revenues or from the bottom up, i.e. by estimating the number of staff you will need, the number of hours they will work, etc.

<u>Overhead Expenses</u>

Overhead expenses, sometimes call fixed expenses, do not vary very much with changes in the volume of business, as do direct operating expenses. These are the supporting costs of providing service and in general, running the business. The types of overhead expenses you will incur are described in Exhibit 17. Estimates can be developed based on industry norms, or on a work-up based on developing a detailed schedule of likely costs.

Operating Profit

The total of the above costs represents the sum of the costs of operating the business. The difference between total revenues and operating costs in a year represents the operating profit or operating income (or loss) of the business. Exhibit 18 presents a summary worksheet to calculate operating profit.

Other costs, including depreciation and interest costs on financing are discussed in Appendix I, Net Income, Cash Flow, and Return on Investment Analysis. You should reference this Appendix to calculate the projected net income of the business.

Net Income, Cash Flow, and Return on Investment

Having calculated operating profit, it is now possible for you to determine whether or not the venture will be feasible. Simply put, you need to decide whether the projected profit from

EXHIBIT 18
PROJECTED SUMMARY OF REVENUE, EXPENSES AND OPERATING PROFIT

	MATURE YEAR	YEAR				
		1	2	3	4	5
REVENUE:						
Less: Cost of Sales						
Less: Direct Costs						
Less: Overhead Costs						
TOTAL OPERATING COSTS						
OPERATING PROFIT						

operations is sufficient to repay any debt and to justify the effort and the risks. This is a judgement call you and your investors (if you have any) have to make.

Appendix I describes the calculations that you have to undertake to determine the net income and cash flow of the business, and to calculate return on investment.

5.5 Is It Worth It?

The requirements for completing a credible feasibility assessment for your business proposal are clearly complex and onerous. This is not as we would wish, but it is vital that a proper feasibility assessment be done before major commitments are made to establish the business.

Looking at the recent average operating ratios from CRFA, presented in Exhibit 16, in particular the 'Pre-tax Profit' at 5.6% of gross sales, it is clear that the restaurant business is a thin margin business. And adding in the competitive situation, which is typically a major consideration, this is clearly a relatively high risk business. A small erosion in revenue or in operating ratios can threaten a restaurant's viability. It is clear that everything has to be well planned and budgeted, and the management controls in place, to enhance the likelihood of profitable operations.

It is truly astonishing to the authors that not all business people make the effort to undertake an assessment of their business plan. Without an assessment, they proceed to stake their capital and their livelihood on instinct, on gut feelings, and on the opinions of others who have nothing at stake. With so much at stake, it is worth a little time, effort, and money.

We recognize that the techniques of a feasibility assessment are not generally known or understood and that some people believe that it isn't possible to predict the future accurately, so why kid yourself by trying. This is a poor excuse. It is possible to get some guidance on how to prepare a feasibility assessment (this manual is one source, of course); and it is possible to get help to carry it out. And while it may not be possible to predict the future accurately, (and, of course, that isn't possible), predicting the future is not really what's involved here.

What is involved here is risk reduction, moving a business proposal from the pure seat-of-the pants, "gut-feel" level, to a different level that is almost certain to prove more accurate than a gut feel. There is a myriad of pieces of valuable information out there, some easily obtained, others not, which can help take the unknowns out of a business judgement.

As well, a feasibility assessment allows you to make a series of small incremental judgements and specific estimates rather than one huge one; and the sum of a series of small judgements and estimates has proven again and again to lead to a more accurate prediction of future performance. In fact, when the estimating is broken down into small pieces, more often than not you will be able to find sources of information to help you make your estimates with a degree of accuracy. For example, there are readily available sources of information which provide data on the operating ratios of different types of restaurants. You can easily access this information and use it in developing your estimates.

Finally, the process of preparing a feasibility study will indicate a whole series of ideas, opportunities, challenges, and problems for you to consider. As a result, you will be able to actually improve your business plan as a result of doing a feasibility study, as well as develop important insights about what it is going to take to be successful in the future.

The best, and perhaps most important, investment you will make in establishing your business is the preparation of a feasibility assessment.

And one other thing; be careful in adding too much overhead at the beginning. Overhead is the 'monkey on your back' in many businesses, and very much so in the foodservices sector. It is really helpful if you can 'keep your day job' through the planning stages, and particularly to avoid the need to pay yourself prior to opening. It is also important that if you have partners in the endeavour that they not be expecting to draw money from the business until it becomes profitable enough to pay them.

5.6 Where to Get Help

Help in preparing your feasibility study can be found from a variety of possible sources:

- Your accountant.
- Other operators of restaurants. You may be able to talk a noncompeting restaurant into coaching you and helping you with projections. You may have to pay them a fee, but, if you're lucky, they might do it for the fun of it.
- Someone who's sold a restaurant business or has retired from the business.
- An official of a financial agency, such as ACOA, the Regional Development Authority, the Business Development Bank, or the Office of Economic Development.
- Tourism Industry Association of Nova Scotia Resource Centre. This centre contains a range of information, training videos, etc.
- A private restaurant consultant; one having considerable experience in the business.

Addresses for many of these sources of help can be found in the Appendices to this manual.

Most of these sources will be free, or at least low cost.

As mentioned earlier, you may decide that the complexities or scale of your project require you to retain some professional expertise to prepare your feasibility study. You may not, in fact, have a lot of choice in the matter, since some lenders and investors will insist on your having a feasibility study prepared by a professional management consultant.

5.7 The Go/No-Go Decision

In most cases, the evaluation which has been done in terms of the location/site analysis and the market study and feasibility assessment should provide enough information to let you make a go/no-go decision.

Your work to this point will give you enough information to support an application for financing, which should be secured before you proceed with the detailed design and development phase of the project. Appendix III presents advice on applying for and negotiating financing for your restaurant.

The Go Ahead

You have completed the feasibility analysis for the restaurant and have decided that you wish to proceed with the development phase.

It is important that you make a decision early on in the development phase about a possible affiliation or franchise agreement. There will be some design factors which will be dictated by the franchiser or chain.

5.8 Preparing a Business Plan

Once you have completed the feasibility analysis, you need to prepare a business plan. The business plan is built on the material you have accumulated to date, and includes a plan of all the steps and processes you need to go through to get the project up and running and initially keep it running successfully in future years. This document should be updated periodically to reflect some of the changes that occur as your plans unfold and should include both strategic issues and normal operating processes. While lenders will almost always ask to review a copy of your business plan, you should not consider it just a means of obtaining financing. The business plan is critical to the ongoing operation and success of your business and you should refer to it often.

The plan itself should contain all of the items outlined in Exhibit III-1 of this manual (the suggested table of contents for a presentation for financing, presented in Appendix III), as well as sufficient additional information to illustrate the steps you will go through to achieve your goal. You will need to document, for example, a Sales and Marketing plan that will provide a strategy and process for you to attract guests to your property. This plan will identify who will be responsible for each task; when it is expected to be done; what the anticipated outcome of the effort will be; and what the effort will cost. Sales and Marketing plans are, on their own, very detailed documents. Some suggestions for the types of things to include in this plan can be found in Section 9.

The business plan will include similar action plans for all other key areas of the company's operations, including organization and staffing, operating policies, internal controls, information systems, etc.

There is no definitive table of contents for a business plan but some suggestions are provided in Exhibit III-1 in Appendix III. However, knowledgeable operators all agree that these plans are essential for strategizing the direction that you wish to take and detailing the step-by-step actions you have considered to reach your goals. In general terms, the more you put into the plan and the more you refer to it, the more likely you are to reach the targets and objectives you have set yourself. Furthermore, the business plan should always be considered as an evolving document, being changed as external conditions dictate and your own decisions require. Other aspects of your business plan will be considered further in Section 8, Planning for Operations.

SECTION 6

Design

SECTION 6

DESIGN

Once the feasibility of your concept has been established, you can begin looking at the overall design of the restaurant. The design should be done so as to best appeal to the customer but also should be laid out to optimize efficiency for employees.

6.1 Selection of Design Professionals

It is a very good investment to retain the services of a restaurant consultant to direct the design phase; someone who knows how to layout the kitchen, the receiving and storage areas and the dining room.

The best way to locate a designer is through his or her work. If you see a restaurant that appeals to you, find out who designed it. You can also ask the Restaurant Association of Nova Scotia for a list of designers or look in the telephone book.

When considering potential designers you should check out other restaurants they have done and talk to the owners about how well they work.

Your designer should be able to assist you in all phases of the design and construction process; from initial design and equipment specifications, through developing a detailed capital budget, dealing with regulatory agencies and inspections, hiring contractors, and supervising the actual construction or renovation.

Of course, you will have to pay the designer a fee, but it is well worth it. A good designer can save you the cost of his or her fee many times over.

Kitchen equipment supply companies will usually offer assistance in kitchen design, which is likely to be a cheaper approach for that part of the design.

6.2 Design Guidelines and Principles

Good design is essential if you want to have a good restaurant business. It can accomplish a number of things:

- It can attract consumers into your restaurant, through the good use of signage, lighting, and both interior and exterior design;

- It can create a strong and attractive image and atmosphere, one that makes people want to try out your restaurant and to come back again;

- It can help control noise and odours;
- It can create a comfortable environment for your guests;
- It can help you provide good service with a smaller staff;
- It can be more efficient to run and more attractive to work in;
- It can provide you with flexibility to serve parties of different sizes, and to have a kitchen that is adaptable to changing menu items;
- It can help lower both capital and operating costs.

The design of your restaurant will be influenced by the type of food you serve, your markets, and your method of service. Your design will also be influenced by such things as being licensed, being a fine dining restaurant, or primarily serving buffets. As well, it will be influenced by local and provincial regulations from the Fire Marshal, the Department of Agriculture and Fisheries, Department of Environment and Labour, and the Liquor Inspector. It is important that you explore the requirements in this respect early in the design process.

One common fault that designers often make is in the ratio of production space to revenue generating space, allowing too little space for production. It is easy to make this mistake, as most restaurateurs will want to fit in as many revenue-generating seats as possible. However, when this is done by taking away space from the production and storage areas, serious problems can result.

A common ratio is 1/4 to 1/3 for production and storage space and 2/3 to 3/4 for dining area space. In planning for the service area, allow about 15 square feet per seat. For example, if you are planning a 100 seat sit-down restaurant, you should have 1,500 square feet in the service area, plus another 750 square feet for kitchen and storage. In addition, there will be further allowances for mechanical spaces, washrooms, receiving areas, etc.

When you try to cut the production space, you generally end up making the kitchen unworkable. There will not be enough storage space; the kitchen will be too small and very likely too hot; there will not be enough preparation area; there will be no place to put dirty dishes, no receiving or garbage area, and so on. Many restaurants have had to be redesigned after having opened, and a lot more money spent to overcome this particular design fault, particularly once the business reached a volume that made the kitchen unworkable.

A well-designed restaurant allows guests to have an enjoyable meal in comfortable surroundings and encourages people to come back again.

Design factors include more than layout and decor. They also include environmental factors, control of odours and noise, lighting, menu design, parking, washrooms, maintenance factors, flexibility, ability to keep things clean, good staff morale, heat control, and many other factors.

There are some fundamental things which must be taken into consideration in the design process, as outlined below. This is by no means an exhaustive list just some of the key items that need to be taken into consideration in your design.

Budget

We have already mentioned the importance of having a clear understanding with your designer about the budget for your restaurant. Before you enter into discussions with a design professional, you should have a budget range that will govern what you will be able to do. Having a ballpark number will be extremely helpful and save a lot of time in finding the design which is most appropriate for your budget. Your earlier feasibility assessment will give you a pretty good idea of the amount you can afford to spend, based on the financing you can afford to carry.

Tabletop

What goes on the top of your table should receive careful thought. The variety of crockery, silverware, glassware, linen, and accoutrements available is extensive, with wide price differentials.

In addition, you must ensure that the products are serviceable. Fine bone china dishes and delicate glassware are inappropriate for use in a restaurant (even a fine dining facility) as they scratch or chip in the dishwasher. You might find that your replacement cost for china and glassware is exorbitant if you choose too fine a product. Even though it may have the degree of elegance you want, it may not be serviceable. Rarely are household quality dishes, glasses, and furniture strong enough to withstand the rigours of daily restaurant use. Dishes should be of a glossy, not matte, finish. You should also make sure that the colours on the dishes accent your food presentation, not overpower it.

Flow

Work flow is a critical factor in the efficient operation of your restaurant. Employees should be able to serve the customer without bottlenecks, have sufficient work space, and have the tools with which to do the job. The service area should be on a single level. It is not a good idea to expect servers to run up and down stairs. Service stations should be installed at convenient locations in the service area.

Customer flow is also important. You should expect to receive handicapped customers and should take handicapped access into consideration in the design of your entrance, washrooms, and seating. There is a manual for the design of barrier-free facilities called Access Canada and the provincial building code has numerous provisions dealing with barrier-free design in public places.

There should be adequate waiting space and a policy for how to handle the waiting guest.

Similarly, careful thought should be given to the location and number of washrooms for both customers and employees. You should consult the Department of Agriculture and Fisheries (Food Establishment Permit), Department of Environment and Labour and review your local building code on these matters.

Menu

The menu in your restaurant should not simply be a list of items and their respective prices. It should be the primary selling tool for your products. Attractive visuals in the design of the menu with interesting descriptions of the contents can really sell menu items. There are many books available that describe how to develop menus.

Alcohol

If you plan to serve alcohol, you will have to meet all of the requirements of the Nova Scotia Alcohol and Gaming Authority, many of which impact on design. You will also need more storage space. For example, wine bottles require horizontal storage, cooled and uncooled, and bottled beer requires refrigerated storage space plus storage space for empties and extra supplies. For draft beer, you will need room for kegs and associated equipment. Liquor is usually displayed on shelves behind the bar, but you will also need space for refrigerated mixes and other supplies. As well, it will be important to have a secure, locked area for your supplies of alcohol.

General Improvements

Buying the cheapest may turn out to be the most expensive option in the long run. For example, if you buy an inexpensive floor covering, you will probably have to replace it in the short term and this may prove a great expense and inconvenience. Ceramic or tile floors may be more expensive to begin with but they are much more durable and amenable to the health inspector. They may also allow the staff to do their jobs more efficiently, thereby increasing sales, or reducing costs, or both. Lighting should reflect properly the mood you wish to convey, but still allow the customer to read the menu.

Tables and Chairs

Selection of these items should focus on durability and comfort. Before you buy any chairs, be sure you actually sit in them for a period of time. Nothing is more off-putting than sitting for two hours in a chair that is extremely uncomfortable.

Tables should consist of a pedestal base with a durable, easy-to-clean surface. If the tables have legs they should be adjustable so you can eliminate any wobbles in the table without putting tacky napkins or sugar packets under them. You should have a number of two and four seat tables that can be put together for larger parties. Restaurants often have quite a few parties of two and if you only have tables for four, you will not maximize your potential revenue. Generally, you should allow approximately 15 square feet per seat in your restaurant.

Build or Renovate

The eternal question faced by business operators is whether to build or buy. Sometimes building new is the least expensive alternative to the renovation process. Be very careful when evaluating an older building for a potential restaurant. While it may provide the atmosphere and ambience you want, it may be prohibitively expensive to make the necessary changes to bring it up to code. Be sure to get the advice of experts as to the renovation costs and look carefully before you leap into what could be a big expense.

Equipment

Equipment is a major expense for a new restaurant. Care should be taken to ensure that you have the proper mix of equipment to service the menu you have chosen. It is often appropriate to purchase used restaurant equipment as it depreciates very quickly and generally has a relatively long life. The exception to this rule is the dishwasher. It seldom pays to purchase a used dishwasher as this is the most heavily used piece of equipment and it always seems to break down at the worst moment and is extremely costly to repair.

Using gas (propane) or electric appliances is another issue to resolve. Personal preference often leads operators to choose one or the other. Some people are afraid of gas appliances, although it is more often the choice of restaurant professionals. Gas is cheaper and quicker. It also puts less heat into a kitchen because there is little or no residual heat when it is turned off while electric burners take time to cool down. Electricity can also be more expensive due to demand metering. However, gas requires more stringent fire and safety regulations, and special care must be taken to keep gas appliances properly serviced and cleaned. Some places may not be suitable for gas or may prove prohibitively expensive.

It is vitally important to have access to good technical support as breakdowns are very disruptive. A good technician is a godsend!

Design of the Kitchen

It is critical that the kitchen be designed with as efficient and effective a layout as possible.

When calculating the appropriate space and layout for a restaurant, you should plan to have the following work areas: preparation area, cook area, service pickup area, salad area, beverage area, dessert area, baking area, freezer and refrigeration area, store room area, office space, pot washing area, garbage area, receiving area, clean dish storage area, scraping area, dishwasher area, locker room, and staff area.

The design should take the following criteria into consideration: employee fatigue and well-being, noise reduction, adequate lighting, safety issues, fluctuations in customer demand, different meal items at different times of the day, and minimizing ambient heat in the kitchen. Perhaps one of the most important factors that should be considered is preventative maintenance. A great deal of money can be saved by having a good program to ensure that all equipment works properly and is maintained in top condition.

Your kitchen layout should be flexible enough to allow you to change equipment as new developments make this necessary and also to change your menu if this should prove necessary.

6.3 Project Management

Exhibit 19 provides a check list of the steps you should follow in designing and constructing your restaurant, from the time you make the decision to proceed until opening. Further details on these steps are presented in Section 7.

EXHIBIT 19
STEPS TO RENOVATING, ADDING TO, OR BUILDING A NEW RESTAURANT

STEP 1
Hire a Designer and Prepare Building Plans and Specifications

Hire a restaurant designer and consult with each of the following government bodies in the planning of your facility:

- Department of Environment and Labour (e.g. water and septic requirements)
- Department of Agriculture and Fisheries (restaurant design and layout)
- Department of Transportation and Public Works (if on a provincial road)
- Municipality
- Alcohol and Gaming Authority (if planning to serve liquor)
- Office of the Fire Marshal

STEP 2
Review Business Concept/Idea with Municipality

Discuss your business concept/idea with your municipal building inspector. Your municipality will have various bylaws regarding:

- zoning and land use
- municipal building requirements, e.g. plumbing, electrical codes, fire protection, cooking surfaces

STEP 3
Obtain Approval for Construction of Facility

Copies of your building plans and specifications must be submitted to each of the following:

- Municipality (to review plans and obtain Building Permit)
- Department of Environment and Labour (If you are not on municipal sewage and water services)
- Department of Agriculture and Fisheries (Eating Establishment Permit)
- Office of the Fire Marshal
- Alcohol and Gaming Authority (in order to obtain a Liquor License)
- Nova Scotia Power

STEP 4
Planning and Management of Renovations/Construction

You need to develop and plan and schedule for the construction phase, with timelines scheduled, critical path deadlines established, and a budget and payment schedule established. Bids should be invited from contractors and the project launched. You then need to monitor and inspect progress as the work proceeds.

STEP 5
Obtain Occupancy Permit

Once construction is complete, and all inspections have been done and approved, you will receive an Occupancy Permit.

STEP 6
Inspection and Approval

Once the Occupancy Permit is issued, the Department of Environment and Labour, Agriculture and Fisheries, the Fire Marshal, and the Alcohol and Gaming Authority will inspect your property for approval and licensing.

SECTION 7

Legal, Regulatory, and Tax Matters

Legal and Regulatory Issues
Addendum: Food Safety Regulations
November 2005

Readers of this manual should take note of the following addendum with respect to regulations governing food safety in Nova Scotia. These regulations apply to almost all businesses that serve food to the public and impact the type of business for which this development guide is written. These new regulations may change the information in this section of the report regarding Food Establishment Permits. You should review the appropriate regulations (obtained through the following website www.gov.ns.ca/nsaf/foodsafety/) and talk to a representative of the Food Safety Section, Department of Agriculture and Fisheries to obtain detailed and up-to-date information on the requirements for food safety as they affect your business.

The Health Protection Act, effective November 1, 2005, provides for new food safety regulations in Nova Scotia and establishes provincial standards for restaurants, grocery stores and other places where food is served or sold. The Nova Scotia Food Retail and Services Code is an interpretative guideline that explains how to meet the objectives identified in the Nova Scotia Food Safety Regulations contain within this act. Eating Establishment (Provincial) Regulations will also be available. Both can be obtained from www.gov.ns.ca/nsaf/foodsafety/regulations.shtml

There are a wide range of regulations and guidelines contained within this material that may affect your business and it is beyond the scope of this manual to describe them. However, one that should be noted is the requirement for food hygiene training for the managers/supervisors of food establishments or a designated person in their absence. This includes the owners or managers of a bed and breakfast. As well, operators of food establishments must ensure that food handlers have the necessary knowledge and skills to enable them to handle food hygienically. To assist in meeting this requirement, the Nova Scotia Tourism Human Resource Council has introduced BASICS.fst ONLINE, an on-line food safety training course for food handlers. Information on this course can be obtained through the website, www.tourismhrc.com.

SECTION 7

LEGAL, REGULATORY, AND TAX MATTERS

This section addresses legal, regulatory and tax matters concerned with the establishment of your restaurant business. There are a multitude of laws and regulations that affect business and readers should note that the information contained herein is a guide only.

It is strongly suggested that the reader undertake efforts to verify any information on which their business plan is based and not rely solely on the information in this manual. There are areas where you may want to consider retaining the appropriate professional expertise to assist you.

While the information contained in this manual is believed to be accurate, as of the winter of 2005, it is not so warranted. The reader should note that federal, provincial and municipal laws and regulations change frequently and it is recommended that you check with the appropriate authorities, listed in the Appendix, including representatives of the Nova Scotia Department of Tourism, Culture and Heritage and your local Business Service Centre (on line at www.gov.ns.ca/snsmr or at Access Nova Scotia centres around the province), to obtain up-to-date information on laws that may affect your business.

7.1 Regulations and Licensing

Your restaurant consultant and other members of your design team will be able to provide you with advice and assistance on addressing all of the regulations and licensing matters that are required for a restaurant.

Municipal Regulations and Bylaws

One of the first steps in starting up any new business is to contact your local municipal office and talk to the Development Officer and Building Inspector. There may be zoning and municipal bylaws which limit or restrict the type of business that can be developed in a given area. Most municipalities in Nova Scotia have some or all of the following regulations that can impact on your development. You should check with your local municipal government office to see which ones you need to be concerned about:

- Land use bylaws, e.g. zoning, parking, and open-space requirements;
- Subdivision regulations and bylaws;
- Building bylaws, including plumbing and electrical codes;
- Building permits;
- Occupancy permits;
- Heritage bylaws - some municipalities also have a Heritage Advisory Council;

- Engineering standards for storm and sanitary sewers, water services, and roads;
- Municipal property taxes and any applicable charges for pollution control, water supply, and sewage disposal;
- Fire inspections;
- Garbage collection;
- Environmental restrictions.

The building inspector ensures that new or renovated buildings meet several standards, the most significant of which are the Nova Scotia Building Code Regulations, part of the Building Code Act, and the Fire Prevention Act. A permit is always required for new construction and for major repairs and renovations, and for any structural additions or changes. The building inspector will require that plans be submitted for commercial or public buildings, and these plans must be stamped by an architect or professional engineer licensed in Nova Scotia. The applicant is responsible for submitting copies of the plans to the Fire Marshal's office (see discussion below), although this can sometimes be done through the building inspector's office or your architect may deal directly with the Fire Marshal's office on your behalf.

In addition, the building inspector may require approval from the Department of Transportation and Public Works for the location of any driveways (often a rural issue), and approval from the Department of Environment and Labour if you develop a building that has an on-site well or sewage disposal system (see discussion below).

Municipalities now require professionals (e.g. architects, engineers and appropriate other professionals such as a structural or mechanical engineer) to not only stamp the construction drawings, but also to inspect the construction and to certify compliance with the drawings on completion of the construction. This will need to be done before an occupancy permit will be issued. In fact, the municipality will require the owner of the building to provide a letter of undertaking that they will retain professionals to do these inspections and provide the certification, when they (the owner) applies for the building permit. The municipality will also determine from which professionals (e.g. structural, mechanical or electrical engineer, architect, etc.) inspection and certification is needed. These requirements apply to renovations/additions and new facilities for most buildings, and for all public buildings.

Nova Scotia Power issues permits and conducts inspections under the authority of the Department of Environment and Labour for new or renovated electrical systems in all facilities. An electrical permit is required before any electrical work can be carried out. It is the responsibility of the contracted electrician to obtain the necessary permits and arrange the inspection.

Once final inspections are completed, an occupancy permit is issued and the facility is ready to open.

Architects Act and Engineers Act of Nova Scotia

Plans and specifications for larger buildings and developments will require professional services, as legislated in the Architects Act and the Engineers Act of Nova Scotia. This means that your design and construction drawings will need to be stamped, i.e. approved, by professionals, as designated in these acts.

Fire Prevention and Fire Safety

Under the Provincial and National Building Codes, no one can alter, construct, renovate, or reconstruct buildings intended for public occupancy until approval has been obtained from the Office of the Fire Marshal. An application must be submitted to the Office of the Fire Marshal for approval, accompanied by building plans and specifications.

It is best to contact the Office of the Fire Marshal (Plans Examiner) during the design process rather than wait until you have completed the design work; in this way, you can make any necessary changes before your plans are finalized.

The Fire Marshal's office will review the building plans and, where necessary, give fire safety advice. In general, it takes at least one month for the Fire Marshal to approve building plans for existing buildings. Once the plans are approved, they may not be altered without consent from the Fire Marshal's Office. (It should be mentioned here that the Fire Marshal will **not** conduct a pre-sale inspection of an existing property.) In the case of new facilities and larger projects, the building plans must be submitted to the Fire Marshal at least two months in advance of the planned start of construction.

Once construction or renovations are completed, the property must be inspected and final approval given by the Fire Marshal's Office. The Office of the Fire Marshal will conduct this inspection after the local municipality has issued the occupancy permit.

There are additional fire safety requirements that pertain to restaurants in terms of cooking systems. The Office of the Fire Marshal will be concerned with the cooking system proposed for the restaurant which includes the range hood and any fire protection equipment over cooking surfaces. If propane (LP) gas is being used for cooking, a Propane Gas permit is required. Generally, these permits are obtained by the contractor installing the propane equipment. The contractor must be a licensed propane installer in order to install your propane equipment. Contact the Office of the Fire Marshal (www.gov.ns.ca/enla/ofm/) for details.

Department of Environment and Labour

As of October 2000, the Departments of Environment, Labour and a number of other regulatory agencies were combined to become the Nova Scotia Department of Environment and Labour with a mandate that encompasses a wide range of issues around the safety of people and property, a healthy environment, employment rights and consumer interests. The Department has a number of divisions dealing with different areas of interest. Check out their website (www.gov.ns.ca/enla) for an up-to-date list of these divisions and the regulations they handle.

The design of water and sewage systems must be approved by the Department of Environment and Labour (Environmental and Natural Areas Management Division) and the Department must be consulted during the planning stage of your business. Inspections and approvals will also be required as these systems are installed.

Water

All water provided to guests from taps, faucets, fountains, or other sources is required to be of a quality suitable for human consumption. Approval may be required from the Department of Environment and Labour to construct and operate a water system supplying water to the public.

If the restaurant is located in an area where there is a central municipal water system, then only the appropriate municipal regulations apply and the operator does not need to contact the Department of Environment and Labour for approval.

Note that there are also regulations in place governing the testing and monitoring of public drinking water on a regular basis. Check with the Department of Environment and Labour for regulations that apply to your restaurant.

Sewage System

For properties that are not connected to a municipal sewage system, sewage-system approval must be obtained from the Department of Environment and Labour before constructing the facility.

In areas where central municipal sewage disposal systems exist, only municipal regulations apply and a permit from the Department of Environment and Labour is not necessary.

<u>Other Regulations under the Department of Environment and Labour</u>

The Department of Environment and Labour is also responsible for occupational health and safety, public safety, labour standards, as well as the Office of the Fire Marshal. The Department also administers acts and regulations pertaining to elevators. Specific regulations that might pertain to a restaurant business include:

- Occupational Health and Safety Act that requires employers to adhere to operational and employee safety standards. A brief overview of this Act and the implications for business operations is provided below.

- Labour standards with respect to minimum wage, employee/employer rights, etc. A Fact Sheet providing general information on the Labour Standards Code is published on the Internet at www.gov.ns.ca/enla/labstand/lstcode/ or you can contact the Labour Standards Division of the Department for more information.

- The Pay Equity Act is administered through the Labour Services Division of the Department of Environment and Labour. Pay equity means *equal pay for work of equal value* and is a concept that bases wages on the value of work performed, regardless of whether a man or woman is doing the job.

- Indoor Air Quality Regulations;

- First Aid Regulations. There is a Guide to First Aid Regulations available at www.gov.ns.ca/enla/ohs/FirstAidGuide.pdf

- Workplace Hazardous Materials Information [WHMIS] Regulations. A guide to these regulations is available through the Environment and Labour website, Publications section, under Public Safety and Occupational Health and Safety. Note that the Nova Scotia Tourism Human Resource Council offers customized WHMIS training programs for the tourism sector. Check their website at www.tourismhrc.com for details.

- The Elevator and Lifts Act requires licensing and inspecting of elevator units by the Public Safety Office, Department of Environment and Labour, including lifts for physically challenged persons.

- The Steam Boiler and Pressure Vessels Act may apply to the facility depending upon the type and size of any steam boilers or pressure vessels utilized.

The Nova Scotia Occupational Health and Safety Act

The current Occupational Health and Safety Act became law in 1997, with some significant implications for businesses in Nova Scotia. The Act is comprised of some key elements as described below. It is administered by the Occupational Health and Safety Division, Department of Environment and Labour - information, including a "How to Guide" can be found at www.gov.ns.ca/enla/ohs/

The ***Internal Responsibility System*** concept is the foundation of the Act and, simply stated, places the responsibility of workplace safety on all workplace parties. Workplace parties are defined as anyone connected with a particular workplace, including Employers, Contractors, Constructors, Employees, the Self-Employed, as well as Owners, Suppliers, Architects, Engineers, and Occupational Health and Safety Consultants. The Act states in some detail what the responsibilities (i.e. duties and precautions) of all workplace parties are.

The Act also provides employees with three basic rights. These are:

- **The Right to Know** - each employee is entitled to information on issues that affect the health and safety of the employee or that of another person in the workplace;

- **The Right to Refuse** - employees have the right to refuse unsafe or unhealthy work;

- **The Right to Participate** - employees can participate on health and safety committees or be an Occupational Health and Safety Representative, report unsafe conditions, and voice their concerns or opinions on any issue that affects their health and safety, or that of the workplace.

The Act states that a business employing five or more people on a regular basis is required to prepare a written ***Occupational Health and Safety Policy*** indicating that the employer is committed to occupational health and safety, and that the employer will co-operate with employees in striving to meet the goal of a safer and healthier workplace.

A business employing twenty or more people on a regular basis is required to establish and maintain a written ***Occupational Health and Safety Program*** including provisions for:

- The training and supervision of employees;

- The preparation of written work procedures relative to health and safety;

- The establishment of a Joint Occupational Health and Safety Committee or selection of a Health and Safety Representative, where one is required;

- The establishment of a hazard identification program and an accident/incident investigation system;

- The maintenance of records and statistics;

- The monitoring of the implementation and effectiveness of the program.

It is recommended that you obtain a copy of the Occupational Health and Safety Act and any other regulations that may pertain to you.

Department of Agriculture and Fisheries

Food Establishment Permits

The Department of Agriculture and Fisheries manages the regulations pertaining to foodservice facilities - the *Regulations Respecting Eating Establishments*. These regulations detail requirements for restaurant design and layout, equipment, food preparation, maintenance, sanitary facilities, and other health-related aspects of eating establishments. No person can operate an eating establishment without a Food Establishment Permit.

Before commencing construction of a new eating establishment, or before major renovations are made to an existing eating establishment, an application and plans must be submitted to the Department of Agriculture and Fisheries. Once the application has been received, an inspector from the Food Safety Section will carry out an on-site inspection - this must be done before the permit can be issued. Contact the Department (www.gov.ns.ca/nsaf/) to apply for a Food Establishment Permit. After approval is granted, an operating permit will be issued. This permit must be renewed annually - the Department will send out a renewal notice.

Note that you may also require a Municipal Vendors license; as well some municipalities require that food handlers take Food Handler Certification, also available through the Department of Agriculture and Fisheries. Check with your municipality re local requirements.

Nova Scotia Alcohol & Gaming Authority

In order to serve liquor, beer, or wine to the public in eating establishments (e.g. restaurants and dining rooms) or bar lounges, it is necessary to have a Nova Scotia Liquor License. The Alcohol and Gaming Authority should be consulted during the early stages of planning for such a facility so that the application can be made and the required hearing held prior to the opening of the facility. As well, it is necessary to consult the Alcohol and Gaming Authority during the planning stages to obtain information on their design and construction requirements and to make sure that your layout and design meets their requirements.

There are ten different types of licenses available and you will have to select the one appropriate to your needs and facility. Descriptions of the licenses are available at www.gov.ns.ca/aga/licensesummaries.htm#liquor

Specific regulations pertaining to the size of the dining area, the number of seats, and the size of washrooms apply. Copies of the Regulations as well as application kits may be obtained from the Alcohol and Gaming Authority through the website referenced above.

All liquor must be purchased through the Nova Scotia Liquor Corporation although you may purchase wine or beer directly from wineries and breweries, which are designated agency locations provided Liquor Commission forms are used.

Strict hours and age restrictions associated with your liquor license must be adhered to and violations are severely enforced. Holders of liquor licenses in Nova Scotia should be forewarned of the potential liability to which they could be exposed should a guest be injured in an accident following consumption of liquor on your premises. Care must be taken to ensure that neither you nor your employees **ever** serve liquor to guests in situations where they could be considered impaired. If that ever happens, and the guest is involved in an accident, then your property could be held liable for any damages the intoxicated guest inflicts on others.

In order to ensure that you minimize or eliminate that possibility, you and your staff should take the **Its Good Business - Responsible Beverage Service Program** offered through the Nova Scotia Tourism Human Resource Council (www.tourismhrc.com). In January 1994, the Alcohol and Gaming Authority made it mandatory for all owners of licensed establishments to take the It's Good Business - Responsible Beverage Service Program this program within six months of the issuance of their liquor license. The goal of the program is to assist operators in implementing responsible service and developing profitable business practices to reflect changes being experienced in the marketplace. It is not a server intervention program.

Department of Transportation and Public Works

The Department of Transportation and Public Works has a number of regulations that relate to signage for tourism related businesses, including both off-premise signage and on-premise signage.

Off-Premise Signage

Business Logo Program

The Business Logo Program is in effect for controlled access highways only. This program is designed specifically for those businesses offering food, accommodation, fuel and farmer's market services, and allows for the placement of the businesses' logo on a panel, which is shared by up to 6 businesses. The sign panels displaying the logos are placed before exits and at exits along the 100 series highways. Each eligible business is permitted one logo per approach, and must pay an annual fee, plus additional costs for fabrication and installation of the signs.

Under the Business Logo Program, once the approved logo signs are in place for a business, operators will be prohibited from installing any additional signs advertising their product on or near controlled access highways. Regulations under the provincial Public Highways Act prohibit the placement of any unauthorized advertising signage within 1000 metres of centre-line of the public highway. Under these current regulations, all existing advertising signage that does not conform to these regulations will have to be removed by mid-2006.

For further information on this program, or to apply, contact the Department of Transportation & Public Works or visit their website: http://www.gov.ns.ca/tran/highwayops/logosign.asp.

Service Symbol Signage

This program includes motorist service symbols (brown and white or green and white) for services that are essential to motorists such as gas stations, accommodations, and restaurants. Service Symbol Signs are for 100 series highways only and businesses must be located near a 100 series highway to be eligible. These Service Symbols are placed at the bottom of the green Exit signs, and again at the end of the ramp off the highway, and there is no charge to operators. Businesses are responsible for signage after the end of the ramp.

Other Policies for Off-Premise Business Signage on Provincial Roads

There are no provincial policies in place as of winter 2005 regarding the placement of advertising signage within the right-of-ways of secondary roads. Business operators are advised to contact their local municipality regarding policies for advertising signage along public roadways. Business operators should adopt a neighbour-friendly approach and seek permission of abutting landowners before placing any signs, as well as taking measures to avoid blocking existing traffic signage or impede sight-distances. Business operators are also discouraged from placing any advertising signage on utility poles as it presents safety issues for service and maintenance personnel.

There are likely to be regulations within your municipality governing signage - check with your local municipal office.

<u>On-Premise Signage</u>

Businesses wishing to place signs on their own premises should contact their local municipality for guidelines and regulations. As with other types of signs, operators should adopt a neighbour-friendly approach and consult with abutting landowners before placing of any signs.

For businesses located adjacent to provincial roads, there are regulations that apply to on-premise signage. Signs can only advertise business that is conducted on the premises; any new signs have to go either within 10 m of the main entrance point to the property (e.g. parking lot) or not further than 100 m from the main entrance to the building. Signs must be set back a minimum of 10 metres from the right of way for controlled access highways. Signs can be no larger than 28 square metres in area if there is only one business; if there is more than one business operating in the premises, the signs can be up to 51 square metres in size.

As with all regulations, those respecting on and off premise signage may change from time to time. You should check with the Department of Transportation and Public Works for up-to-date regulations affecting your business and the type of highway on which you are located.

<u>Driveways and Entrances</u>

The Department of Transportation and Public Works also has to approve the driveway/entrance to your business if you are on a provincial highway. This involves consideration of sight lines and speed limits. Contact your regional office of Transportation and Public Works for information.

Accessibility

Design and construction requirements to make restaurant properties accessible to and useable by disabled people are included under Section 3.8 of the Building Act that sets out the regulations that restaurants must adhere to with respect to barrier-free design.

The regulations stipulate that newly constructed restaurants as well as existing buildings that are being renovated or expanded, must comply with the barrier-free requirements. These regulations set out specific barrier-free design criteria for areas such as entrances, washrooms, and parking. You should meet with your local Building Inspector to clarify the interpretation of the code for the facility you are planning.

Competition Act

Under the Competition Act, it is a criminal offence to engage in certain kinds of deceptive marketing practices, including inflating regular prices and conducting misleading or false advertising. The act applies to all businesses in Canada and is enforced by the Bureau of Competition Policy.

7.2 Personal Information Protection and Electronic Documents Act

In January 2004, the federal government implemented the Personal Information Protection and Electronic Documents Act (PIPED). This piece of legislation is applicable to all organizations, including all private sector businesses and outlines the responsibilities of an organization relating to personal information collected and stored through the course of normal business activities.

The primary purpose of the Act is to ensure that the privacy of individual consumers is respected in that any personal information, including that relating to age, name, income, social status and credit records; is used for legitimate commercial purposes only and is stored or maintained in a secure fashion.

Following is a basic overview of PIPED:

- If your business wants to collect, use or disclose personal information about people, you need their consent, except in a few specific and limited circumstances.
- You can use or disclose people's personal information only for the purpose for which they gave consent.
- Even with consent, you have to limit collection, use and disclosure to purposes that a reasonable person would consider appropriate under the circumstances.
- Individuals have the right to see the personal information that your business holds about them, and to correct any inaccuracies.
- There's oversight, through the Privacy Commissioner of Canada, to ensure that the law is respected, and redress if people's rights are violated.

It is recommended that organizations develop in-house policies and procedures relating to the retention of personal information. Many businesses have now taken steps to include their privacy policy in their company literature and have it prominently displayed on company brochures, websites, etc.

The Office of the Privacy Commissioner has an online guide to PIPED and a number of fact sheets for businesses available through their website, which can be viewed at http://www.privcom.gc.ca; or by contacting the Office of the Privacy Commissioner of Canada at 1-800-282-1376.

7.3 Insurance

Insurance is a very important element of your business. All restaurant operators should carry insurance, regardless of the size of their operation.

The main types of insurance you should be aware of are:

- Property or Fire Protection Insurance is the most basic form of insurance and protects your property and buildings in case of fire. This type of insurance is usually required by your lender in order to secure a mortgage for your property.

- General Liability Insurance is insurance to cover claims made against your business for bodily injury or property damage arising from your operations. This insurance is commonly known as third-person liability insurance. You should also have product liability insurance in case of food poisoning, a rare occurrence but potentially lethal.

- Equipment Coverage is insurance to protect the equipment of your business, including furnishings, restaurant equipment, etc.

- Stock Coverage is protection for goods for resale (i.e. food and liquor) you hold in inventory during the course of conducting your business.

- Business Protection Insurance is loss-of-income protection. Such insurance protects your business from a loss of business revenue if, for example, your property had to close for a few months as a result of a fire.

- Crime Coverage is a type of insurance which protects your business from losses resulting from employee infidelity or theft. This type of coverage can be particularly important for restaurants where theft of money, liquor, or other items can sometimes occur.

- Robbery and Holdup Protection will cover you in the event of a robbery. This type of insurance can be particularly important if your business has a significant amount of cash on hand at any time.

As a restaurant operator, the specific types of insurance you should hold will vary according to a variety of factors, including the size of your business. Similarly, the insurance premiums you will pay per year will depend upon the level of coverage you need.

Generally, you should purchase broad-form or all-risk insurance, which will provide you and your business with a number of different coverages, rather than purchase standard or basic insurance, which will only provide you with fire protection insurance, and in some cases, some limited liability insurance.

Talk to an insurance agent who has experience in providing insurance for the restaurant sector about the types of insurance you should carry. In addition, membership organizations such as the Restaurant Association of Nova Scotia and TIANS may be able to provide access to cheaper insurance rates than those which you could obtain on your own.

7.4 Taxes

Harmonized Sales Tax

The harmonized sales tax (HST) is a 15% value-added tax which replaced the former retail sales tax and GST in Nova Scotia. All restaurant operators are required to register for and collect the HST on the sale of prepared meals and beverages if their total sales revenues are in excess of $30,000 in a 12 month period. If you operate a small eating establishment which earns sales revenues less than $30,000, you are not required to charge HST. However, you may wish to voluntarily register for and collect the HST. The advantage of doing this is that you can claim a credit (called an input tax credit) to recover the HST you paid for expenses and purchases used for the business.

As soon as you register for the HST, you must charge HST on all meals and submit your HST remittance to the Canada Revenue Agency. The HST is applied to the total bill, including service charges, if they are included on the invoice. (Voluntary tipping is not subject to the HST.)

When you register for the HST, you are given a reporting schedule to follow for your HST returns, depending on the volume of your restaurant business. When you complete your return, you deduct all your input tax credits from the HST you charged on your restaurant sales. You are required to remit the difference if the HST you collect is more than your credits; if your credits exceed your payables, you claim an HST refund.

Contact Canada Revenue Agency either in person, via phone (1-800-959-5525), by mail or through the on-line business registry at http://bsa.cbsc.org/gol/bsa/site.nsf/en/index.html and follow the appropriate links for an HST Registration Form.

Employment Taxes

As an employer, you are responsible for deducting income tax, Canada Pension Plan (CPP) contributions, and Employment Insurance (EI) premiums from the wages and salaries you pay your employees. You are also responsible for remitting these amounts on a monthly basis to the Receiver General for Canada, along with your share of CPP contributions and EI premiums that you contribute throughout the year on your employees' behalf. You are also required to report these amounts on an annual information return and prepare annual T4 information slips for your employees.

The Canada Revenue Agency is responsible for ensuring these requirements are met. The department handles enforcement and some collection activities related to payroll deductions, prepares the Payroll Deduction Tables used by employers for calculating deductions, and determines employee insurable earnings for the Employment Insurance Act and pensionable employment for the Canada Pension Plan.

Contact your local Canada Revenue Agency office for more information, and a New Employer kit.

Nova Scotia Workers' Compensation

Under the Nova Scotia Workers' Compensation Act, various industries are mandated to pay for compensation coverage to protect employees from income loss and medical expenses resulting from job-related injuries. Under the Act, you are required to pay a premium based on the dollar value of wages you pay your employees, unless you employ less than employees. (If you employ three employees or less, you are exempt from this regulation.)

Contact the Nova Scotia Workers' Compensation Board (www.wcb.ns.ca) for additional information regarding the specific premiums applicable to you and a copy of the registration form.

Corporate Income Tax

If your business is federally or provincially incorporated, you must file a corporate income tax return. Corporations that the Canada Revenue Agency considers registered charities (i.e. not-for-profit organizations) are the only exemption.

Be sure to file your corporate income tax return within 6 months of the end of the taxation year. The taxation year of a corporation coincides with its fiscal year. If you do not use the services of an accountant, you can obtain a copy of the T2 Corporation Income Tax Guide and schedules from the Canada Revenue Agency. Corporations are required to pay monthly installments to cover Corporation Income Tax in the 2nd year of operation and all following years if their federal taxes exceed $1,000.

Sole Proprietorships and Partnerships

The income from a sole proprietorship or partnership is accounted for on the personal income tax of the individual proprietor or partner. Your taxable income is essentially your business income minus any eligible business deductions. A separate Partnership return is required if there are more than five partners in the partnership.

For additional information or Income Tax forms, check the Business Section of CRA's website (www.cra-arc.gc.ca) or contact them by phone at 1-800-595-5525.

Business Occupancy Tax

Occupancy tax is an annual municipal tax that is administered and collected by your local municipality. The tax is charged on nearly all commercial buildings in Nova Scotia, and is applied at a fixed percentage based on the assessed value of a building, taking into consideration the commercial value of the building (based on the value of the building and its rent per square foot), and the assessment rate which applies to a particular type of business. The provincial Assessment Division (Service Nova Scotia and Municipal Relations) is responsible for determining the assessment value of your property for occupancy tax purposes.

There are plans to introduce legislation in the Spring of 2005 to eliminate the Business Occupancy Tax in Nova Scotia.

Contact your local municipal tax office or the Assessment Division of Service Nova Scotia and Municipal Relations with enquiries regarding occupancy tax.

7.5 Registration of Companies

Provincial Business Registration

All business owners are required to register the name of their business, although the manner of doing this varies depending on the type of business structure established. Appendix II provides comments on different types of business structures and the advantages and disadvantages of each. The Nova Scotia Business Registry is now available on line at www.gov.ns.ca/snsmr/nsbr/

Partnerships and Sole Proprietorships

The Partnership and Business Names Registration Act, administered by the Nova Scotia Registry of Joint Stock Companies, requires the registration of sole proprietorships and partnerships in the province.

If a partnership has two or more partners, the partnership must appoint a recognized agent who is a resident of Nova Scotia. One of the partners may be the agent.

An annual registration fee is charged. The registration year runs from April 1 to the following March 31. In addition, there is a charge for conducting a NUANS (Newly Updated Automated Name Search) to verify that your business name is not already being used by another business in Atlantic Canada. A NUANS search may be ordered through the Registry of Joint Stock Companies, Access Nova Scotia, or a private research house.

The registered name of the partnership or sole proprietorship will be protected and no identical or similar name will be permitted in Nova Scotia.

For further information, contact the Registry of Joint Stock Companies at www.gov.ns.ca/snsmr/rjsc/

Corporations

Corporations are required to be registered in Nova Scotia under the Corporations Registration Act. If you wish to establish a Nova Scotia corporation, the first step is to request a NUANS of your corporate name to verify that it is not already being used in Atlantic Canada. A fee is required for each NUANS request. Incorporated companies are required to include the corporate designation Limited or Incorporated as the last word in the business name.

Once your business name and incorporation has been approved, you are required to pay an annual fee to register the business in Nova Scotia. The registered name of your corporation will be protected and no identical or similar name will be permitted in Nova Scotia. Every incorporated business must appoint a recognized agent who is the person that receives official correspondence. This Agent does not have to be a lawyer but he/she must reside in Nova Scotia.

All business registrations can be completed on line through the Nova Scotia Business Registry (www.gov.ns.ca/snsmr/nsbr), via phone (1-800-225-8227) or in person at any Access Nova Scotia location.

Federal Business Registration

Partnerships and Sole Proprietorships

There is no business registration at the federal level. Businesses wishing to operate in more than one province must be provincially registered in each province in which they wish to conduct business.

Canada Corporations

If you are considering incorporation, you have the option of being incorporated at the Federal level under the Canada Business Corporations Act (CBCA). This replaces the need for provincial incorporation.

Federal incorporation is often chosen for the heightened name protection it provides and may be particularly useful to you if you plan to carry on business in more than one province. Location flexibility is another advantage of federal incorporation. For example, the CBCA does not set restrictions regarding the province where your head office is located. However, you may still be required to register with provinces where extra-provincial operations will be carried out. For Nova Scotia, this can be done at the same time as your Federal incorporation is completed on-line.

As with provincial corporate registration, you are required to have a name search conducted (NUANS) and pay an annual corporate registration fee. Your business must be registered to do business in Nova Scotia, even if it is a federal corporation.

Contact Corporations Canada (www.coprorationscanada.ic.gc.ca), or the Canada/Nova Scotia Business Service Centre for incorporation and registration information.

Business Number Registration

The federal government business numbering system, or BN, is a numbering system designed to simplify the way businesses deal with government. When you start a business and open one or more Canada Revenue Agency (CRA) business accounts (e.g., corporate income tax account, payroll deductions account, or harmonized sales tax /goods and services tax (HST/GST) account), you will automatically be assigned a unique Business Number which identifies you and the various accounts you have. This streamlined system allots your business one number only with which to deal with the federal government, replacing the multiple numbers that businesses required in the past. You can register for a BN on line at www.cra-rc.gc.ca/business .

Businesses that register for the BN will obtain one-stop business services from the Canada Revenue Agency, including new business registration, adding new accounts, updating account information, and account enquiries.

In most cases, new corporations will automatically receive a BN from CRA within 45 days of incorporating at the federal or provincial level. Contact CRA if you need to have a Business Number issued to you before this time.

Contact the Canada Revenue Agency for a copy of the registration application form and guide or register on line. You may also register by phone, in person, by mail, or by fax. (If you are a corporation, your company must be registered and you must also provide a copy of your Certificate of Incorporation to be registered for a Business Number.)

SECTION 8

Operations

SECTION 8

OPERATIONS

You have so far developed a concept and strategic plan for the business, assessed its feasibility, and designed the restaurant, based on an appreciation of the marketplace and the competition. The restaurant is now under construction and you are now turning your attention to the operational startup. This section presents suggestions and guidelines for operation of your restaurant business, and what you need to plan in advance.

8.1 Organization and Staffing

You need to figure out your management and staffing requirements. These requirements will be driven by the scale of your restaurant as well as its concept. Naturally, a small takeout facility will have much different management and staffing requirements than a full-service, fine-dining restaurant.

Leadership

Before getting into the details, it is vital that the management be strong leaders. Maintaining quality service standards and keeping costs in line needs a committed team approach, and that requires strong managers with leadership skills. They need to lead by example, develop and train staff, motivate them, reward good work and deal with those who are not maintaining the standard. To do this, they have to keep a frequent eye on what's happening.

A great leader is a good manager, and a great manager is a good leader.

The Details

The areas of management that will have to be covered include:

- **General management**: banking, planning, budgeting, overall supervision of each area of operation, menu planning, controls, inventory, and facility maintenance;
- **Service operations management**: supervision of dining room staff, staff scheduling, quality control, and enquiries to customers about the quality of food and service;
- **Kitchen management**: purchasing, daily menu planning, supervision of kitchen personnel, food preparation, and scheduling of kitchen personnel;
- **Marketing:** advertising and promotions;
- **Financial control and accounting**: bookkeeping, management reports, tax remittances, payroll, and purchasing;
- **Personnel:** staff hiring and training.

Larger operations may have departments for some of these activities. Small ones will combine them. For example, in a very small operation, the general manager/owner would perform the general management, service management, and personnel functions, with an assistant to help with administration and bookkeeping. A chief cook would run the kitchen.

Keep the management team small initially, you can always add more people if you really need them, but it is much harder to downsize if you have too many.

Other than management functions, the main staff requirements for your restaurant will be kitchen staff (cooks, food preparation, dishwashing, etc.), serving staff, cashier, and, in larger restaurants, you will also need a number of other staff such as bartenders, hosting staff, etc.

The skills and knowledge of these staff persons, as well as their ability to provide quality service to your customers, will have a large impact on your company's credibility and reputation in general. Because the expectation of guests in regard to service and the quality of your product is high, it is essential that your staff are quality service providers who are capable in both technical and service skills. Further discussion on training is provided below.

8.2 Standardization

In order to be a successful foodservice operator in today's marketplace, you need to be incredibly lucky or have accurate, timely information on which to base decisions. A restaurant cannot be profitable in the long term without a comprehensive food and beverage information system. This does not necessarily mean that you have to invest a great deal of money in an expensive computer system that requires a great deal of skill to operate. It simply means that you need to be organized and take the time to do the reports necessary to stay on top of things in your operation. It means being systematic about how you organize the day to give you (or someone you hire) the time to evaluate where you are at any given point in time. The only way this can happen is if you have an appropriate system of standards in place.

DEFINITION OF THE TERM STANDARD = WHAT IT SHOULD BE

When we talk of standard recipes, or standard portion sizes, or standard costs, we are talking about what those things should be. A standardized food and beverage system must contain the following components:

- Recipes which are standardized so that every employee will make the dishes the same way every time;
- Standard purchasing specifications so you will always buy the same grade of materials;
- Standardized portion sizes and plate arrangements;
- Inventory control sheets;
- Daily sales report;
- To-date sales report;
- Daily receiving report;
- Daily and cumulative labour report.

Repeat business is one of the most important factors in successful restaurant operations today. One of the key factors that bring customers back to any restaurant is consistency of product and service. It would be hard to disagree that McDonalds is perhaps the most successful foodservice company in history. They have standardized their product and service to the point where you can go into any of their restaurants, whether it be in Halifax, Honolulu, or Helsinki, and know before you order exactly what you will receive. Their success is based to a large degree on that consistency of product and service.

Your customers should know that they will always receive an excellent product and/or service no matter what type of restaurant or foodservice facility you operate.

Chefs often resist the concept of standardization because they feel that it restricts their creativity. Nothing could be further from the truth! What standardization simply means is discovering the best way to prepare a particular menu item and doing it that way every time. Can you think of a time when you might offer a product to your customer that wasn't as good as it should be? Creativity is not even part of the equation. Chefs can still create new and innovative menu items.

There is, perhaps, another even more important component of this standardization approach. The financial success of your restaurant is based on controlling your costs effectively. You can only do this if your product is being purchased and prepared the same way every time. If you see, for example, a steak being carried by a server to a customer's table, you should be able to know that it is a 12 oz. New York Cut sirloin steak, that it was grilled in a particular fashion, and that the cost of that item is $4.26 without exception. How could you know these things? First, you would know that your purchase specifications indicate that you bought a Canada # 1 grade New York cut sirloin steak precut to be 12 ounces (+/- 0.25 ounce) from a particular listed supplier for $ xx /lb. You would also know from your standard recipes that the surrounding dish cost was $ yy and that the food cost percentage was zz%. This information is readily available if you have the appropriate system of standards in place. If you have this information at your disposal, you can effectively control your costs.

A discussion of some of the key elements of standardization for a restaurant operation is provided in this section of the manual.

8.3 Menu Planning[5]

When planning and designing a menu for a foodservice operation you need to take the following criteria into consideration:

- How many customers will you serve per meal?
- What type of service will be provided?
- What kitchen facilities are available?
- What are the hours of service?
- What type of service is desired?
- What is the largest number of customers/meal period?
- What type of menu is contemplated?

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[5] *Canadian Menu Manual*, Published by Foodservice & Hospitality Magazine and the Canadian Restaurant Association, 1975

- How many menu choices will there be?
- What is the seat turnover?
- What seating arrangement will be utilized?
- What table sizes will be used (two seat, four seat, etc.)?
- What is the aisle size and space per seat?
- How many service stations are there in the dining area?
- What is the amount and type of table side service?
- What is the price range of the menu items?
- How many employees are there and what are their skill levels?
- What is the availability of all ingredients during the year?
- What are the local and seasonal market conditions affecting cost and availability of food products and related needs?
- What is the quality level chosen?
- Is the menu compatible with the restaurant theme or cuisine?
- Is there any special equipment required?
- What is the food cost goal?
- What can be done to avoid menu monotony?
- What is the profit goal that you expect to achieve?
- What menu prices would be attractive, and meet these goals?
- What balance do you need between light and heavy meals, regular items, specials, etc.?

Menu Concepts

There are a wide variety of menu concepts available to the restaurant operator. The two basic types of menus are table d'hote, which is a complete meal with a single price, and à la carte, where each menu item is priced individually.

Once the price range of the menu is decided upon, the operator must then focus on the number of items that will be listed on the menu. The more extensive the menu, the more costly the menu. As the number of items on the menu increases, the expertise needed increases, the total food cost increases, and the cost to construct the restaurant increases.

Limiting the menu is the most appropriate approach in today’s marketplace. Limited menus have a maximum of 30 items. In a specialty restaurant, the number of items generally does not exceed 12. There are restaurants which have upwards of 100 menu items, but this approach must be carefully controlled and requires extensive freezer capacity.

Balance is one of the most important criteria when designing a menu. The menu must reflect the various food groups and must be in tune with the kitchen design, so no one station in the kitchen becomes overworked. Balance in price is also very important: your menu prices must reflect the price range determined to be most appropriate to your customers’ preferences. Seasonal balance is also important, as customers will appreciate fresh products in season. In addition, there is often a price advantage in buying products in season.

The menu is a great selling tool. The descriptions you provide for each menu item should encourage your patrons to purchase from all menu categories. Simply listing appetizers and desserts without a mouthwatering description is a lost opportunity for sales.

Your employees should be intimate with each and every menu item. They should know how the item is prepared and presented, the ingredients, and, very importantly, how it tastes. Every server should be given the opportunity to taste all the menu items. A good approach is to have the chef/cook prepare one sample dish each day and allow the servers to sample small portions. One of the greatest keys to success in the restaurant business is suggestive selling. The servers can directly influence guest choices if they can speak intelligently about menu items. They can dramatically increase average checks.

Dining out is an experience and everything should be done to make it as memorable an occasion as possible.

Menu Engineering

One of the most useful tools that a restaurant manager can use to evaluate menu performance is menu engineering.

This concept evaluates the performance of the menu in terms of a number of factors such as contribution margin (CM) or number of items sold. Contribution margin is the selling price of a menu item minus the food cost.

In planning your menu it is important to first analyse the cost of each menu item per plate. You need to determine the number of ounces of each item per plate and the cost per ounce. Then you add all of the costs to determine your total target cost per plate per menu item. This will be vital input to the 'menu engineering' task.

Exhibits 20 and 21 represent the typical menu analysis which is possible with menu engineering techniques. Menu items are categorized based on their popularity and profitability. The manager must judge whether any particular level of sales and contribution margin is high or low. In many cases, the average contribution margin and sales level is taken as the middle point. In the example in Exhibit 20, the total contribution margin is \$6,710 - \$2,322 = \$4,388. If we assume that there were 500 menu items sold, then the average contribution margin per meal is \$4,388 ÷ 500 = \$8.78. This now becomes the point of the line on the contribution margin (CM) axis.

The point of the line on the customer axis is determined by finding the average expected percentage for any menu item (100% ÷ 6 menu items = 16.7%) and then using a determination of how popular an item must be to be in the high category. In this case, the manager has determined that any item must sell at least 70% (Menu Mix Popularity Standard) of the average to be considered high. To determine the desired menu mix rate you multiply 70% x 16.7% which equals 11.7%. Since they sold 500 total menu items, the number to divide the customer axis into high and low is 11.7% x 500 = 58.5.

Menu items which have a high profitability (i.e. those with a CM greater than \$8.78) and are popular (i.e. more than 58.5 items sold) are 'stars' or items which are very desirable on the menu. Menu items which are 'plow horse' are ones which are popular but for which the contribution margin is relatively low. These items often provide a great deal of the total gross profit for a restaurant. Managers usually look for ways to make these items more profitable and, therefore, turn them into stars. Items which are 'puzzles' are those that have a relatively high contribution margin, but do not sell well. Managers should try to make them into stars by increasing the level of sales, perhaps through advertising or suggestive selling. Items which are 'dogs' require evaluation as to whether or not they should stay on the menu. These are items that do not have a high contribution margin and do not sell well.

EXHIBIT 20
MENU ENGINEERING WORKSHEET

	A	B	C	D	E	F	G	H	I	J
Menu Item	**Number Sold**	**% of Sales**	**Item Selling Price $**	**Food Amt $**	**Item CM (C - D)**	**Sales (A x C)**	**Total Food Cost (A x D)**	**Popularity Category**	**CM Category**	**Menu Item Class**
Chicken	130	26	12.50	4.25	8.25	1,625	553	High	Low	Plow Horse
Sole	50	10	14.50	6.40	8.10	725	320	Low	Low	Dog
Prime Rib	90	18	18.00	7.20	10.80	1,620	648	High	High	Star
Lasagna	80	16	8.00	2.20	5.80	640	176	High	Low	Plow Horse
Petit Steak	50	10	16.00	4.00	12.00	800	200	Low	High	Puzzle
Veal Parmesan	100	20	13.00	4.25	8.75	1,300	425	High	Low	Plow Horse
Totals	**500**	**100%**				**$6,710**	**$2,322**			

K

Total Sales (F)	$6,710
Less Total Food Cost (G)	2,322
Total Contribution	$4,388

L

Total Contribution	$4,388
Divided by Number of Covers	500
Average Contribution/Meal	$8.78

M

Total Percentage	100%
Divided by Number of Entrees	6
Average % for Entree	16.7%

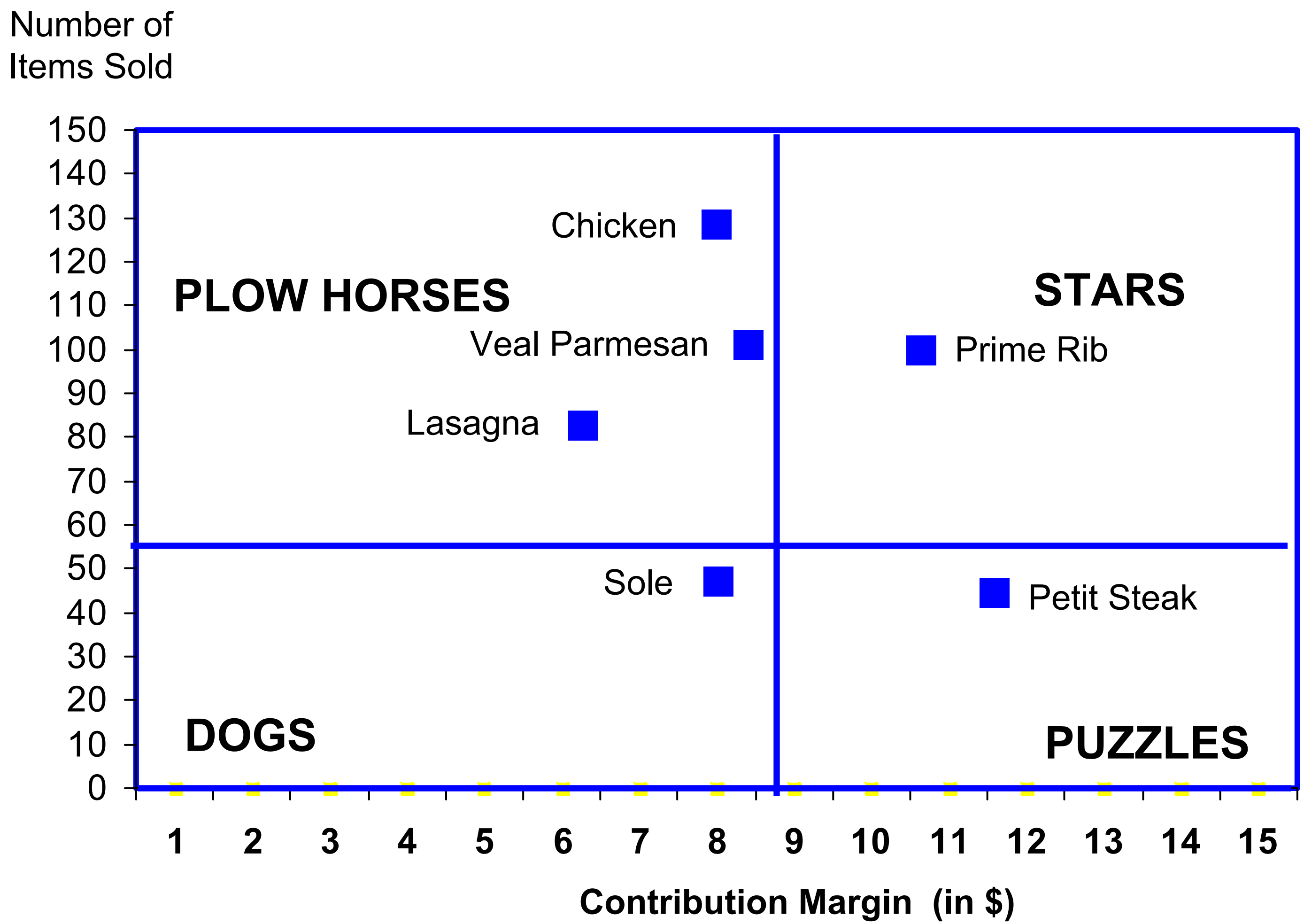
N

Average % for Entree	16.7%
Multiplied by **Menu Mix Popularity Standard**	0.7
Menu Mix Category Standard	11.7%

Source: Keiser, James and Frederick J. DeMicco; *Controlling and Analyzing Costs in Foodservice Operations*; Macmillian Publishing Company; 3rd Edition; 1993, page 94.

EXHIBIT 21

MENU ENGINEERING



Source: Keiser, James and Frederick J. DeMicco: *Controlling and Analyzing Costs in Foodservice Operations*; Macmillan Publishing Company; 3rd Edition; 1993, page 94

You may decide to take these latter items off the menu, but it should be noted that it is sometimes necessary to keep them on the menu. For example, in a fast food restaurant that sells a lot of hamburgers, a salad item may fall into the dog category but is maintained on the menu because of something called the 'veto vote'. The veto vote refers to groups who come to the restaurant. If one person in the group wants to eat salad, the whole group may go to another restaurant if your restaurant does not have salad on the menu. Restaurants therefore keep the 'dog' item on the menu to accommodate such situations. The point is that you want to make sure that expected, commonly popular items are available, regardless of their status.

In the example illustrated, the menu item prime rib has a relatively high contribution margin and is highly popular. As you might imagine, this particular item is a 'star' in this menu mix. A manager constantly analyzes the menu to determine what should go, what should stay, and what items should be promoted heavily.

Printing the Menu

The physical menu itself should be carefully designed.

It should:

- Create a favourable impression;
- Be easy to read and preferably a light colour;
- Be able to be read in 60 seconds;
- Be honest in the descriptions but describe a mouth-watering experience;
- Be balanced in terms of types of food items and prices;
- Be the correct size (i.e. not too small).

The layout of the menu is very important as well. Customers' eyes are naturally drawn to specific points on the menu, so where you position menu items often determines how much of any given item will be sold. For example, when customers first open a menu, their eyes tend to focus on the upper portion of the right-hand page. If you place the items you wish to feature there, you will increase sales of those items.

With today's computer graphics capabilities and much cheaper printing costs, it is much easier and cheaper to print new menus on a regular basis, seasonally or even more frequently. Your menus can reflect seasonal specials, be adjusted to remove those items that turn out to be 'dogs' and try out new items for a short period of time.

8.4 Purchasing

One of the key functions in any food and beverage operation is purchasing. This function should not be entrusted to an inexperienced employee, since a great deal of money can be lost through ineffective purchasing methods. The employee responsible for purchasing should be trained in the standard purchase specifications. Purchases should only be made from the list of approved suppliers.

There are a variety of approaches used today for purchasing. Perhaps the most common is the shop-around approach, where prices for the products to be purchased are compared among various suppliers and the goods purchased from the supplier with the lowest cost for comparable items. Buying the product from the supplier with the absolute lowest cost without taking quality into consideration is not a very good approach. There is often a great deal of waste in lower priced and/or lower grade products and, while the lower grade product is very often priced more cheaply, it may be more expensive in the long run.

You should determine the relative prices of the end products for a variety of grades of any particular product you purchase. This is called yield testing.

For example, ‘can cutting’ is an appropriate method to analyze the yield of particular products. If you take a can of canned corn, Fancy grade, and compare it to a can of Standard grade corn, you will find a higher yield in the Fancy grade. You can test this by draining off the water in the can and weighing the solid product. There is generally more water in the Standard grade can than in the Fancy grade. You can then compare the price per ounce of product, after draining, in the two cans. You may want to look at the quality of the corn in each as well. Generally the Fancy grade will have fewer broken kernels and be more appropriate as a vegetable on a plate, while the broken kernels in the standard grade would not be a problem for a corn chowder.

A similar example from the meat products can be demonstrated by taking two equal weights of different grades of hamburger and cooking them for the same length of time at the same temperature. You will find that the higher grade hamburger will have a higher percentage of meat remaining. You can then compare the relative cost of each and you will often see that the higher grade product has the lower net cost per serving.

Beware of bargains in purchasing. You may be able to get a great deal on a large order but make sure that you will be able to use it up before it spoils and make sure you have the space to store the product. Buying 50 cases of tea may save you a lot in terms of the price per case, but you should look at how long it will take you to use it up and where you can put it to keep it safe from moisture, etc. Even tea has a shelf life and goes stale after a time.

On the other hand, if you do your research, you can work with low cost suppliers, even retailers and get some great deals, particularly cash and carry outlets. You may have to go to their premises to pick up the goods. But saving money is important, so try different approaches and go with what works for you, and saves you money!

One-Stop Shopping

Today the trend is more toward one-stop shopping: one supplier provides you with the majority of items you purchase. Many carry meats, frozen foods, dairy products, vegetables, and dry goods; almost everything you can use. The rationale behind this approach is convenience. Although some products cost slightly more, others will be slightly less, and the costs will even out in the end. As a result, you, the purchaser, could save time and money in the long run.

The only drawback to this approach is that you are putting all your eggs in one basket. If the supplier you are dealing with is unable to supply you with product for any reason, you may find it hard to get good service from competing suppliers, since you are not one of their regular customers.

The alternative, of course, is to seek out and use different suppliers for different things, particularly specialty items. It’s a little more work, but may be to your benefit, either in quality or in price, or both.

Club Shopping

Shopping clubs and cash-and-carry outlets are becoming very popular for very small foodservice operators. The purchaser can go to the outlet and find goods that are priced at a point usually somewhere between the wholesale and the retail price. This is very convenient when the purchaser wishes to purchase a part case or needs a product in a hurry.

Cook Chill or Cook Freeze Products

A relatively new approach to restaurant purchasing is to buy the product fully prepared, precooked and chilled, or precooked and frozen. This product is usually in a plastic bag and is reconstituted using a microwave or other sophisticated equipment that is recommended by the food supplier. This approach has perhaps the highest 'as purchased' cost associated with it, but it is standardized and will always be of the specified quality.

There is also a much lower labour cost associated with the use of these products. Since they are pre-prepared, there is little need for highly trained cooking personnel. They can be reconstituted very quickly and easily by relatively unskilled workers. Many hotels and institutional feeders, such as hospitals, universities, and prisons, have gone to this approach. It has an extremely high degree of cost control and quality control associated with it.

Standard Purchasing Specifications

The main reason for a manager to resist the use of standard purchase specifications is the failure of suppliers to deliver the products as ordered. There is only one answer to this: find yourself a different supplier. You are the customer in this relationship. If a supplier is unwilling to sell you something exactly as you want it, they are a poor supplier not worthy of your business. Given the degree of competition in the world today, most reliable suppliers have a customer focus which places your needs first. You may have to pay slightly more for specific custom items but you can calculate this cost into your pricing scheme.

Exhibit 22 illustrates an example of standard purchasing specifications.

Standard Recipes

These must be used for every item on your menu. You can only achieve a high degree of consistency if you use this method. This is the focal point of the standard costing system. Your consistency of product and costs hinges on the use of standardized recipes. Exhibit 23 illustrates a standard recipe.

You can purchase software to help you do this. You can find them listed in restaurant industry publications. Look under 'Bottom Line Menu Tools'. One example is 'Tracrite Software Inc'.

Standard Costing System

The standard costing system is simply based on your buying the requested/specified products, preparing them exactly the same way every time, and serving a standard portion size every time. Exhibit 24 illustrates a standard portion costing system.

EXHIBIT 22
EXAMPLE OF STANDARD PURCHASING SPECIFICATIONS FOR CUBED STEAKS

1. Grade - Canada A1
2. Weight - 6 ounces (over or under tolerance of ¼ ounce allowed)
3. State of refrigeration - chilled or frozen as per purchase order
4. The cubed steaks may be produced from any boneless meat from the beef carcass that is reasonably free of membranous tissue, tendons and ligaments
5. Knitting of two or more pieces and folding the meat is permissible
6. Cubed steaks must be reasonably uniform in overall shape
7. Surface fat must not exceed ¼ inch in width at any one point when measured from the edge of the lean
8. Surface and seam fat must not cover more than 15% of the total area on either side of the steak
9. The cubed steak must not break when suspended from any point ½ inch from the outer edge of the steak.

Source: James Keiser/Frederick J. Demicco, Controlling and Analyzing Costs in Foodservice Operations, 1993, page 221.

EXHIBIT 23
STANDARD RECIPE

Menu Item: Beef Stew   Date Prepared: ____________   Recipe Multiplied: 1 Time

Number of Portions: 100   Size of Portion: 8 oz.

Cost Per Portion: $1.045   Selling Price: ____________   Percent of Food Cost: _______

1	2	3	4
Ingredients	**Weight, Volume or Count**	**Cost Per Unit Ready to Use**	**Total Cost Items Used**
Beef Stew	35 lbs.	$2.12 lb.	$74.20
Flour - All Purpose	1 lb. 4 oz.	.11 lb.	.14
Tomato Puree	1 ½ qts.	1.51 qt.	2.27
Beef Stock made from Beef Base	1 ½ gals.	**4.30 lb.	1.29
Roux - Flour - Fat	6 oz. 6 oz.	.11 lb. .42 lb.	.04 .16
Frozen Stew Vegetables	35 lbs.	.74 lb.	25.90
*Spices	—	—	.50
TOTAL COST			**$104.50**

* Salt, Pepper, Garlic Powder, Bay Leaves, Thyme, Caramel Colour
** One pound of Beef Base Reconstituted Equals Five Gallons Beef Stock

$$\text{Cost Per Portion} = \frac{\text{Total Cost: \$104.50}}{\text{Number of Portions: 100}} = \$1.045$$

Source: Keister, Douglas; Food and Beverage Control; Prentice Hall; 2nd Edition; 1990, page 184.

EXHIBIT 24
PORTION COSTING

Item: Strip Loin Boneless # 180 Grade: Choice Date: **3 - 19 -**

Pieces: 1 Weight: 11 Lbs. 8 Oz.

Total Cost: $41.86 At: $3.64 Per: lb Purveyor: ____________________

1	2		3	4	5		6		7	
Breakdown	**Weight Lb.**	**Oz.**	**Market Value Per Lb.**	**Total Value**	**Cost of Each Lb.**	**Oz.**	**Portion Size**	**Cost**	**Cost Factor Per Lb.**	**Portion**
Fat	3	8	.00	.00						
Stew Meat		8	2.12	1.06						
Trimmed Strip Loin	7	8		40.80	5.44	.34	12oz	4.08	1.494	1.12
Total	**11**	**8**		**41.86**						

Portion Size: 12oz. Steaks

Cost Factor = $\dfrac{\text{Computed Cost Per Pound Ready to Cook: \$5.44}}{\text{As Purchased or Market Price Per Pound: \$3.64}}$ = 1.494 Cost Factor Per Pound

Cost Factor = $\dfrac{\text{Computed Cost Per 12oz. Portion Ready to Cook: \$4.08}}{\text{As Purchased Price Per Pound: \$3.64}}$ = 1.12 Cost Factor Per Portion

Source: Keister, Douglas; *Food and Beverage Control*; Prentice Hall; 2nd Edition; 1990, page 180.

EXHIBIT 25
FOOD COST CONTROL

1	2	3	4	5	6	7	8	9	10	11	12	13
Menu Item	**Main Ingredient Standard Portion Size**	**Main Ingredient Cost Per Portion**	**Garnish or Sauce Cost**	**Sur-rounding Dish Cost***	**Total Cost of Item**	**Sale Price**	**Item Gross Profit**	**Actual Number of Items Sold**	**Actual Potential Cost**	**Actual Sales**	**Actual Total Gross Profit**	**Actual Potential Food Cost Percent**
<u>APPETIZERS</u>:												
Shrimp Cocktail	4	1.64	0.15		1.79	4.00	2.21	17	30.43	68.00	37.57	44.75
Fresh Fruit Cup	6 oz	0.40			0.40	1.25	0.85	9	3.60	11.25	7.65	32.00
Soup of the Day	6 oz	0.26	0.06		0.32	0.95	0.63	31	9.92	29.45	19.53	33.68
TOTAL APPETIZERS								**57**	**43.95**	**108.70**	**64.75**	**40.43**
<u>ENTREES:</u>												
Breast of Chicken (Stuffed with Ham & Cheese)	7 oz	1.59	0.16	0.95	2.70	7.95	5.25	25	67.50	198.75	131.25	33.96
New York Strip Steak	12 oz	4.08	0.15	0.95	5.18	12.95	7.77	66	341.88	854.70	512.82	40.00
Baked Flounder with Crab Stuffing	8 oz	2.89	0.22	0.95	4.06	10.75	6.69	12	48.72	129.00	80.28	37.77
Prime Rib of Beef	12 oz	3.41	0.05	0.95	4.41	11.50	7.09	60	264.60	690.00	425.40	38.35
Chopped Steak/Onion Sauce	8 oz	0.75	0.10	0.95	1.80	7.25	5.45	29	52.20	210.25	158.05	24.83
Troute Saute Almandine	8 oz	1.30	0.19	0.95	2.44	8.25	5.81	24	58.56	198.00	139.44	29.58
Beef Kabob	10 oz	2.06	0.29	0.95	3.35	9.25	5.90	13	43.55	120.25	76.70	36.21
Broiled Shrimp with Lemon Butter	Jumbo (6)	3.00	0.17	0.95	4.12	11.25	7.13	37	152.44	416.25	263.81	36.62
TOTAL ENTREES								266	**1,029.45**	**2,817.20**	**1,787.75**	**36.54**
<u>DESERTS:</u>												
Pecan Pie	1/6	0.49			0.49	1.50	0.76	18	8.82	27.00	18.18	32.67
Cheesecake	1/16	0.63			0.63	1.75	1.12	22	13.86	38.50	24.64	36.00
Assorted Ice Cream Sundaes	4 oz	0.16	0.21		0.37	1.25	0.88	13	4.81	16.25	11.44	29.60
TOTAL DESERTS								**53**	**27.49**	**81.75**	**59.07**	**33.63**
GRAND TOTAL									**1,100.89**	**3,007.65**	**1,906.76**	**36.60**

* Potato
Tossed Salad
Vegetable
Roll and Butter

Source: Keister, Douglas; *Food and Beverage Control*; Prentice Hall; 2nd Edition; 1990, page 188-189.

The Myth of Percentages

Perhaps the most frequently used method of analyzing restaurant results is the food cost percentage method. A particular food cost percentage (FC%) is determined in advance and the chef and/or manager works toward that percentage. This is calculated in the following fashion

$$\text{FC\%} = \frac{\text{Raw food cost in dollars}}{\text{Selling price in dollars}}$$

For example, if the cost of a fish and chips dinner is $2.40 and it sells for $7.95, the food cost percentage would be 30%.

$$\text{FC\%} = \frac{\$2.40}{\$7.95} = 30\%$$

This method can serve as an indicator of where an operation stands but only in a relative fashion. It does not tell very much about how well the manager or chef really performed in terms of consistency. Even though food costs may have hit their target, many inappropriate things could have taken place, with the average result still coming out at the correct percentage. Some customers could have received smaller portions and others larger portions. This inconsistency in product will undermine the expectations of the customers over the long run.

A more effective method would be one which evaluates how the operation did in terms of actual food cost versus expected costs, given the mix of sales during the period. If one uses a system of standard purchase specifications, standard portion sizes, and standard recipes, it is possible to calculate a standard cost for every menu item. This is the cost every item should incur. If the restaurant keeps a report of the number of menu items sold each day (or period), it is possible to calculate the total standard cost. Exhibit 25 illustrates this method.

This total standard cost is what your costs should be for the day (or period). The manager can then calculate the actual costs for the period using the following formula:

	Opening Inventory
+	Purchases
-	Closing Inventory
	Actual Cost of Items Sold

The manager can now compare what the actual cost was with what the cost should have been. This is a much more accurate view of the effectiveness of the manager or chef. This method is often downplayed by many managers as being more difficult to use, but this is not really the case. They simply do not understand how to do this or are unwilling to confront kitchen employees who may resist the concept. The most difficult part of the process is to train staff to be able to take inventory in a reasonable time.

Although this analysis can be done totally manually, computers have made many of the food and beverage reporting techniques much easier and faster. There is little doubt that a reasonably small investment in the purchase of a computer and the time to learn the basics of a spreadsheet package will reap many benefits.

For a small operation or if you aren't prepared to do the foregoing, a simple method can be used, such as the following:

- Total your weekly food sales.
- Total your weekly costs of goods sold.
- Take 2 as a percentage of 1.

This provides an overall measure for the period. But we recommend you acquire some software and get someone to set it up for you. This is important information; remember that the average pre-tax profit in Canadian restaurants is only 5.6%. You can't afford to be slack on this!

Taking Inventory

Exhibit 26 illustrates how a spreadsheet package such a Excel, Lotus 123, or Quattro Pro (among many others) can be organized to take inventory effectively and efficiently. The sorting function allows the worksheet to be first put in order based on the location of the products used and then resorted, after counting, into the format shown. There are no calculations required as the worksheet automatically calculates the totals. Taking inventory no longer needs to be a tedious chore. It can be done in minutes to supply the manager with timely information on a regular basis.

Inventory should be taken weekly and linked to your weekly payroll and profit and loss reports.

8.5 Pricing the Menu

There are a variety of approaches that can be used to price a menu. The most common technique is the comparative method, where the operator goes out and sees what competitors are charging and then charges a similar amount. This method is very dangerous as you don't know if the competitor's cost structure is the same as yours. You may be seriously underpricing your products. It is a good idea to check that you are in the same ball park as your competition, but if they are selling a menu item at a price at which you would lose money, you would be better to take that item off your menu or continue to sell it at a price that would be profitable for you.

Another common method of pricing is the factor method. In this approach, the operator uses a constant factor by which to multiply the food costs to achieve the selling price. If the operator wishes, for example, to use a food cost of 1/3 (33.33%), the factor would be 3. The cost of food would be multiplied by 3 to get the selling price, for example:

Food cost		\$2.50
Factor		x 3
Selling Price	=	\$7.50

The only drawback to this system is that some items on your menu may be priced too high or too low . There is no rationale for pricing a bottle of wine and an appetizer with the identical markup factor. If you were using a factor of 3, an appetizer which costs only \$0.75 to prepare would have to be sold at \$2.25. Perhaps this item could have sold for \$2.95. A wine which cost \$14.50 a bottle would have to be sold for \$43.50: probably too high for consumer acceptance.

EXHIBIT 26
SAMPLE INVENTORY REPORT

Ingredient	Open Inventory	Purchased	Close Inventory	Total Used	Last Price	Closing Value	Value Used

The prime cost method is another popular pricing technique. This method takes the costs of labour into consideration. The three major (or prime) costs - food, beverage, and labour - account for as much as 65% of all costs in a restaurant. If you use a factor method based on the prime cost, you have covered the bulk of the costs encountered in food and beverage operations.

There are other methods of pricing that allocate a portion of fixed costs to each menu item sold or create a small profit and loss statement for each menu item. It would be appropriate to look at a food and beverage textbook for a discussion of these approaches.

8.6 Staffing and Training

Selecting Staff

The staff you place in positions that deal directly with customers need to have the following qualifications in addition to the specific skills they require for their positions:

- The aptitude - the ability to learn, the willingness to learn, the ability to deal with challenges
- An outgoing, friendly personality; comfortable with strangers;
- Good manners and good interpersonal skills;
- Good grooming;
- An enthusiastic attitude;
- A good work ethic;
- A team player, one that 'fits' the desired atmosphere and the culture of the team;
- A commitment to customer service.

It is important that the 'back of the house' members of the team have some of these qualifications too; they are important parts of the team and need to work well with the serving personnel.

Hiring Tips

The following is a list of hiring tips which can be applied to staffing during business start-up or hiring seasonal or replacement staff:

- Develop job descriptions that will meet the needs of your operation, based on the occupational standards for each occupation.

- 'Poach' experienced, professional staff away from other establishments. You need a core of pros.

- Advertise in local media for staff, check out the Nova Scotia Tourism Human Resource Council on-line job board (www.novascotiatourismtalent.com); contact placement offices of public or private training institutions offering programs in food and beverage management and hospitality. To the extent possible, look for applicants who are Certified under the **emerit** Standards and Certification program described in the next section.

- Screen applications and develop a short list of qualified candidates for interviewing. There are good screening tools available; use them.

- Interview applicants. It is recommended that the same list of questions be asked all applicants and that consistent criteria be used in your evaluations. This will help you to make sound hiring decisions.

- Select final candidates for positions required. Ask for and always check references. The middle of the season is no time to discover that a staff member's poor performance had been experienced by an earlier employer.

- Make the job offer. At this time, clarify roles and responsibilities, training opportunities for staff, performance expectations, remuneration and benefits, terms of employment for the season, etc.

Training

Training is an important part of your startup and ongoing operation; it is never-ending. For a small restaurant it will be an informal process conducted by managers and supervisors. For larger operations, a more extensive and formal model is appropriate. The text to follow deals with the more extensive approach to training. Small, independent operations should use the parts that are feasible and practical for them.

In any customer-oriented operation there are two sides to service: procedural, requiring technical skills and personal, requiring human relations skills.

Training should be based on the occupational performance standards and Certification should be a goal for all employees.

It is important to recognize the benefits of staff training and to consider training, like marketing, to be an investment. Ensuring that your staff are quality service providers who are capable of delivering both the procedural and personal sides of service will enhance repeat business and promote word of mouth advertising. The benefits of training in a restaurant are as follows:

- Increases productivity;
- Outlines performance expectations;
- Reduces staff turnover;
- Improves staff morale;
- Improves quality of performance;
- Enhances customers' experiences;
- Provides competitive edge.

Ongoing staff training and upgrading will help to keep staff motivated in their customer service roles. Technical training is necessary for staff to perform day to day functions effectively (e.g. cooking) while customer service and human relations training will aid staff in providing quality guest services.

<u>Skills Training</u>

There are a broad variety of training programs available to the Food and Beverage sector in Nova Scotia. Community colleges, universities, private trade schools, and consulting/training firms provide long and short-term introductory training and upgrading opportunities for staff.

Recommended training for all food and beverage staff includes:

- National Sanitation Program (CRFA);
- First Aid/CPR;
- WHMIS training (Workplace Hazardous Materials Information System);
- Food Handling training: currently mandatory in some counties of Nova Scotia for all restaurant employees, but recommended for all.

Various public institutions in Nova Scotia offer tourism and hospitality training including:

- Nova Scotia Community College (NSCC), at various locations;
- Mount St. Vincent University (MSVU), Halifax;
- University College of Cape Breton (UCCB), Sydney.

Skills training and upgrading programs specific to the needs of tourism businesses are sponsored from time to time through the Nova Scotia Tourism Human Resource Council. Check out their website (www.tourismhrc.com) for details.

Customer Service Programs

Customer service involves anticipating guest needs, providing for their needs and/or requests, and dealing with challenging situations. Success in customer relations depends very much on all staff being service-oriented.

One very important area of customer service training is up-selling. A skilled server can definitely influence the extent of the customer's order. If it is done professionally, the customer will not really feel they are being pushed or sold, they will simply feel they are getting good service. In fact, the purpose is to enhance the customers' experience and satisfaction, and to do so by suggesting do not miss things they would likely enjoy.

Customer service programs (one or two day) have been shown to be beneficial to staff; and holding a preseason seminar on customer service will help motivate staff as they prepare for the busy season. *SuperHost Atlantic - Expect Excellence!* is a frontline program offered throughout the province.

SuperHost Atlantic - Expect Excellence! is an internationally recognized Quality Customer Service Training Program that focuses on communication and customer service. This seven hour interactive workshop examines attitudes to service and interactions with customers. The program is suitable for any business that deals with customers and is an inspiration for commitment to service excellence. Information on SuperHost can be accessed through the Nova Scotia Tourism Human Resource Council (www.tourismhrc.com). The NSTHRC also offers a number of other customer service training programs including Service 1st - Making the Connection!, Team Excellence, Stress Management, Workplace Etiquette, Sales Powered by Service and Managing Service Excellence, as well as a host of other programs.

You could develop and deliver your own training sessions or hire an outside consultant or training organization to do it for you. Training resource materials can be found through the Regional Tourism Association or the Nova Scotia Tourism Human Resource Council.

A customer service program for frontline staff should include:

- Human relations/communications skills;

- Guest expectations;
- Tourism awareness;
- Product knowledge;
- Local knowledge;
- Giving directions/map routing;
- Handling difficult situations.

It's Good Business - Responsible Beverage Service Program is a management workshop and staff training module. This program is a short course on the development and utilization of policies for serving alcohol with care. The program outlines pertinent legislation governing the service of alcohol to patrons and provides servers with techniques for service and intervention. The program is delivered usually on-site by a certified trainer. Information on the delivery and cost of this program can be found on the Nova Scotia Tourism Human Resource Council's website at www.tourismhrc.com .

Professional trade associations related to the Food and Beverage Service Sector also offer professional development opportunities for you and your staff.

Management Skills

Competitiveness is directly related to management's 1) ability to adapt to changing trends in the industry and 2) success at people management. This is particularly true in the hospitality field where most often the satisfaction of the guest is dependent on the service provided by frontline employees.

Current information on Canadian food and beverage consumers and restaurant trends is available through the CRFA's website (www.crfa.ca) and in their various publications.

As mentioned earlier, leadership skills are fundamental to the success of the service team, which, in turn, will be a key determinant of the success of the business.

In addition, the following are general areas of knowledge or training topics which would benefit an owner/operator, restaurant manager or supervisory management personnel:

- Food and Beverage Management;
- Understanding Employee Deductions;
- Total Quality Management;
- Employee Productivity;
- Standards and Certification.

emerit Standards and Certification

Nova Scotia's Tourism Human Resource Council is a partner with the Canadian Tourism Human Resource Council in the development of National Occupational Standards and manages the process for Nova Scotia. Standards and Certification are being developed for occupations in all sectors of the tourism industry, and standards currently exist for 49 occupations. Certification is available for 25 of these occupations.

Standards are statements outlining the attitude, knowledge and skills required of an individual in order to be considered competent in an occupation. Standards clarify expectations and can be used to design consistent training, education and professional development programs. The

Standards development process involves the sharing of expertise from industry professionals who perform the job, as well as their supervisors who are recruited to develop the content of the Standards.

Certification is the recognition of an individual's competency in his or her occupation. National Certification is a three-step process involving a written examination, performance review and industry evaluation. It is voluntary, candidate driven and designed to be completed on the job. Professionals who achieve National Certification will be recognized across the country for meeting industry requirements in their selected occupation. The candidate must be employed in the occupation and must have achieved a minimum number of hours of work experience (the number of hours varies depending on the occupation), prior to completing Certification.

Flexible learning options for the industry now allow new entrants to gain a solid foundation while experienced and knowledgeable candidates can challenge the option that best suits their needs. What each candidate learns is credited towards future learning - creating recognition of prior learning and allowing candidates to move towards the pinnacle - **emerit** National Certification - at their own pace.

Learners can select the best option for them:
- Standards/Workbook study
- Online Learning
- Study selected modules to enhance performance of specific skills
- Challenge full certification

More details on Standards and Certification, and a listing of the occupations for which standards have been developed can be found at www.emerit.ca and in Appendix V. Additional information on human resource tools and certification can be obtained from the Nova Scotia Tourism Human Resource Council.

8.7 Budgeting, Review

Operating Budgets

The operations budget is a detailed operating plan, which includes all the revenues and expenses that appear on the income statement. Its purpose is to enable management to plan and control revenues and expenses.

Although operating budgets are typically prepared on an annual basis, they are segmented into monthly and sometimes weekly periods to allow for more meaningful planning and control. In addition, it is wise to prepare a long-range budget, or five-year plan, to provide direction to the operation. The major elements included in the budget process are: financial objectives, revenue forecasts, expense forecasts, and determinations of projected net income.

There are many reasons for the restaurant owner to develop a formal budget:

- It requires management to examine alternatives before selecting a particular course of action;
- It provides a standard of comparison, so that management can compare actual results to the plan;
- It enables management to anticipate the future;
- It provides a means of communication among managers for decision making;
- It establishes operational objectives for management and staff;

- It provides estimates of future expenses to help managers set prices.

There are four main steps in preparing a budget: setting financial objectives, forecasting revenues, forecasting expenses, and determining a projected net income.

The development of financial objectives forms the framework for the developing the rest of the budget. Objectives may include such things as long-term profit maximization, cost control, the provision of high quality service, wanting to be the best in the industry, or establishing a good reputation.

Section 5.4 and, in particular, Exhibits 14 thru 18 will guide you through projecting initial revenues and expenses. These should be used in preparing a preliminary budget.

A good budget will include data for the current month as well as year-to-date results. In addition, the budget should include not only absolute dollars but also relative percentages to total revenue. The only exception is with food and beverage costs. Food costs should be presented as a percentage of food sales. Likewise, beverage costs should be shown as a percentage of beverage sales.

Budget Review

Budgets should be reviewed on a regular, monthly basis to highlight variation from actual operating results. It is also useful to compare operating results with those achieved during the previous year for the same time period (i.e. monthly, quarterly, annually). In order for this process to be useful, budget review reports also need to be timely and relevant. Based on these reports, management should be able to:

- Identify variances between actual results and budgeted amounts by using absolute dollars and percentages;
- Determine which variances are significant, thus requiring further analysis;
- Determine problems;
- Prepare actions to correct problems;
- Make necessary amendments to the budget to keep it realistic.

It is quite feasible for revisions to the budget to be required as new information or trends materialize; however, it is important to reassess the operation's objectives when re-forecasting the budget.

8.8 Banking

Talk to several different banks to find one that is supportive of your efforts. Some managers take a helpful approach to small business people, while others treat them like impending bankrupts. Pick one that understands your business concept and is supportive.

Cash liquidity will be particularly important in the early months of operation. It will be important for you to secure your credit lines with the bank and suppliers before opening. We suggest you also secure two or three credit cards. And, as mentioned earlier, keep your overhead, particularly owner compensation, at a minimum until the profit stage is realized.

You can greatly facilitate your banking relationship by meeting with the manager once a year to keep him or her informed about your business and your plans for the future. A good time is when you have your annual financial statement ready. Walk them through the results and explain what has changed and why. While they may not necessarily care about the specifics of what you're saying, it is very important that they see that you're on top of the business, committed to its future, etc. It's the psychology that's important, not just the substance. The banker likes to feel that you're taking care of their investment for them.

If cash flow problems arise from time to time, as they very well may, go and meet with the bank to keep them informed about what's happening and what you're doing about it. Nothing makes a banker more nervous than a silent client whose bank account is constantly at its credit limit. On the other hand, if they believe you're making an effort to keep them informed, they will be much more cooperative in helping you through tricky periods.

8.9 Environmentally Sustainable Operations

Increasing emphasis is being placed on the operation of tourism and hospitality businesses in Nova Scotia in an environmentally sustainable manner. The manager and staff of your restaurant should be aware of the principles of sustainable tourism, and you should operate your business in a manner that is consistent with these principles. For more information, and specific operating guidelines, contact the Tourism Industry Association of Nova Scotia which has prepared a Self-Audit Workbook for tourism businesses.

SECTION 9

Business Systems

SECTION 9

BUSINESS SYSTEMS

9.1 Internal Controls

When things disappear from a restaurant there are only three places they can go:

- Out the back door (theft);
- In the garbage (waste);
- On the customer's plates (improper portion size).

Standard portion control can solve the third problem; production standards and control can minimize number two; and internal control can eliminate number one. Standard portion control, production standards, and control were discussed in Section 8. Here we will explore internal controls.

One of the major pitfalls in food and beverage operations is a lack of internal controls. Assets of the organization are not protected adequately. Restaurants tend to be cash operations with many items - such as liquor, for example - which are subject to theft or misuse. Even such things as linen, glassware, and silverware are subject to theft. Guests may steal silverware and glassware, and employees may be tempted to take almost anything. Due to the large volume of products and cash that flow through a food and beverage operation, one needs to be especially careful to ensure that the opportunity for theft or abuse is minimized. It is amazing how often things are left open or unprotected and how carelessly cash is handled in many operations.

Although you may trust your staff implicitly, it is necessary to protect them should a discrepancy occur. When something is missing, suspicion automatically falls on anyone who had access.

It is worthwhile to record purchases and inventory of sensitive and expensive items to be able to track changes in patterns of consumption against their use in the business.

Labour Controls

The highest cost for many operations is their labour costs. It is crucial to carefully evaluate the cost of labour in your operation. Exhibit 27 illustrates a Daily Labour Report which clearly assesses the cost of labour for a food and beverage operation. Employee benefits should be included with labour figures to ensure that your full labour costs are accounted for.

It is also appropriate to have a cumulative labour report which keeps a running total of the labour costs for each reporting period, e.g. weekly, monthly, etc.

EXHIBIT 25
DAILY LABOUR REPORT

Daily Labour Report

Date: ____________
Day: ____________
Clerk: ____________

EMP NO:	SHIFT	<-IN-> HR	<-IN-> MIN	<-OUT-> HR	<-OUT-> MIN	MEAL [IN MIN] <-TIME->	EMPLOYEE NAME	DEPT	HOURLY WAGE	TOTAL TIME	REGULAR TIME	OVER TIME	REGULAR PAY	OVER TIME PAY	GROSS PAY	DAILY SALES

Average Time Taken for Lunch: ________

TOTALS
Avg. Hrly. Wage = $
Labour Cost Per Hour = $

TOTAL LABOUR AS A PERCENTAGE OF TOTAL SALES = #%

EMP NO:	EMPLOYEE NAME	WAGE
1	______________	$
2	______________	$
3	______________	$
4	______________	$
5	______________	$
6	______________	$
7	______________	$
8	______________	$
9	______________	$
10	______________	$
11	______________	$

Source: Chaban, Joel; *Practical Foodservice Spreadsheets With Lotus 1-2-3*; Van Nostrand Reinhold; 2nd Edition; 1994, page 59.

Particular areas of vulnerability with servers include; too many voids on checks, too many discounts being provided, cash not rung in. In the kitchen, watch for staff knapsacks.

Point of Sale System

Comprehensive point-of-sale systems are available at affordable costs today for even the smallest restaurant. They provide an important tracking and efficiency tool. We strongly advise acquiring such as system for your restaurant. Ones to check out included 'Aloha', 'Maitre'd', 'Squirrel' and 'Silverware'.

Cash Controls

Daily cash out procedures should be in place for handling server cash. A point-of-sale system should be utilized that accurately reflects what was sold during the day. The system should print a receipt for the food on the guest check on a printer in the kitchen or bar, which then becomes the requisition for product to be dispensed to the server. The guest checks should be carefully accounted for daily to ensure that none are missing. This way you can be reasonably sure that no employee is receiving food or liquor without recording it and subsequently collecting the money for it.

Employees giving free food or drink to a friend or eating food themselves are committing a type of theft. At the end of each shift, employees balance with the cash register (or guest checks total) and turn in the equivalent amount of cash. Some operations do not allow the server to handle cash, thereby minimizing potential problems but increasing costs by needing a cashier and increasing the possibility of customers walking out without paying.

Receiving, Storing, and Issuing Controls

Care should be taken to ensure that products are all accounted for when they arrive at the door of the restaurant. Every supplier delivery should be counted or weighed, signed for and checked against the original purchase order to ensure that what was ordered was delivered. This is as much to check for mistakes as to uncover potential dishonesty. Products should be placed in secure areas as soon as possible after they are received. Access to secure areas should be restricted to those individuals who are responsible for them, and these individuals should only dispense items to staff who have the appropriate requisition form. Do not allow delivery people access to your storage areas.

Guest Check Control

As the guest check is the mechanism that determines what the customer pays for food and beverage received, it should be closely controlled. They should be sequentially numbered, issued to individual servers, and signed for and accounted for every day. Where the guest receives a printout from the cash register or point-of-sale terminal, each server should have a secret password so no employee can produce receipts using the number of another server and then collect the cash. Another factor which needs to be carefully controlled is the use of the void key on cash registers and POS systems (Point-of-Sale systems). Sales can be rung in, cash collected, and then the sale voided with the cash being pocketed by a server.

Robbery and Burglary

Robbery is not a common event in the daily operations of a restaurant, although there have been some serious instances in recent years in Nova Scotia. Given that the restaurant business is basically a cash business and often open late at night, every operation should be prepared for such an event. Policies about what to do and not to do should be outlined to each employee. Everyone's life is worth more than a few dollars, so employees should be told to be very compliant to the robber's wishes, reassure the robber that they will be cooperative, and remain calm. Staff should be directed to look carefully at the robber(s) so they can help identify them or describe them in detail. Concentrate on the persons build, hair colour, complexion, special shoes or clothing, or any distinctive accents or language. The basic rule should be not to interfere or to try to be a hero. Give them what they want!

Burglary or break and enter is a more common event for restaurants. Such individuals are probably looking for cash, liquor, or cigarettes. You should make sure that all such things are well locked up and inaccessible to thieves. If at all possible, it is never a good idea to keep much cash on hand. Make regular night deposits.

Embezzlement

This is often referred to as white collar crime. The person responsible for keeping the books doctors them to hide the theft of money. Having a qualified auditor should minimize this possibility, as they are always on the lookout for such behaviour and are trained in what to look for.

The other type of embezzlement is collusion between an employee and a supplier. The employee signs for goods not received and splits the profits with the unscrupulous supplier. Another type happens when the employee agrees to pay inflated prices on invoices and again splits the proceeds with the supplier. One less noticeable but common approach is for employees to take kickbacks from suppliers for receiving the business. Even though the restaurant's assets are not being stolen, it is generally the case that favouring a particular supplier leads to paying more for products in the long run.

Collusion

By far the most serious type of theft occurs when two or more employees work together to steal from an employer. It is more difficult for a waiter or bartender to steal on their own but, when they act in concert, they can easily defraud the employer. Employees observing other employees can serve as a check and balance against theft. Managers should have a relationship with employees that rewards honesty and inhibits skulduggery. Many companies have a policy of not hiring members of the same family in the same operation to minimize this type of theft, although this is no assurance that collusion will not happen.

SECTION 10

The Marketing Plan

SECTION 10

THE MARKETING PLAN[6]

10.1 Introduction

Your marketing plan is a guide for directing your marketing efforts and a tool for monitoring the progress you are achieving. It is generally written annually. Traditionally, the marketing plan is prepared in conjunction with your overall financial planning and budgeting.

When you are starting up your business, the marketing plan is a crucial element in your overall planning process - without marketing, you will have no customers. Frequently, in small businesses, marketing tends to get overlooked or to be given a lower priority when there are other, apparently more vital demands for available start-up funds. However, marketing must be given a high priority; and developing a good marketing plan is an essential first step.

We are going to discuss the basics of how to develop your marketing plan and introduces some of the key marketing methods and tools which you can use, as well as offer some suggestions as to how to them.

Developing a Marketing Plan

Your marketing plan should contain several elements, as described below.

<u>Business Assessment</u>

An assessment of your situation - the current status of the market, the competitive environment, trends - including all of the things discussed earlier in sections on preparing a strategic plan and feasibility assessment.

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[6] The material in this section has been adapted from several sources, all of which were originally prepared by The Economic Planning Group. These sources include:

- *Nova Scotia HUB and SPOKE Tourism Marketing Seminar Manual*, prepared for the Nova Scotia Tourism RITC, 1989/90
- *Tourism is Your Business: Marketing Management*, Published by Canadian Hotel & Restaurant, Maclean Hunter Limited in co-operation with Tourism Canada and the Canadian Government Publishing Centre, 1986
- *Packaging for and Selling in the United States Leisure Market*, Published by Tourism Canada, 1995

Marketing Objectives

With the assessment completed, develop a clear statement of objectives - sales volume (number of customers, average checks, etc.), total revenues, and profit for which you are striving.

Marketing Strategy

This is your overall approach to achieving your marketing objectives. It should include a Positioning Statement - what is the service/product, who is it for, and how is it different?

It should also include a definition of your target markets - each of the market segments you wish to attract. And you must also decide how you are going to attract them.

10.2 Marketing Your Restaurant

Key Marketing Activities

In-house Marketing

This involves promoting to your guests while they are on premise, through tent cards, coupons, flyers on upcoming specials, sample menus and the like.

Media Advertising

Media advertising is one of the more important marketing activities available to a restaurant business, but it is also generally one of the more expensive elements of your marketing plan. Effective advertising requires a clear understanding of the target market group, your product strengths, and the available media options within your budget. Advertising can create awareness of your business and encourage consumers to try your product.

If you are going to invest anything more than a small amount of money in advertising, then you should seriously consider obtaining professional assistance from an advertising agency. The agency can help you design your ads, identify the best media to use, buy the media, and generally manage your advertising program.

If your advertising program is too small to make using an advertising agency practical, then there are others who might be able to help, for example:

- Local printer: he or she should have some expertise in ad design and layout;

- A local marketing partner selling a product complementary to yours;

- Your local newspaper, radio station, etc.;

The key point is get help from someone who has expertise in marketing and communications techniques.

There are a variety of types of media advertising and some will work better than others for your product. The basic approach to follow when deciding which media to use is to choose those media that reach your target audience most cost effectively. You will have to do some homework to determine this. Contact media representatives and ask them to send you an information kit that gives you information on such things as audience profiles, market coverage, and circulation.

Don't forget to look at advertising as an investment not as a one shot deal. You will not always get noticeable results from one advertisement, so stay away from expensive medium if you cannot afford to repeat your advertisement frequently enough to achieve an ongoing awareness.

The main categories of media are: print (newspapers, magazines), outdoor (effective signage), and broadcast (radio and TV). Exhibit 28 summarizes the advantages and disadvantages of each type of advertising media. The types of media advertising which are most likely to be appropriate for your restaurant are newspaper, guides, flyers, and outdoor (including effective signage).

Website

Having a website and posting specials on it can be very effective, particularly if it is used in conjunction with in-house marketing and media advertising. The idea is to use these traditional marketing techniques to drive people to the website where more information can be provided.

Co-op Advertising

Cooperative advertising works on the strength-in-numbers principle. In general, several organizations (e.g. business, government, associations) with a mutual marketing need will join forces. For example, a Regional Tourism Association may welcome area operators into sharing the costs of a co-op brochure or a full-page ad for the entire destination or members of the local business association may take out an ad in the local paper to encourage residents to visit the downtown area.

Co-op advertising can work well for you - the economies of scale can provide a small organization with an opportunity to gain exposure in an area or media that would not otherwise be cost-effective. However, peer pressure can stampede you into going into a venture that is not in your best interest and your exposure may be too small to be noticed if you are in with a large number of bigger operators.

Collateral Material

Collateral material includes all the printed material you use to market your business - the material you distribute to potential customers. The main types of collateral material you are likely to use are brochures, posters, flyers, coupons, counter display cards, and price lists.

The following provides some suggestions and guidelines about the content and design of your brochure.

When trying to decide what kind of brochure you need, what it should look like, and what it should contain, you need to consider your target market, the intended role of your brochure, the

EXHIBIT 28
ADVANTAGES AND DISADVANTAGES OF DIFFERENT TYPES OF ADVERTISING

Type	Advantages	Disadvantages
PRINT MEDIA		
Newspapers	• reaches more people than other print media • considered to be a good sources of information on travel facilities and services • can be placed at short notice • relatively low cost • wide selection of editorial, so messages can sometimes go in special sections • printed daily or weekly - can hit the market with frequency • provides an opportunity to be creative • offers and opportunity to use coupons	• large readership, but only a small number of readers will have an interest in any one product • has a short lifespan - often read in a hurry • quality of reproduction is poor • pages are large, so small ads get lost
Magazines	• more selective readership than newspapers • much longer lifespan than newspapers • higher reproduction quality than newspapers	• long lead times and inflexible closing dates - you have to plan far in advance • low market penetration rates - therefore higher costs • circulation seldom tailored to geographic markets
Flyers	• can be delivered to real customer prospects in your area • can be used as a coupon to entice customers • not too expensive	• only effective for people living or working in the area
Guides e.g. travel guides, Where magazine, directories, etc.	• highly targeted - may have a low number of readers but they are interested in the subject • listings are sometimes free	• normally long lead times • space may be limited

EXHIBIT 28
ADVANTAGES AND DISADVANTAGES OF DIFFERENT TYPES OF ADVERTISING

Type	Advantages	Disadvantages
OUTDOOR ADVERTISING		
Includes effective signage, mall poster displays, transit advertising	• geographic flexibility • message is there 24 hours a day • particularly effective in reinforcing other types of advertising and in attracting pass-through or transient customers • can provide directions to your business as well • relatively long lifespan	• availability of outdoor locations is limited • cannot be targeted to any segments other than geographic ones • can communicate only a limited amount of information • works best for firms with well-established reputations
INTERNET BASED		
Website	• extensive reach • affordable • customizable for different audiences • can be kept current day to day • can assist in building a data base of prospects	• having people find it on the Internet is a challenge
BROADCAST MEDIA		
Radio	• captive audience at any given moment - they will all hear your message • stations have segmented audiences so you can target a group, e.g. youth market • very versatile • a live medium - you can do things with this that cannot be done with other media • relatively low cost and fast delivery	• short lifespan - listeners may miss part or all of the message • poor choice if you need to show a visual image • large number of messages in peak periods - can be disruptive • frequently listened to in the car and can easily be tuned out
Television	• excellent way to convey powerful images • audience is somewhat captive • tremendous reach • can show business in a very attractive manner	• many of same disadvantages as radio • expensive - both to purchase the time and produce the commercial

reasons your customers are going to buy your product, and the size of your promotions budget. The place to start is with your target markets.

The next step is to decide on the content of your brochure. As a rule, your brochure should contain the following:

- Name of your business and its logo;
- Illustrations of major products and services included at your property;
- Descriptive text or copy;
- Selling or motivational copy, highlighting customer appeals and unique selling points;
- Business location, address, telephone, fax, and E-mail.

Your brochure should be designed to achieve the following goals:

- **Capture Attention**: First you have to draw the consumer's attention. Use the front cover to do this. Use an attractive, lure picture of your product. Since brochures are frequently displayed with only the top part showing, make sure that the top one third of your brochure describes the product you are offering.

- **Develop Interest**: Build interest in what you are offering. This should be done on the second panel with photographs and text describing the appeal of your product. Use pictures of people enjoying your product.

- **Create Desire**: Create a desire for the product. Provide enough information for people to decide whether or not they want to stay at your property. Focus on your competitive advantages and unique selling propositions (USPs).

- **Call to Action:** Turn that interest and desire into action. Your back panel should be a call for action and include where to find you and how to get there, where to phone to make a reservation or for more information, your address, etc.

Illustrations and photographs should be seen as an essential element of your brochure. The most effective photographs are action shots of customers enjoying some of your facilities and services. In using photographs, consider the following guidelines:

- Only use photographs which have been taken professionally or to professional standards;
- Avoid using so many photographs that your brochure becomes overcrowded;
- Use a range of photographs of the different products and services you will be providing;
- Only use photographs that are genuinely representative of the products you will be providing your customers;
- Avoid using photographs that will date rapidly;
- Always run a caption with each photograph explaining precisely what the photograph shows;
- Try to put a selling message into your captions, since captions are read more carefully than text.

Some other design considerations for your brochure include:

- Use clear, simple type with different sizes for your titles, subtitles, headings, and copy. Do not use ornate type styles since they are hard to read;
- Use black ink on white paper for easy legibility;
- Do not overprint your type with a coloured screen - this makes the type difficult to read;

- Do not use too many colours; keep the brochure simple;
- Organize your material carefully; do not mix different kinds of information;
- Leave a lot of white space, particularly in the selling section of the brochure;
- Make sure your brochure's layout is consistent; do not try to be too creative - keep it simple;

Your brochures and other collateral material can be distributed through a number of channels:

- **Local visitor information centres**: make sure your local visitor information centre is well supplied with brochures and that the people who work there know all about your product.

- **Local tourist businesses**: local, noncompeting businesses such as accommodation properties, gas stations, and sightseeing tour operators should be well-supplied with your brochures. Again, it is important to make sure that these operators are well-acquainted with your business since visitors will frequently ask "where can I eat ...".

  You can also arrange with these businesses, to display posters and/or counter cards in their lobbies and include your brochures among the in-room information they provide to their customers.

If your restaurant is located outside the Halifax urban area, you will find that brochures will be very important to your marketing plan.

You may also want to consider having flyers to distribute to residences and businesses in your target markets.

Provincial and Regional Travel Literature

The Province of Nova Scotia, through the Department of Tourism, Culture and Heritage, produces and distributes a variety of travel literature and this material affords an excellent means of reaching potential customers.

The main provincial publication in which you should advertise is the Doer's and Dreamer's Complete Guide. As a restaurant, you can purchase an advertisement in this provincial travel guide. This is a very cost-effective advertising method to reach visitors to the province, since hundreds of thousands of these publications are produced and distributed widely to people travelling in the province. One thing to remember about this guide, as well as other provincial publications, is that the deadlines for material are very early - at the beginning of July for the next year's publications. Check out the Nova Scotia Tourism Partnership Council website (www.nstpc.com) for details on this publication and others that the province produces.

You should definitely be a member of the Restaurant Association of Nova Scotia and have a listing in their guide and website. You may also want to consider becoming a member of Taste of Nova Scotia (there are membership criteria for this association) and having a listing in their publication and website (www.tasteofnovascotia.ns.ca)

The regional tourism associations (see the Appendix for contacts) also produce travel guides for each region of the province. These are distributed through information centres and in response to direct requests. As with the provincial guides, they can be a very cost effective method for advertising your restaurant business.

If there is a visitor guide for your community, your ad should be in there too.

Promotions

Promotion is not just another word for advertising; it is everything that adds fun, excitement and uniqueness to an operation and should be thought of as an event that has a definable start and finish. Examples include a special event, a dinner special, a special package of services for a particular market. Properly planned, promotions can increase the awareness of your business, attract new customers, and keep existing customers coming back.

Promotions include couponing - distributing a piece of paper that has value when redeemed. For example, you may want to have a staff member stand in high traffic locations in your community and distribute coupons offering 10% off your meals for the day.

Public Relations and Publicity

Public relations and publicity can keep your business in the public eye without you having to pay for advertising. To that extent, it is free, so it can be highly cost effective. However, good publicity doesn't just happen, it has to be carefully planned, and it must fit in with your other promotional activities. You can get publicity in the media by making yourself available for interviews or establishing yourself as the local expert on some topic related to your business. You can also stage news events and issue press releases.

Signage

It is important to have good signage for your business, not only to tell potential customers about your business but also to help them find you. Signage on provincial highways is governed by the Department of Transportation and Public Works. In addition, within municipalities there may be some guidelines on signage design and placement. Provincial regulations governing signage were discussed in Section 7.

Whatever signs you put up, must be of good quality. Small, hand-lettered, falling-down, and hard-to-read signage does not suggest a quality operation to the potential customer. Search out a local artist or sign maker to design and build some quality signs for your business. Make sure that the signs are big enough for travellers on the road/highway to read them. Remember, they are probably driving at 70 - 80 km an hour, which means they won't have a lot of time to take in the information on the sign. Make sure that whatever you put on the sign is brief and informative. Be careful not to put on information that might change, such as the times you are open or prices, except on a panel which can be easily replaced with new information.

10.3 Measurement

The Marketing Plan is a yardstick - a device to move a business in a certain direction. It sets out in some detail your company's thinking with respect to its business. It articulates your views on the customer and the competition. It identifies markets of opportunity and states the "position" you wish to adopt in building its market.

The marketing plan states both strategic and tactical approaches to winning market share. It is as detailed as necessary. It provides you with the fundamental measurements of business - dollars and cents objectives. As such it is a document that can be monitored.

Every marketing plan is open-ended. Things change. Indeed change is the only constant. As a result, the Marketing Plan must be continually monitored and reevaluated. Is the pricing strategy effective? Are we realizing the demand forecast for June? Are we getting a response to our advertising? Questions by the dozen will flow throughout the year. Each one requires assessment.

A number of methods may be employed to monitor your plan. For example:

1. Track advertising effectiveness. For example, how many coupons were returned?

2. Constantly read the guest comment cards or use other research tools to determine levels of consumer satisfaction.

3. Keep abreast of your accounting reports. Watch for fluctuations in utilization of capacity, average rates, menu items sold, inventories, etc.

A Marketing Plan is organic. It will change throughout the year. As you monitor the plan, you are in effect undertaking an ongoing Situational Analysis. As necessary changes to the strategy are recognized, they should be introduced. These changes illustrate the nature of the marketing process. It is evolutionary and ever shifting!

10.4 Market Research

Marketing research should be considered when you have questions that need answering and when the cost of making a mistake is considerable. It is simply the assembly and evaluation of information.

The vast majority of marketing research problems can be reduced to some variation of four basic questions:

PEOPLE:	How big is the market? Who should my target groups be? What do they look like?
PRODUCT:	Am I competitive? What do my target markets want?
PROMOTION:	What should I say? When, where, and how often should I say it? Is what I have been saying being heard, believed, and acted upon?
PRICE:	What should I charge?

If you are going to do market research, you need to define the problem clearly. What is the purpose of your research? What are the benefits which will be derived? And how you will use the information in your business or marketing planning? Then you need to identify what information you already have available before deciding what else you need to collect and what are the best ways of obtaining the information you need. There are a variety of research methods you can use depending on whom you want to survey and what information you require.

Guest Surveys

You can survey your guests while they are at your restaurant or after they have left. Options include:

- **Interviews**: either in person while they are on your property or on the telephone afterwards.

- **Questionnaires**: can be completed by guests before they leave or given to them to be mailed back (it is a good idea to give them pre-stamped envelopes), or the questionnaires can be mail out later.

- **Comment cards**: same as questionnaires, but only useful if you are looking for a minimal amount of information. The disadvantage with comment cards is that they may only reflect the opinion of a small minority of your guests and probably only those who had complaints.

- **Telephone interviews**: if you have phone numbers for your guests, you can call them up and complete a telephone interview.

- **Focus groups**: small discussions with groups of your customers. This type of research requires a professional moderator or discussion leader.

Guest surveys have a built-in bias, in that the only people who respond are your existing customers. If you are trying to determine their reaction to your property, the type and quality of service you are providing, or some changes you are planning, then this is the best research method. However, if you are trying to determine the level of interest in your product in the marketplace or why consumers are not staying at your property, then you have to use another method.

Consumer Surveys

Here you are surveying the wider consumer market, most of whom are not clients of your business. The challenge with this method is to identify whom you should survey and the best way to survey them. Various options are available, as outlined below. You should probably seriously consider retaining a professional survey company if you want to do this kind of research.

- **Mail Survey**: mail out questionnaires to a selected list of consumers. You will have to first build a list. You could select names randomly from the phone book or purchase a list from an organization. The response rate for mail-out questionnaires tends to be fairly low (less than 10%), unless you are surveying a highly targeted list, on a topic which they are interested, or you can provide a strong incentive for them to participate.

- **Telephone Survey**: this approach is widely used as a survey technique. Potential respondents are randomly selected from the phone book and then called to request their cooperation in completing the survey. Telephone interviews are limited in the amount of time/information that may be secured and the type of information that can be tested. For example, you cannot test a new visual advertisement this way. Telephone surveys are more expensive than mail surveys.

- **Face-to-Face Interviews**: research companies interview people in their homes, places of business, within shopping malls, and on public roads (the last venue involves the technique of intercepts). In-person interviews offer an opportunity to show people products, ads, and other visual materials. This approach is very expensive because of the large amount of time required.

- **Focus Groups**: these provide another face-to-face encounter technique. The focus group is, in reality, a controlled multi-person interview. A moderator conducts a group discussion with 8 to 10 people. The focus group allows for the presentation of visual material and for sampling ideas and products. Focus groups are a good way of testing hypotheses but offer limited output and cannot be considered statistically valid.

Up to now, we have offered comments on methods used to secure information on consumers. In addition, you should look at broader market questions and keep tabs on the competitive environment, and the marketplace in general.

<u>Competitive Research</u>

Our competitors are often our best source of advice on how we are doing. Is your parking lot full while the operation's across the road is empty? Or is the situation reversed?

Is your competitor spending more money than you on advertising? Why? Do you read the ads in a detailed way? What is he or she selling? What about prices? What about special deals? Is your competitor advertising for new staff? Is he or she paying more?

The implication of these comments is clear. Keep abreast of what your competitors are up to!

<u>Trend Data</u>

Be aware of trends in the marketplace. Read trade journals and articles. Join associations and attend meetings periodically.

You will undoubtedly be busy running your business and the demands on your time will have to be managed. Manage your reading and media consumption in such a way that you become conversant with trends and changes that will affect your industry and your operation.

10.5 Pre-Opening Activities

The opening of your business for the first time is a major event for you, but it's also a newsworthy event in the community and you should take maximum advantage of the public relations and publicity opportunities. You want to get public awareness of your existence as quickly as possible. Some suggestions follow:

- Prepare a press kit when you're almost ready to open, including pictures, examples of your menu and on any unique and newsworthy aspects of your business. Distribute it to the local media and invite them to come out and try your menu.

- Distribute flyers to residents in your local market area, with opening specials.

- If you are targeting the lunchtime market in a downtown area, send flyers and samples of your menus around to the businesses in the area.

ACKNOWLEDGEMENTS

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APPENDIX I

Calculation of Net Income, Cash Flow, and Return on Investment

APPENDIX I

CALCULATING OF NET INCOME, CASH FLOW AND RETURN ON INVESTMENT

This appendix presents the calculation of net income and cash flow as well as methods of calculating return on investment, based on professional, accepted standards of analysis.

The first step in any kind of detailed analysis is to calculate net profit and net cash flow.

Net Profit and Net Cash Flow

The proper way to determine the real profitability of a business and its return on investment is to calculate net profit, in accordance with established accounting principles and in the way Revenue Canada calculates business income taxes. By following this method, it is possible both to determine your projected level of income taxes and determine the actual net cash return accruing to you and your investors.

However, there is also a shortcut method which is simpler and will also render a cash flow calculation, although the numbers will, in this case, be pre-tax. If it is your purpose to determine the basic viability of the business proposal by measuring return on investment, pre-tax returns can be just as useful as net returns. We will discuss both methods. You choose the one you want to use.

To complete a detailed analysis, we need to determine pre-tax profit, net profit and net cash flow. Pre-tax Profit is the Operating Profit minus all other charges against income. These are the non-operating costs of the business, and they include:

- Interest on long term debt;
- Depreciation.

To calculate the interest on your proposed debt financing, we need to split the mortgage payments between the interest and principal portions for each year. A mortgage program can do this for you. Ask your accountant or your banker to run the numbers for you.

Depreciation should be charged at the Capital Cost Allowance (CCA) rates set out by Revenue Canada for each type of asset. Generally, these are calculated on a diminishing balance basis (a constant percentage is applied each year against the un-depreciated balance in the asset account), although some assets can be depreciated on a straight-line basis (an equal portion of the original amount each year). Check with your accountant or Revenue Canada for the CCA rates applying to the major asset items proposed for your operation.

Net Profit is Pre-tax Profit less corporate income taxes. Business income taxes are levied against pre-tax profit. Ask your accountant which tax rates would apply to your business.

The resulting figure, Net Profit, is the accountant's way of telling you what the real profit is in your business. It is a figure which includes the profit that is available to you and your investors at the end of the year as well as the principal portion of any debt that has been paid off, after adjusting for the amortization of the original cost of the assets in the business (depreciation or CCA). In other words, it's the accrued change in the book value of the net worth of the business (i.e. assets less liabilities).

However, this is not the same figure as the amount of real cash you have available from the business, since it includes the principal portion of mortgage payments which have been made and it also ignores any new capital expenditures which have been made over the year (expenditures which would have been capitalized rather than expensed against that year's income). Net Profit is also net of capital cost allowance or depreciation. Indeed, as this is a book entry and not a real cash flow charge, it only distorts the cash flow picture.

To calculate Net Cash Flow, which is the real cash figure, you need to start with Net Profit, add back the depreciation or capital cost allowance, deduct the principal portion of mortgage payments (the interest portion has already been deducted) and deduct an allowance for capital purchases (Asset Replacement) for the year. This is the real cash return - the cash flowing out of the business for the year and available for you and your investors to take out or re-invest.

The short-cut way of calculating cash flow is simply to start with Operating Profit, deduct total mortgage payments (both principal and interest), and deduct any capital Asset Replacement allowance. This will give you the net cash flow prior to business income taxes. It is simpler by far than going through the detailed calculation above (which is only required to derive income taxes), and the pre-tax numbers can be just as readily used for return-on-investment analysis. A worksheet is provided in Exhibit I-1.

Return on Investment

Return on Investment is generally referred to as ROI. Another measure of value is Return on Equity (ROE).

These calculations give you a single measure of the income returned on the invested capital over a period of future years selected by the analyst to represent the life of the investment. ROI is a measure of the return on total capital, both debt and equity, while ROE is the return on equity only. These measures are universally accepted by investors, bankers, and other lenders as means of evaluating the income potential of a business investment.

There are a number of ways to make these calculations, some more complex than others. The more complex methods are, of course, the better methods. We will start with the simplest method.

EXHIBIT I-1

PROJECTION OF PRE-TAX CASH FLOW

	Mature Year	1	2	3	4	5
Operating Profit						
Less: Annual Mortgage Payments Capital Re-Investment Allowance						
TOTAL						
PRE-TAX CASH FLOW						

Simple Average ROI/ROE

For a particular year, ROI is the pre-tax cash flow plus the interest for the year on long-term debt, as a percentage of the original total investment (equity plus long-term debt).

$$\text{ROI} = \frac{\text{Pre-tax Cash flow + Interest on Long-Term Debt}}{\text{Original Equity + Original Long-Term Debt}}$$

ROE is the pre-tax cash flow as a percentage of the original equity investment.

$$\text{ROE} = \frac{\text{Pre-tax Cash Flow (or pre-tax cash flow)}}{\text{Original Equity}}$$

These numbers can be averaged over a number of years, say ten years, to give an average pre-tax ROI or ROE figure.

These are the simplest calculations. However, they are not well regarded by serious financial analysts because they ignore the time value of money. What we mean is that they give the same value to a dollar earned in the tenth year as they do to a dollar earned in the first year. In reality the present value of a dollar earned in the tenth year is really only a portion of a dollar.

However, the simplicity of this method is its beauty and it is easy to understand. Most bankers will accept such numbers for their purposes. If you are not pressed for a more sophisticated calculation, leave it at this.

For a project to be commercially feasible, the ROI and ROE values have to be positive (i.e. the business is making, not losing, money) and they should exceed the costs of alternative, no-risk investments, such as bonds or guaranteed investment certificates. If they don't exceed these alternatives, why bother taking the risk? Just put your capital in guaranteed investments.

Another factor determining what is a satisfactory return is liquidity. Liquid investments, blue chip stocks and bonds, for example, can be readily and quickly sold, at little cost. An equity stake in a small restaurant business, however, may be difficult if not impossible to sell, and there may, in fact, be an agreement among the investors restricting their rights in this respect.

The degree these rates of return exceed no-risk investments is primarily determined by the level of risk inherent in the business proposal and, to a lesser degree, the level of liquidity.

Looking at a restaurant business, its advantages are:

- It may have real estate which provides security for financing;
- It can probably be converted to other uses.

Disadvantages include:

- High capital investment;
- High Risk.

Everyone has a different view on these matters, but we suggest the following guidelines:

ROI (assuming 50% debt and 50% equity):

- Double the interest rate on long-term debt is **excellent** (provides four-times coverage of interest on debt) (NB: - For the ROI to be double the interest rate, the ROE has to be three times the interest rate.);

- 150% of the interest rate is **good** (provides three-times interest coverage) ;

- 100% of the interest rate is **poor** from the investor's standpoint - there is no premium for risk - but not bad from the banker's perspective, he or she has two-times coverage on interest;

- Less than 100% - is **not a commercially feasible** proposition and probably not bankable, since the lender has little or no income protection.

Assuming the financing was 50/50 debt/equity and that the interest rate on long-term debt was 10% per annum, an ROI of 20% would produce an ROE of 30%.

ROE:

- Triple the interest rate on long term debt is **excellent**;
- Double is **good**;
- Equal to the interest rate is **poor**;
- Less than the interest rate is **unfeasible**.

<u>Times Loan Payment Coverage</u>

Bankers look at the income protection on their loan. Basically, they want to see operating profit of at least double the level of annual loan payments. Thus, if there was a 50% deterioration in net income, the business could still cover its loan payments. For higher risk businesses, they will want to see triple or better coverage.

This judgement will also be affected by the amount and quality of security you have put up for the loan. If they don't have to rely on business income for loan repayment, they may be a little less demanding on times coverage.

<u>Detailed Return-on-Investment Methods</u>

The more sophisticated methods of calculating return on investment are summarized below. Both of them share the benefit of accounting for the time value of money in calculating return on investment.

<u>Internal Rate of Return (IRR):</u>

This method calculates the percentage of rate of return generated from a stream of income over time, relative to the amount of the original investment. Net cash flow is usually used to represent income, although a pre-tax IRR can be calculated too, if you are using the simpler pre-tax cash flow method of projecting earnings.

Essentially, this method determines the discount rate (rate of return) that, when applied to each future year's cash flow, will result in a total cash flow for all the years equal to the original investment.

Ask your banker or your accountant to do this calculation for you. Most spreadsheet programs today will perform this calculation. To do it manually, you have to be a mathematician!

Net Present Value (NPV):

Net present value (NPV), sometimes called warranted investment, is a very useful ROI measure. Rather than determining the rate of return itself, it asks you to establish a target rate of return and then discounts each year's cash flow at this rate to calculate the level of investment warranted for the project. In other words, it tells you how much you can afford to invest to produce the desired rate of return from the projected cash flow. If the warranted investment is higher than the actual investment required, the project will exceed the target rate of return and vice versa.

Again, the NPV calculation can be done by your accountant or banker.

Time Period for Projections

What time period should we use in measuring ROI?

A primary consideration in this respect is the expected useful life of the investment. The useful life of an investment can be many years. Buildings, for example, can have an effective life of a century or more. Rolling stock may be good for twenty years or more. Other assets may have a much shorter useful life. Assuming, however, that you will be spending enough annually to refurbish or replace items on a periodic basis, the useful life of the assets in the business will be extended indefinitely into the future. On the other hand, new competition could weaken your ability to maintain the business on this basis and its life would be shortened as a consequence. As a result, the expected useful life of an investment is not a sufficient consideration, on its own, for determining the time line for ROI analysis.

A second important consideration is the reliability period of future projections. Some experts believe that any projections beyond five years are so speculative that they are useless. (Some others believe one year is speculative!)

However, the key question is not really how accurate future projections can be but, rather, is it reasonable for you to rely on future income from the investment you're contemplating today and, if so, for how many years can you reasonably expect to continue to earn this income?

We would suggest that a ten-year time line would probably be appropriate for a restaurant business. With reasonable management and investment in marketing, this should be readily achievable. In addition, there's not a lot of value in extending the time line significantly beyond this, since, with the time-sensitive ROI methods, the impact of cash flow more than ten years in the future is quite small.

With the simple ROI method, you should not include years beyond the tenth year in the calculation, since to do so would distort the result by giving too much weight to cash flow in the distant future.

Break-even Analysis

Another useful analysis is break-even analysis. Some financial institutions like it, because it paints a picture of the degree to which a projected level of business exceeds the minimum necessary to survive and provides a measure of the down-side protection in the projected numbers.

The break-even point is the volume of revenue at which all costs are covered and the business breaks even on a revenue-to-cost basis.

There are several different break-even points, as illustrated in Exhibit I-2. The first comes when the intersection of volume of business and price produces enough revenue to cover variable operating costs (costs of sales and direct operating expenses). The amount of revenue in excess of variable costs is called Contribution to Overhead.

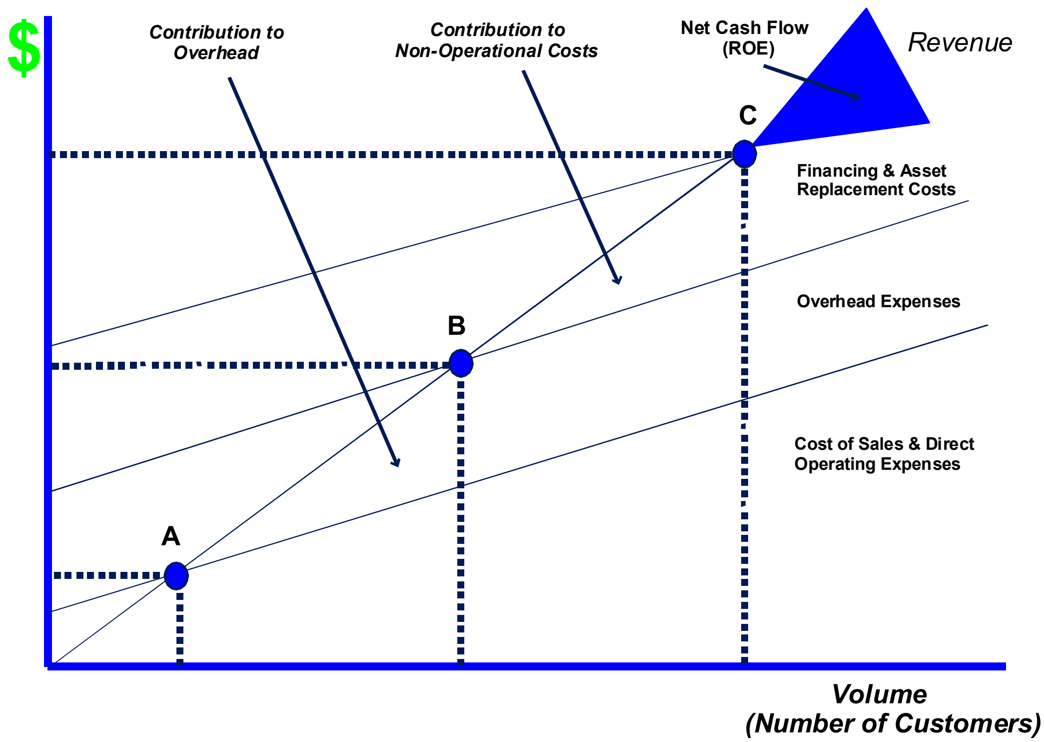
The second level happens when all operating costs, the variable costs as well as all overhead costs, are covered. The surplus is the Contribution to Non-Operating Costs or Contribution to Capital Related Costs.

The third level is when all costs of the business are covered. The surplus is Net Cash Flow or Return on Equity.

Break-even analysis is also very useful to management for the purpose of evaluating feasibility and also because it can be used in pricing and discounting strategies as part of a yield management process. We talked about this in Section 8.

EXHIBIT I-2

BREAKEVEN ANALYSIS



A	Break even on variable costs (direct costs)
B	Break even on variable & fixed cost (overhead costs)
C	Full Break even - covers all variable & fixed costs, as well as financing & asset replacement costs

APPENDIX II

Business Structures

APPENDIX II

BUSINESS STRUCTURES

Alternative Forms of Business Structures

This section looks at alternative ways of setting up a business and deals with the major considerations you will face.

The alternative forms of business organization include:

- Sole proprietorship;
- Partnership;
- Corporation - the Limited Company and the Public Corporation;
- Limited Partnership;
- Joint venture.

The features, advantages, and disadvantages of each organizational form are summarized below.

Sole Proprietorship

A sole proprietorship is just what it says. It involves one owner, and that owner and the business are one entity. In other words, the person owns the assets personally, and the liabilities of the business are the liabilities of that person. There is no legal form to a sole proprietorship, although it still has to register itself as a business for the purposes of business licensing and sales tax registration. The legal status of the business is the legal status of the owner as a citizen. The income of the business is the personal income of the owner.

The advantages of this form of enterprise include:

- Simplicity;
- Freedom to make your own decisions.

The disadvantages include:

- No limitation of personal liability for the owner;
- Nobody to share the responsibilities of running the business;
- Limited access to equity other than what you have available personally.

This form of enterprise is only feasible where the business is owned solely by an individual, or perhaps by a married couple, since the laws on marital property will govern the nature of the relationship between the parties.

Partnership

A partnership is a business form intended for two or more owners. Like the sole proprietorship, the owners of the business and the business itself are one and the same for legal purposes. The business has no legal status separate from the individuals involved. The liabilities of the business are the liabilities of the partners. In fact, each and every partner is liable for all of the liabilities of the business. Partners are assumed under the law to have equal interests in the business, unless their partnership agreement specifies differently.

The governing legal instrument is the partnership agreement drawn between the partners. It has legal status as a contract. It normally covers the key arrangements among the partners, for example:

- The proportions of partners' interest, if other than equal;
- Cross indemnification of personal liability;
- Provision for dissolution, or transferring of interests in the partnership;
- The decisions to be made jointly by the partners;
- Prohibited activities;
- Provisions for life and disability insurance to assist surviving partners in acquiring the interest of the deceased or disabled partner, and compulsions on the partner or his or her estate to sell that interest to the surviving partners in the event of disability or death;
- The manner in which partners are to be compensated, as well as distribution of the partnership's profits and losses;
- Procedures for amending or terminating the agreement.

The advantages of a partnership are:

- Basic simplicity ;
- Provides for more than one owner.

Disadvantages include:

- Unlimited liability for each partner for all of the liabilities of the business. The partners can have a mutual indemnification clause in their partnership agreement, which can partially offset some of the risk, but this only establishes a claim on the other partners in the event a partner is called upon to cover a business liability.
- Many partnerships fail because partners do not adequately deal with issues such as those identified above as needing to be included in the partnership agreement

Corporation

The corporation is a separate legal entity from its owners. It has the status of a person under law. It is created when Articles of Incorporation are filed with the Registry of Joint Stock Companies of the Nova Scotia government in the case of a provincial corporation, or the federal government in the case of a federally incorporated company. You have the choice of provincial or federal incorporation. (There is little point in a federal registration unless the same company is going to be doing business outside of Nova Scotia.)

A corporation issues shares to its owners and equity investors. The liability of the owners and investors is limited to the amount of their investment. (However, if they provide personal pledges or guarantees to the bank or other creditors on behalf of the company, their limited liability does not protect them for the specific liability involved.) In other words, for the most part the company's creditors have only the assets of the company as protection for their credit, not the assets of the owners. There are certain creditors and liabilities which do have a claim on the owners of an incorporated company, including the Receiver General of Canada for employee source deductions, the Workers' Compensation Board, and employees for their back wages.

There are two forms of limited liability corporation, the private corporation and the public corporation. The private corporation is the one used by the vast majority of small- and medium-size businesses that are incorporated. In these cases, the investors are informally organized by the promoters of the business. Private corporations are not permitted to promote the sale of their shares to the general public.

In a public corporation, on the other hand, promoters are permitted to solicit the sale of the corporation's shares to the general public through investment dealers and other financial institutions. To do this, however, the promoters have to file detailed information on the business proposal and on many other topics to the Nova Scotia Securities Commission and receive approval to sell the share offering.

The cost of legal, consulting, and accounting fees in developing a prospectus can run to hundreds of thousands of dollars, so this form of business structure is only used for very large businesses.

The advantages of a corporation are:

- Limitation of owners' liability;
- Can have several owners/investors;
- The business can enter into contracts and conduct business in its own name, rather than the names of the owners;
- There can be some tax benefits to the owners as compared with the sole proprietorship or partnership.

Disadvantages include:

- More expensive and complex to establish;

- For very small businesses, much of the advantage of limited liability is usually lost, since bank and lenders will insist on personal guarantees from the owners anyway.

Limited Partnership

The limited partnership is a form of business organization that was popular in the past decade. It is like a partnership in some ways and a corporation in others. Basically, the general partner organizes and runs the business, while the limited partners invest in it. All are partners for tax purposes; in other words, the net income and losses of the partnership flow directly to them. However, the liability of the limited partners is limited to the amount of their investment, as long as they don't engage in the business in any fashion, other than as passive investors. To remain a limited partner, a person must not take part in the management of the firm and may not act on behalf of the company.

Joint Venture

A joint venture is like a partnership but usually involves two or more corporations that enter into an agreement to operate an enterprise under joint ownership. The respective companies usually have some business relationship with the joint venture.

Business Registration

Whatever the form of business structure you choose, you need to register the business. This is discussed in the section of the manual titled Legal, Regulatory, and Tax Matters.

Tax Considerations

There are a number of tax implications with each form of business organization. You are strongly advised to obtain professional tax advice from a qualified accountant, preferably a tax specialist.

Agreements Among Principals

Whatever the form of organization, it is vital that the principals in the business execute a formal agreement among themselves. In the partnership, there is a partnership agreement, while in the corporation it is a shareholder's agreement.

The agreement should cover, at a minimum, the following kinds of issues:

- An understanding as to the purpose of the business, the roles of the principals in it, and any other mutually agreed intentions;
- Decisions requiring approval of all the principals;
- Decisions requiring approval of a majority of the principals;
- Procedures for selling or transferring an interest in the business;
- Procedures for dissolution;
- Procedures for resolving conflicts when there is a stalemate;
- Methods of compensating the principals;
- Issues having to do with the rights of and prohibitions on the principals.

Which Form of Business Should I Use?

If you're in this project on your own, a sole proprietorship is simplest and cheapest.

Incorporate a private company in which you hold all or most of the shares if you want some limitation of liability protection and/or if your tax advisor indicates some tax advantages in incorporation.

If there's more than one owner, and they all want to have a say in the running of the business, form a partnership.

In partnerships, sometimes one partner may be silent, which means he or she will supply the capital while the other supplies the know-how and the hands-on management. In most cases, however, partners work together at the business. Ideally, in a working partnership, each partner will have skills that are different but complementary to the other so that both can contribute to the business in other ways besides supplying money. Whether silent or active, your partner will usually insist on some role in management decisions.

A word of caution here: you should be very careful in choosing a business partner. Many partnerships fail because the partners cannot get along. If you do choose to form a partnership, you should have a detailed and comprehensive agreement drawn up to protect the interests of all partners.

If you have several others who are prepared to invest in the business but are not going to be active in it as partners, then the private corporation may be the best form. Your tax advisor may, on the other hand, suggest a limited partnership since it gives some tax advantages to the non- active partners.

You definitely need expert advice on this.

APPENDIX III

Financing

APPENDIX III

FINANCING

Few people starting a business have enough personal capital to do it on their own. It is much more common for entrepreneurs to need other investors and, usually, some loan capital as well. This section deals with the "how to's" of arranging financing for your accommodation business.

It is important that you learn the basics of business finance if you are going to be seen as credible and competent by a banker or other lender. They don't expect you to be an expert on financing but they do expect you to know enough to be able to meet their needs and provide reassurance about their major concerns. They also expect you to know enough about business finance to be able to manage your business' financial affairs over time.

Rule number one is that you must invest significantly in the business yourself. You have to have your own neck on the line if others are going to risk their capital on your enterprise. Having other equity investors will be helpful, but the lenders will look to the managing principals to have a major, personal equity stake in the business.

Rule number two is that you have to have a credible business plan and preferably a feasibility study too to provide evidence that the business is going to be able to succeed and pay back its financing: first its loans and secondly its outside equity investors.

Bankers and lenders are not risk takers. They not only want the foregoing, they also want some additional security in the form of assets pledged to protect the loan.

We will now briefly explore the different types of financing available and then consider the "how to's" of applying for a loan.

Equity Capital

Your own investment in the business, be it cash, buildings or equipment, is the primary source of equity. Additional equity capital will be invested by partners, limited partners, or other investors who are willing to risk their capital on your idea and your abilities.

<u>Venture Capital Companies</u>

There are many venture capital companies in Canada who invest in small- to medium- size businesses that have growth potential. Venture capital companies commonly invest between $100,000 and $500,000.

These companies will put in risk capital but only in ventures that have the potential to grow dramatically and pay large returns within four to five years. They will want to sell their investment after four or five years and realize their gain.

Typically, venture capitalists invest in high tech and other high growth companies when they are in their fledgling stages. While most tourism enterprises don't have the same kind of growth potential, some may, particularly if there is the opportunity to franchise a good concept. Otherwise, this is not a very likely source of financing.

The key things venture capitalists are looking for are:

- Rapid growth potential;
- Strong, committed management;
- A seat on the Board of Directors, and pre-emptive rights to replace management if they don't perform on target;
- Large returns over a limited number of years.

Debt Financing

Loans are the predominant form of financing for the tourism industry in Nova Scotia and elsewhere in Canada.

A key lending principle is that long-term assets are financed with long-term loans and short-term assets are financed with short-term loans. Working capital should be financed by a short-term line of credit. In other words, the type of financing should fit the useful life of the asset in the business.

Another key principle, often ignored, is that a business should never commit to loan obligations that it can't comfortably support from its earnings. As a general rule, the lenders will want the business to be able to generate cash flow which is at least 1.1 times, and perhaps as much as 1.5 times, the amount required to repay both principal and interest on an annual basis.

In addition, your loan financing, combined with your equity financing should be sufficient to cover all your costs and provide for contingencies in the event of unexpected costs or overruns in development costs. Otherwise, the working capital of the business will be absorbed by capital commitments and the ability of the business to operate properly will be compromised, if not threatened.

Fixed Assets Financing

Fixed assets are assets fixed in one place, such as land and buildings. They are assets that generally have a long life. Such assets are normally financed with long-term debt, either a mortgage loan or a secured term loan. Mortgage loans extend for the longest period, while term loans are normally for intermediate periods of five to fifteen years.

Lenders don't like to finance more than 75% of the value of assets in this way; they want the rest covered by equity. The lender looks to the projected earning power of the business to pay off the loan, although they also want the security of a claim on the assets themselves in the event of default. They will expect a business plan from you and may also want a feasibility study.

Long-term lenders also look at the overall financing of the business, not just the financing of their secured assets. They look at the debt/equity ratio and don't like to see a ratio of more than 1.5 or 2.0 at the most (1.5 or 2 times as much debt as equity).

Lenders may require other things from you. Typical requirements, in addition to the security for the loan, include:

- Personal guarantees of the main principals for the amount of the loan plus accrued interest;
- A postponement of the repayment of shareholder loans until the loan is repaid;
- Limitation on the salaries and drawings of the principals;
- Restrictions on major capital purchases until the loan is repaid.

Major Equipment Financing

Your major equipment in the restaurant will be in the kitchen and long-term mortgage loans are not normally used to finance such equipment. The techniques that are used most often include:

- Secured term loan;
- Conditional sales purchase;
- Equipment lease;
- Sale and Leaseback.

<u>Secured Term Loan</u>

This is a standard term loan, generally of five to fifteen years, in which the equipment is taken as security for the loan, usually in the form of a lien.

<u>Conditional Sales Contract</u>

This is a method wherein the manufacturer of the equipment finances the purchase. The purchaser makes a down payment and monthly payments until the loan is paid off. The ownership of the equipment remains with the manufacturer until the debt is paid.

<u>Lease</u>

Leasing is a very common way to finance restaurant equipment. This is like the conditional sales contract, but leases are provided by many different financial institutions, not just equipment manufacturers. With a lease, the equipment is rented for a pre-set period of time at a fixed monthly payment that covers the cost of interest as well as a portion of the original value of the equipment. Depending on the type of lease, the equipment either reverts to the leasing company at the end of the term (although the lessee usually has an option to buy it for a pre-set value) or the lessee must buy it for a pre-set amount at the end of the lease term.

The ownership of the assets usually resides with the leasing company.

Leases are popular since they don't require a large cash outlay at the beginning. They also provide a means of replacing equipment on a regular basis, since it can be returned at the end of the lease period and new equipment leased. It is also attractive for companies wanting to own the equipment, since they can buy it at the end of the lease period, probably for a quarter to a third of the original cost.

Sale and Leaseback

Companies wanting to reduce their existing debt so that they can borrow for new required assets can sell a fixed asset to a financial institution and then lease it back. In doing so, effectively they convert a long-term debt into a medium-term lease commitment.

Working Capital Financing

The financing of short-term working capital is generally done with some combination of the following:

- Bank line of credit;
- Character loans;
- Commercial loans.

There are other methods, such as accounts receivable financing and factoring, but they are very unlikely to be used by an restaurant business.

Bank Line of Credit

This is called a demand loan since the bank can demand payment at any time. The line of credit is really an overdraft privilege with a pre-set limit. It allows you to pay your bills with the bank's money when you're short of cash. The amount of the loan is the amount used and interest is only paid on the amount used.

The bank may require you to pledge your receivables as security for the line of credit and they will probably want regular financial statements and frequent lists of payables and receivables. They will also want personal guarantees.

A hybrid of this is the revolving loan, in which the bank automatically extends you small loans as you draw on the credit available and automatically pays them off as you make deposits. While you may pay interest on a slightly larger average loan, the interest rate is usually lower.

The bank will monitor your line of credit. They like to see it fluctuate and occasionally go to zero. If it is constantly at the limit, they will get concerned. If this happens, you probably should refinance the business to return the line of credit to a fluctuating loan.

Character Loans

These are unsecured loans, generally short term, which are extended to companies or individuals with excellent credit ratings. The funds can be used at the company's discretion.

Commercial Loans

These are more formal loans intended for short-term uses. The bank generally wants payments on a regular basis and the loan paid off within a year.

Sources of Financing in Nova Scotia

There are a number of agencies which offer financial assistance for tourism related businesses in Nova Scotia.

The **Business Development Bank of Canada** is a federal crown corporation set up to provide financial assistance to small- and medium- size businesses. Assistance is available in the form of loans, loan guarantees, and venture capital. As a venture capitalist, the BDB can purchase shares in your business or work with private sector financial institutions to obtain the equity financing you require. Contact the Business Development Bank of Canada for more specific program details.

The **Canada/Nova Scotia Business Service Centre** (www.cbsc.org.ns/) provides a variety of helpful information including on potential sources of funding.

The **Office of Economic Development** may be able to offer you some advice on financing. Check out their website at www.gov.ns.ca/econ/

Finally, the **Small Business Financing Act**, is a federal government program designed to help new and existing small business enterprises obtain term loans from chartered banks and other lenders for financing the purchase and improvement of fixed assets. Loan assistance is available for the purchase of land, construction or renovation of premises, and purchase of new equipment. The program is delivered through private-sector financial institutions. Further information on the Small Business Loans Act is also available from ACOA (Atlantic Canada Opportunities Agency) or your lender.

Your Presentation and Negotiations

The First Step

First of all, put together a short description of your business concept, in point form if possible, and review it with your local economic development officer or a representative of the Regional Development Authority. They will be able to help you identify what you need if your application is to be considered favourably by a banker.

Next, make an appointment with the manager or loan officer and go to meet with them. (It will help if you review this section before you go so you are able to discuss financing options with some knowledge.)

Make it clear at the outset of your meeting that this is intended to be a preliminary meeting, designed to help you prepare the specific information they are going to need to process your application. It is vital that they understand that you aren't applying for financing at this point, only looking for information and advice regarding a possible later application. They are used to people coming in to make actual applications for financing without having any idea of what's involved. Those people instantly have two strikes against them. Make sure they don't cast you into this lot!

By giving them an overview of the business concept, they will be able to focus in on the forms of financing and types of conditions most appropriate for your business. You may, in fact, learn that they are not the right kind of institution at all, and save yourself later frustration.

There are several other advantages of having this initial meeting:

- You will be able to focus your subsequent presentation to them on the things that they indicate will be most important and avoid wasting effort on things that aren't important.

- You will get a sense of the aspects of your concept that make them most nervous and you will be able to concentrate your later presentation on overcoming these concerns.

- It will impress them that you are taking a professional approach; that you recognize their need for information and evidence of the merits of the proposal; and that you have sought their advice. The psychology of this can be most valuable later: they will write in their file, "The principal of this business is taking a professional approach to preparing his or her application," or some such supportive comment.

The Second Step - Preparing Your Presentation

In preparing your written presentation, you will need, directly and indirectly, to address a number of specific concerns that the financial institution will inevitably have:

- The viability of the business concept - potential earnings, risk factors, competitive advantages/disadvantages. With existing businesses, they will of course, be interested in past growth, revenues, and earnings as well.

- The restaurant industry - viability, trends, growth.

- The ability of projected earnings to service the financing.

- The opportunity for growth over time.

- The management abilities of the principals - their track records in past projects or jobs, their experience in this kind of business, their formal training and education.

- The financial integrity of the principals - past credit history, reputation in the business community for paying bills and fulfilling obligations.

- The amount of equity in the business, particularly from the main principals.

- The realizable value and marketability of the security that is available to secure the financing.

- The level of professionalism evident in the approach to securing financing - the understanding of the needs of the lender, the use of outside professionals.

The actual presentation will address these issues in the context of the suggested table of contents presented in Exhibit III-1. If you have already prepared a business plan and/or a feasibility study, you can attach them to the submission and reference them where appropriate.

The presentation need not be exhaustive. It can be in a summary form and use bullets to make the points concisely. The financial institution will come back to you for more information where they need it.

You should submit the presentation in person, making an appointment, and then make another appointment to come back and discuss the presentation once they've had a chance to read it.

Negotiations

Honesty and openness in negotiations are critical. It isn't just because you don't want to be caught in deceit or concealment of information, it's also because you are going to have to establish a relationship of mutual trust and maintain it over a period of years. If the financier has any reason to doubt your trustworthiness, honesty, or openness, you will find it very hard, indeed, to get your loan approved.

Discuss your own concerns openly: how you intend to deal with the risks and uncertainties, what you expect to do about major problems that might arise. In general, have an open and full discussion of how the business is going to overcome its challenges. Financiers know very well what can go wrong with a business and they believe in Murphy's Law. In fact, they tend to be cynical about small business, unfair as that may seem. They want you to make them comfortable and give them confidence in your ability to deal with problems.

Don't be intimidated. If you don't understand something, ask. If you don't agree with something, say so. If you think they are being unreasonable in their demands, ask them to explain why the demands are necessary and debate the issue.

At all times be open-minded, non-judgemental, and cool.

This is a normal negotiation. You are free to go elsewhere to get the best deal for your business. However, we recommend that you approach one lender at a time. When you find someone you like and can deal with, stick with them. You should always deal with your banker in good faith. If the manager doesn't think you are serious, or thinks you are wasting his or her time, then you will have difficulty obtaining the financing you require.

Try to get the manager/loan officer to leave their office and come to see your site; give them the tour. Getting them out of their environment into yours is good psychology, and it will help them see your proposal in a more substantial way. It will be real, not just a paper project.

It will take some time and effort to accomplish, but you want to draw your financier into a partnership-style relationship, where they will be more concerned with keeping your business afloat and helping you out, rather than worrying about their loan and wishing you'd take your business elsewhere.

Put yourself in their shoes and act accordingly. Keep them informed. Act like you are in a partnership relationship and treat them like your partner - hopefully they will respond in kind.

EXHIBIT III-1

SUGGESTED TABLE OF CONTENTS FOR A BUSINESS PLAN, SUITABLE FOR A PRESENTATION FOR FINANCING

Executive Summary:

- Very brief description of the business, the concept proposed, and the capital budget
- An outline of proposed financing
- Summary of revenue and cash flow projections

Background:

- Industry/general restaurant trends
- History of the company, date of commencement
- Form of business (partnership, etc.)
- Names of the principals, their involvement, and investment

Business Concept:

- The development concept
- Its unique selling propositions and competitive advantages
- The product mix/product features
- Target markets
- Location and site description
- Proposed assets and capital budget
- Purchase price
- Project phasing

Proposed Financing:

- Equity
- Debt
- Working capital
- Security available

Management:

- Organizational structure
- Biographies of principals and key management

EXHIBIT III-1 cont'd

SUGGESTED TABLE OF CONTENTS FOR A BUSINESS PLAN, SUITABLE FOR A PRESENTATION FOR FINANCING

Markets and Projected Demand:

- Summary of results of market research and analysis
- Comparable information
- Competitive analysis
- Market trends
- Demand projections

Marketing:

- Pre-opening activities/opening promotions
- Summary of the consumer marketing plan
- Marketing partnerships
- Pricing
- Planned market tracking and research

Operations Plan:

- Staffing and training plan
- Business systems
- Other operational issues

Three to Five Year Operating Projections:

- Revenues
- Operating Costs
- Profits
- Debt service
- Asset additions
- Net cash flow

Initial Balance Sheet:

- Assets
- Liabilities
- Equity

EXHIBIT III-1 cont'd

SUGGESTED TABLE OF CONTENTS FOR A BUSINESS PLAN, SUITABLE FOR A PRESENTATION FOR FINANCING

Return on Investment:

- Internal rate of return or simple return on investment
- Present value of cash flow
- Times interest earned
- Break-even analysis

Summary of Key Risks and Contingencies:

- Key risks and management's proposed responses to such threats
- Contingency plans to deal with above

References:

- Financial institutions
- Creditors
- Past business associates - customers, suppliers, partners, etc.
- Banker, lawyer, accountant

APPENDIX IV

List of Contacts

APPENDIX IV

LIST OF CONTACTS

Tourism Division - Tourism Development
Department of Tourism, Culture and Heritage
1800 Argyle Street, 6th floor
Halifax, NS
B3J 2R5
Tel: 424-5000
Fax: 424-0629
Website: www.gov.ns.ca/dtc

Tourism Division - Tourism Marketing
Department of Tourism, Culture and Heritage
1800 Argyle Street, 6th Floor
Halifax, NS
B3J 2R5
Tel 424-5000
Fax: 424-2668
Website: www.gov.ns.ca/dtc

The Nova Scotia Tourism Partnership Council
World Trade and Convention Centre
Suite 603, 1800 Argyle Street
Halifax, Nova Scotia
B3J 3N8
Tel: 424-0048
Fax: 424-0723
Website: www.nstpc.com

Service Nova Scotia & Municipal Relations

Access Nova Scotia
Toll free: Throughout Province:
1-800-670-4357
Website: https://www.gov.ns.ca/snsmr

One-stop shopping for government programs and services. Maintain database of contacts for government departments in each region regarding appropriate permits, etc. Also contact for new Nova Scotia Business Registry.

Regional Access Nova Scotia Offices:

Access Nova Scotia - Amherst
Superstore Mall
126 South Albion St.
Amherst, NS B4H 2X3

Access Nova Scotia - Antigonish
20 St. Andrew's St.
Antigonish, NS B2G 2L4

Access Nova Scotia - Bridgewater
77 Dufferin Street
Bridgewater, NS B4V 2W8
Tel: 1-800-670-4357

Access Nova Scotia - Halifax
West End Mall
6960 Mumford Rd.
Halifax, NS B3L 4P1

Access Nova Scotia - Kentville
28 Aberdeen Street
Kentville, NS B4N 2N1
Tel:1-800-670-4357

Regional Access Nova Scotia Offices (Cont'd):

Access Nova Scotia - Port Hawkesbury
218 MacSween St., Ste. 22
Provincial Building
Port Hawkesbury, NS

Access Nova Scotia - Sydney
Moxham Centre
380 King's Rd.
Sydney, NS B1S 1A8

Access Nova Scotia - Truro
35 Commercial Street, Suite 101
Truro, NS B2N 3H9

Access Nova Scotia - Halifax
West End Mall
6960 Mumford Road
Halifax, Nova Scotia
B3L 4P1

Access Nova Scotia - Dartmouth
Superstore Mall
650 Portland Street
Dartmouth, NS B2W 6A3

Access Nova Scotia - Yarmouth
Provincial Bldg.,
10 Starrs Rd., Ste. 127
Yarmouth, NS B5A 2T1

Canada/Nova Scotia
Business Service Centre
1575 Brunswick Street
Halifax, NS
B3J 2G1
Tel: 426-8604
Fax: 426-6530
Toll free: 1-800-668-1010
Information on federal and provincial government programs and funding assistance under the Community Business Loan Program.

Nova Scotia House of Assembly- Office of Legislative Council
Website: www.gov.ns.ca/legislature/legc/
Statutes of Nova Scotia

Government Departments

Federal Government

Atlantic Canada Opportunities Agency (ACOA)
1801 Hollis St., Suite 600
P.O. Box 2284, Station M
Halifax, NS B3J 3C8
Tel: 426-6743
Fax: 426-2054
Toll free: 1-800-565-1228
Website: www.acoa-apeca.gc.ca

Business Development Bank of Canada
Cogswell Tower - Scotia Square, Suite 1400
Halifax, NS B3J 2Z7
Tel: (902) 426-7850
Fax: (902) 426-6783
Toll free: 1-888-463-6232
Website: www.bdc.ca

Canadian Tourism Commission (CTC)
55 Metcalfe Street, Suite 600
Ottawa, ON
K1P 6L5
Tel: 613-946-1000
Website: www.canadatourism.com

Canada Revenue Agency
Business Services
Website: http://www.cra-arc.gc.ca
Payroll, GST/HST
Business Account Registration
Corporations (taxation)
Sole Proprietorships/Partnerships

Canada Revenue Agency
Tax Services Offices:
Halifax
Ralston Building
1557 Hollis St.
P.O. Box 638
Halifax, NS B3J 2T5
Fax: (902) 426-7170

Sydney
47 Dorchester St.
P.O. Box 1300
Sydney, NS B1P 6K3
Fax: (902) 564-3095

Enterprise Cape Breton Corporation
Commerce Tower, 3rd floor
15 Dorchester St.
Sydney, NS B1P 6T7
Tel: 564-3600
Fax: 564-3825
Toll free: 1-800-705-3926
Website: www.ecbc.ca

Fisheries and Oceans Canada (Maritimes)
P.O. Box 1035
Dartmouth, NS B2Y 4T3
Tel: (902) 426-3760
Fax: (902) 426-5995
Website: www.dfo-mpo.gc.ca

Industry Canada
Corporations Directorate
365 Laurier Avenue West, 9th floor
Jean Edmonds Tower South
Ottawa, ON
K1A 0C8
Tel: 1-866-333-5556
Fax: (613) 941-0601
Website: www.corporationscanada.ic.gc.ca

Industry Canada
Competition Bureau
50 Victoria St.
Gatineau, PQ
K1A OC9
Tel: 1-800-348-5358
Fax: (819) 997-4282
Website: http://cb-bc.gc.ca

Industry Canada
NUANS Search System
C/O NUANS Administrator
Hewlett-Packard Canada
P.O. Box 13000
100 Herberg Rd.
Kanata, ON
K2K 2A6
Website: www.nuans.com

Office of the Privacy Commissioner of Canada
112 Kent St.
Place de Ville, Tower B - 3rd floor
Ottawa, ON K1A 1H3
Toll free: 1-800-282-1376
Tel: (613) 995-8210
Fax: (613) 947-6850
Website: www.privcom.gc.ca
Personal Information & Protection of Electronic Documents Act

Statistics Canada (Atlantic Office)
1741 Brunswick Street
Box 11, 2nd Floor
Halifax, NS B3J 3X8
Toll free: 1-800-263-1136
Website: www.statcan.ca
Population data, Canadian Travel Survey, International Travel Survey.

Transport Canada, Marine Safety
Tower C, Place de Ville
330 Sparks St.
Ottawa, ON
K1A 0N8
Tel: (613) 990-2309
Website: www.tc.gc.ca/marinesafety
Navigable Waters Protection Program
Office of Boating Safety

Transport Canada (Atlantic Region)

Dartmouth:
P.O. Box 1013
45 Alderney Drive
Dartmouth, NS B2Y 4K2
Tel: 426-7795

Port Hawkesbury:
811 Reeves St.
Shediac Plaza
P.O. Box 2012
Port Hawkesbury, NS B0E 2V0
Tel: (902) 625-0803

Sydney:
196 George St.
Federal Arts Bldg., 2nd floor
Sydney, NS B1P 1J3
Tel: (902) 564-7002

Yarmouth:
248 Pleasant St.
P.O. Box 850
Yarmouth, NS B5A 4K5
Tel: (902) 742-6860
Website: www.tc.gc.ca/atl/

St. John Ambulance Training Offices
Headquarters for Nova Scotia Council
88 Slayter Street
Dartmouth, NS B3A 2A6
Tel: 463-5646
Fax: 469-9609
Website: www.stjohnambulance.ns.ca

Canadian Red Cross
1940 Gottingen Street
Halifax, NS B3J 3Y2
Tel: (902) 423-3680
Fax: (902) 422-6247
Website: www.redcross.ca
First Aid, Water Safety courses.

Provincial Government

Nova Scotia Department of Agriculture & Fisheries - Food Safety Section (Halifax)
PO Box 2223
Halifax, NS
B3J 3C4
Tel: (902) 424-1173
Fax: (902) 424-3948
Website: www.gov.ns.ca/nsaf

Nova Scotia Department of Agriculture & Fisheries - Food Safety Section (Truro)
P.O. Box 550
Truro, NS
B2N 5E3
Tel: (902) 893-7473
Fax: (902) 893-6531
Website: www.gov.ns.ca/nsaf

Nova Scotia Department of Natural Resources
P.O. Box 698
Halifax, NS
B3J 2T9
Tel: 424-5935
Fax: 424-7735
Website: www.gov.ns.ca/natr

Service Nova Scotia & Municipal Relations
1505 Barrington St., 9th Floor, South
PO Box 2271
Halifax, NS
B3J 3C8
Tel: 424-5528
Fax: 424-1298
Website: www.gov.ns.ca/snsmr

Nova Scotia Department of Environment & Labour
5151 Terminal Road
PO Box 2107
Halifax, NS
B3J 3B7
Tel: 424-5300
Fax: 424-0503
Website: www.gov.ns.ca/enla/
Public Safety Division
Occupational Health & Safety Division

Nova Scotia Office of Economic Development
P.O. Box 2311
14th floor South, Maritime Centre
1505 Barrington St.
Halifax, NS
B3J 3C8
Tel: (902) 424-0377
Fax: (902) 424-7008
Website: www.gov.ns.ca/econ

Nova Scotia Human Rights Commission (Central Office):
1690 Hollis St., 6th floor
P.O. Box 2221
Halifax, NS B3J 3C4
Tel: 1-877-269-7699
TTY: (902) 424-3139
Fax: 424-0596
Website: www.gov.ns.ca/humanrights

Nova Scotia Labour Standards
5151 Terminal Road, 7th floor
P.O. Box 697
Halifax, NS
B3J 2T8
Tel: 1-888-315-0110
Fax: 424-0648
Website: www.gov.ns.ca/enla/labstand

Nova Scotia Alcohol and Gaming Authority
40 Alderney Dr.
P.O. Box 545
Dartmouth, NS B2Y 3Y8
Tel: 424-6160
Fax: 424-4942
Website: www.gov.ns.ca/aga

Nova Scotia Utility and Review Board
Motor Carrier Division
1601 Lower Water Street, Suite 300
P.O. Box 1692
Halifax, NS
B3J 3P6
Tel: (902) 424-3588
Fax: (902) 424-3919
Website: http://www.nsuarb.ca

Nova Scotia Workers Compensation Board
Main Office (Halifax)
5668 South Street
P.O. Box 1150
Halifax, NS
B3J 2Y2
Tel: 1-800-870-3331 (Halifax)
Website: www.wcb.ns.ca

Nova Scotia Workers Compensation Board
Branch Office (Sydney)
336 Kings Rd., Suite 117
Sydney, NS
B1S 1A9
Tel: 1-800-880-0003
Website: www.wcb.ns.ca

Office of the Fire Marshal
Nova Scotia Environment & Labour
5151 Terminal Rd., 6th Floor
P.O. Box 697
Halifax, NS
B3J 2T8
Tel: 1-800-559-3473
Fax: (902) 424-3239
Website: www.gov.ns.ca/enla/ofm

Nova Scotia Transportation & Public Works
1672 Granville St.
PO Box 186
Halifax, NS B3J 2N2
Tel: 424-2297
Fax: 424-0532
Website: www.gov.ns.ca/tran

Provincial Tax Commission
P.O. Box 755
1505 Barrington St.,
8th floor, Maritime Centre
Halifax, NS B3J 2V4
Toll free: 1-800-565-2336
Tel: 424-6300
Fax: 424-0602
Web: www.gov.ns.ca/snsmr/taxcomm

Nova Scotia Registry of Joint Stock Companies
PO Box 1529
Halifax, NS
B3J 2Y4
Tel: 1-800-225-8227
Fax:(902) 424-4633
Website: www.gov.ns.ca/snsmr/rjsc
Registration of company and NUANS search of business name.

Nova Scotia Museum
Website: www. museum.gov.ns.ca

Educational/Training Resources

Cape Breton University
P.O. Box 5300
1250 Grand Lake Road
Sydney, NS B1P 6L2
Toll Free: 1-888-959-9995
Tel: 539-5300
Fax: 562-0119
Website: www.capebretonu.ca

Dalhousie University
Henry Hicks Academic Administration Building
6299 South St.
Halifax, NS B3H 4H6
Tel: 494-2211
Registrar's Office:
Tel: (902) 494-2450
Fax: (902) 494-1630
Website: www.dal.ca

Mount St. Vincent University (MSVU)
166 Bedford Highway
Halifax, NS B3M 2J6
Tel: (902) 457-6117
Fax: (902) 457-6498
Website: www.msvu.ca

Nova Scotia Community College (NSCC)
Admissions
P.O. Box 220
Halifax, NS B3J 2M4
Tel: (902) 491-4911
Toll Free: 1-866-679-6722
Fax: 424-0717
Toll Free:1-866-329-6722
Website: www.nscc.ns.ca

Saint Mary's University
923 Robie Street
Halifax, NS B3H 3C3
Tel:(902) 420-5400
Website: www.stmarys.ca

Nova Scotia Tourism Human Resource Council
1099 Marginal Road, Suite 201
Halifax, NS B3H 4P7
Tel: (902) 423-4480
Fax: (902) 422-0184
Website: www.tourismhrc.com

INDUSTRY ORGANIZATIONS/ SECTOR ASSOCIATIONS

National & International Organizations/ Associations

Canadian Association of Foodservice Professionals
1644 Bayview Ave., Ste.1219
Toronto, ON M4G 3C2
Tel: (416) 422-3431
Fax: (416) 421-1598
Website: www.cfsea.com

Canadian Culinary Federation (CCF)
700-1281West Georgia St.
Vancouver, BC V6E 3J7
Tel: (604) 681-6087
Fax: (604) 688-5749
Website: www.ccfcc.ca

Canadian Restaurant and Foodservices Association (CRFA) - Atlantic Office
5121 Sackville St., Ste. 201
Halifax, NS B3J 1K1
Tel: (902) 425-0061
Fax: (902) 422-1161
Website: www.crfa.ca

Tourism Industry Association of Canada (TIAC)
803-130 Albert Street
Ottawa, ON
K1P 5G4
Tel: 613-238-3883
Fax: 613-238-3878
Website: www.tiac-aitc.ca/

Provincial Sector Organizations/ Associations

Tourism Industry Association of Nova Scotia (TIANS)
1099 Marginal Road, Suite 201
Halifax, NS
B3H 4P7
Tel: (902) 423-4480
Fax: (902) 422-0184
Website: www.tians.org

Affiliated Associations
(Same address, phone & fax as TIANS)

Campground Owners Association of Nova Scotia (COANS)

Nova Scotia Adventure Tourism Association

Nova Scotia B&B Association

Other Industry Organizations/Associations

Canada Select (Nova Scotia)
1800 Argyle St., Ste. 603
Halifax, NS B3J 2R7
Tel: (902) 424-8929
Fax: (902) 424-0723
Website: www.canadaselect.com

Check In Nova Scotia
2695 Dutch Village Road, Suite 501
Halifax, NS B3L 4V2
Tel: 425-5781
Toll free: 1-800-565-0000
Website: www.checkinnovascotia.com
Nova Scotia Travel Information and Reservations.

Federation of Nova Scotian Heritage
1113 Marginal Rd.
Halifax, NS B3H 4P7
Tel: (902) 423-4677
Toll free: 1-800-355-6873
Fax: 422-0881
Website: www.fnsh.ns.ca

Hotel Association of Nova Scotia (HANS)
P.O. Box 473, Station M
Halifax, NS B3J 2P8
Website: www.novascotiahotels.ca

Nova Scotia Association of Chefs & Cooks
Howe Hall, 6230 Coburg Road
Halifax, NS
Tel: 494-1262

Nova Scotia Restaurant Association
1161 Hollis Street
VIA Rail Station
Halifax, NS B3H 2P6
Tel: 429-5343
Fax: 429-0659

Taste of Nova Scotia
P.O. Box 368
29 Inglis Place, 2nd Floor
Truro, NS B2N 5L5
Tel: 895-3315
Fax 895-1011

Nova Scotia Association of Unique Country Inns
Website: www.uniquecountryinns.com

Regional Tourism Industry Associations

Antigonish/Eastern Shore Tourist Association (AESTA)
RR #1 Musquodoboit Harbour, NS
B0J 2L0
Tel: 889-2362
Web: www.rewardyoursenses.com

Central Nova Tourist Association
P.O. Box 1761, 577 Prince Street
Truro, NS
B2N 5Z5
Tel: 893-8782
Fax: 893-2269
Website: www.centralnovascotia.com

Destination Cape Breton
PO Box 1448
Sydney, NS
B1P 6R7
Tel: 563-4636
Fax: 564-5422
Website: www.cbisland.com

Destination Halifax
1800 Argyle Street, Suite 802
Halifax, NS
B3J 3N8
Tel: 422-9334
Fax: 492-3175
Website: www.destinationhalifax.com

Evangeline Trail Tourist Association (ETTA)
654 West Main St.
Kentville, NS B4N 1L7
Tel: (902) 678-1728
Fax: (902) 679-1396
Toll free: 1-866-260-3882
Website: www.evangelinetrail.com

Pictou County Tourist Association (PCTA)
40 Water St.
P.O. Box 1839
Pictou, NS B0K 1H0
Tel: (902) 485-6151
Fax: (902) 485-4415
Toll free: 1-877-81-OCEAN
Web: www.tourismpictoucounty.com

South Shore Tourist Association (SSTA)
Box1390
Lunenburg, NS
B0J 2C0
Tel: 634-8844
Fax: 634-8056
Website: www.sssta.com

Yarmouth County Tourist Association (YCTA)
Tel: 742-5355
Toll free: 1-866-850-9900
Web: www.aboutyarmouth.com

Regional Development Authorities

Antigonish Regional Development Authority
Farmer's Mutual Insurance Building,
Suite 2-1
188 Main St.
Antigonish, NS B2G 2B9
Tel: 863-3330 Fax: 863-4095
Website: www.antigonishrda.ns.ca

Cape Breton County Economic Development Authority
338 Charlotte Street, 3rd Floor
Sydney, NS B1P 1C8
Tel: (902) 562-2201
Fax: (902) 562-2866
Website: www.cbceda.org

Colchester Regional Development Agency
P.O. Box 181, 966 Prince Street
Truro, NS B2N 5C1
Tel: 893-0140
Fax: 897-1157
Toll free: 1-866-227-6182
Website: www.corda.ca

Cumberland Regional Economic Development Association
35 Church Street, Box 546
Amherst, NS B4H 4A1
Tel: (902) 667-3638
Fax: (902) 667-2270
Website: www.creda.net

Guysborough County Regional Development Authority
P.O. Box 49, 46 Main Street
Guysborough, NS B0H 1N0
Tel: 533-3731
Fax: 533-2064
Toll free: 1-800-355-3731
Website: www.gcrda.ns.ca

Halifax Regional Development Agency
11 Glendale Drive, Unit 9
Lower Sackville, NS B4C 3P2
Tel: 869-4040
Fax: 869-4091 Toll Free 1-800-650-0039
Website: www.hrda.ns.ca

Hants Regional Development Authority
Box 2313
Windsor, NS B0N 2T0
Tel: (902) 798-2284
Enfield Office: (902) 883-3338
http://www.hantscounty.com

Straits Highlands Regional Development Authority
P.O. Box 2200
32 Paint St.
Port Hawkesbury, NS B0E 2V0
Tel: 625-3929
Fax: 625-1559
Website: www.strait-highlands.ns.ca

Kings Community Economic Development Agency
28 Aberdeen Street, Ste. #5
Kentville, NS B4N 2N1
Tel: (902) 678-2298
Fax: (902) 678-2324
Website: www.kingsced.ns.ca

Pictou Regional Development Commission
Business Service Centre
980 East River Road
New Glasgow, NS B2H 3S5
Tel: (902) 752-6159
Toll Free: 1-888-412-0072
Fax: (902) 755-2722
Web: www.wearepictoucounty.com

South West Shore Development Authority
P.O. Box 131
Yarmouth, NS B5A 4B1
Tel: (902) 742-3210
Fax: (902) 742-3107
Website: www.swsda.com

Western Valley Development Authority
P.O. Box 278
86 Atlantic Ave.,
Cornwallis Park, NS B0S 1H0
Tel: (902) 638-8100
Fax: (902) 638-8101
website: www.wvda.com

Travel Trade Organizations

Canada

Association of Canadian Travel Agencies (ACTA)
130 Albert Street, Suite 1705
Ottawa, ON K1P 5G4
Tel: 613-237-3657
Fax: 613-237-7052
Website: www.acta.ca

Canadian Bus Association (CBA)
451 Daly Avenue
Ottawa, ON K1N 6H6
Tel: 613-238-1800
Fax: 613-241-4936
Website: www.buscanada.ca

Ontario Motor Coach Association (OMCA)
4141 Yonge Street, Suite 306
Toronto, ON M2P 2A8
Tel: 416-229-6622
Fax: 416-229-6281
Website: www.omca.com

United States

American Bus Association (ABA)
700 13TH St., NW, Suite 575
Washington, DC
20005-5923
Tel: 202-842-1645
Toll free: 1-800-283-2877 (US and Canada)
Fax: 202-842-0850
Website: www.buses.org

American Society of Travel Agents (ASTA)
1101 King St., Suite 200
Alexandria, VA 22314
Tel: 703-739-2782
Fax: 703-684-8319
Website: www.astanet.com

Group Leaders of America, Inc. (GLAMER)
P.O. Box 129
Salem, OH 44460
Tel: 1-800-628-0993
Fax: 330-337-1118
Website: www.glamer.com

International Association of Convention &
Visitor Bureaus
2025 M Street, NW Suite 500
Washington, DC
20036
Tel: 202-296-7888
Fax: 202-296-7889
Website: www.iacvb.org

CrossSphere (formerly NTA)
546 E. Main Street
Lexington, KY
40508
Tel: 606-226-4444
Toll free: 1-800-682-8886
Fax: 606-226-4414
Website: www.crosssphere.com

Travel Industry Association
1100 New York Avenue, NW, Suite 450
Washington, DC
20005-3934
Tel: 202-408-8422
Fax: 202-408-1255
Website: www.tia.org

Travel and Tourism Research Association
(TTRA)
PO Box 2133
Boise, ID
83701-2133
Tel: 208-853-2320
Fax: 208-853-2369
Website: www.ttra.com

United States Tour Operators Association
(USTOA)
275 Madison Avenue, Suite 2014
New York, NY
10016
Tel: 212-599-6599
Fax: 212-599-6744
Website: www.ustoa.com

APPENDIX V

emerit Standards and Certification

APPENDIX V

emerit STANDARDS AND CERTIFICATION

The Nova Scotia Tourism Human Resource Council (http://www.tourismhrc.com) is a national partner of the Canadian Tourism Human Resource Council and has been actively involved in the development of National Occupational Standards for various occupations in the tourism industry, and is also the certifying body for non-apprenticeable trades in Nova Scotia. As well, the NSTHRC is the local partner for emerit, "Canada's best tourism training tools". emerit offers flexible learning options including on-line accessibility and traditional workbooks. This allows for self-directed learning of specific skill based modules and also permits individuals to challenge full certification.

Standards

Standards presently (2005) exist for 49 occupations. These are listed on the following page.

What are Standards?

Standards are statements outlining the attitude, knowledge, and skills required of an individual in order to be considered competent in an occupation. Standards clarify expectations and can be used to design consistent training, education, and professional development programs.

How are Standards Developed?

The Standard development process is based on the philosophy that the tourism industry must determine its own direction. The individuals best suited to determine the content of the Standards are those directly involved in the occupation. The mandate of the Nova Scotia Tourism Human Resource Council is to bring together business, labour, education, and training, and other stakeholders to define the standards and to ensure that they guide education and training.

Standards for a specific occupation become National once seven provinces or territories and one national association validate and accept them.

National Product List www.emerit.ca

To order please visit www.emerit.ca or contact 1.800.486.9158.

NATIONAL WORKBOOKS

	PRICE	ENG	FRE
Bartender	75.00		
Campground Operator	75.00		
Entry Level Cook	75.00		
Food and Bevarage Manger Set	275.00		
Food and Beverage Server	75.00		
Freshwater Angling Guide	75.00		
Front Desk Agent	75.00		
Guest Services Attendant	75.00		
Heritage Interpreter	75.00		
Housekeeping Room Attendant	75.00		
Hunting Guide	75.00		
Local Tour Guide	75.00		
Reservations Sales Agent	75.00		
Retail First Level Manager	75.00		
Retail Sales Associate	100.00		
Sales Manager	75.00		
Special Events Coordinator	75.00		
Special Events Manager	75.00		
Supervisory Skills (set of 4)	275.00		
Tour Director	75.00		
Tourism Essentials	75.00		
Tourism Visitor Information Counsellor	75.00		
Travel Counsellor	75.00		N/A

TRAINER'S GUIDES FOR WORKBOOKS

	PRICE	ENG	FRE
Bartender/ Food and Beverage Server	150.00		
Food and Beverage Manager	150.00		
Front Desk Agent	150.00		
Guest Services Attendant	150.00		
Heritage Interpreter	150.00		
Housekeeping Room Attendant	150.00		
Local Tour Guide/Tour Director	150.00		
Reservations Sales Agent	150.00		
Sales Manager	150.00		
Tourism Visitor Information Counsellor	150.00		
Tourism Essentials	150.00		

CAREER PLANNING RESOURCES

	PRICE	ENG	FRE
Career Awareness Video	27.50		
Career Expo Manual	45.00		
Career Planning Guide (Updated)	35.00		
The Student's Travel Map: 2002 (Updated)	35.00		
Tourism – A World of Opportunity (CD-Rom)	25.00		

HUMAN RESOURCE BUSINESS TOOLS

	PRICE	ENG	FRE
Aboriginal Tourism - A Business Guide	25.00		
Performance First Series:	155.00		
Great Performances	25.00		
Less Talk, More Communication	25.00		
Making Training Work	25.00		
One-on-One Training	25.00		
Predicting Performance	25.00		
Setting the Stage	25.00		
Winning Ways	25.00		
Business Builders Series:	160.00		
Developing an Operational Plan	20.00		
Developing Your Business Profile	20.00		
Getting Your Business Market Ready	30.00		
Management and Labour Relations	30.00		
Managing Your Business Finances	20.00		
Marketing Essentials for Small Business	20.00		
Sales Forecasting	20.00		
Shaping Your Business Strategy	20.00		
HR Tool Kit	195.00		
Performance Paks (ELC,HRA, FDA, FBS, TVIC)	25.00		

OCCUPATIONAL STANDARDS

	PRICE	ENG	FRE
Bartender	40.00		
Beverage Services Manager	40.00		N/A
Banquet Server	40.00		
Banquet Manager	40.00		
Campground Operator	40.00		
Catering Manager	40.00		
Casino Dealer	40.00		
Casino Slot Attendant	40.00		
Catering Manager	40.00		N/A
Director of Sales and Marketing	40.00		N/A
Door Staff	40.00		
Food & Beverage Manager	40.00		
Food & Beverage Server	40.00		
Foodservice Counter Attendant	40.00		N/A
Freshwater Angling Guide	40.00		
Front Desk Agent	40.00		
Golf Club General Manager	40.00		
Guest Services Attendant	40.00		
Heritage Interpreter	40.00		
Housekeeping Room Attendant	40.00		
Hunting Guide	40.00		
In-room Dining Server	40.00		
Kitchen Helper	40.00		
Line Cook	40.00		N/A
Local Tour Guide	40.00		
Night Auditor	40.00		
Outdoor Adventure Guide	40.00		
Professional Cooking	80.00		
Reservations Sales Agent	40.00		
Retail First Level Manager	40.00		N/A
Retail Sales Associate	40.00		N/A
Sales Manager	40.00		
Ski Area/Resort Occupational Guidelines	85.00		
Small Business Owner/Operator	40.00		
Snowmobile Operations	40.00		
Special Events Coordinator	40.00		
Special Events Manager	40.00		
Supervisory Skills	40.00		
Taxicab Driver	40.00		
Ticket Agent	40.00		
Tour Guide/Director	40.00		
Tour Operator	40.00		
Tourism Small Business Owner/Operator	40.00		N/A
Tourism Trainer	40.00		
Tourism/Visitor Information Counsellor	40.00		
Tourism/Visitor Information Supervisor	40.00		
Travel Counsellor	40.00		
Transferable Skills	40.00		
Wine Service	40.00		

ON-LINE TRAINING

	PRICE	ENG	FRE
Bartender (Bundle)	125.00		
Modules	25.00		
Food and Beverage Server (Bundle)	125.00		
Modules	25.00		
Front Desk Agent (Bundle)	125.00		
Modules	25.00		

Who Benefits from Standards?

Eventually, everyone in contact with the tourism industry will benefit from the evaluation of performance in relation to industry Standards. As Standards gain recognition, industry professionals will maintain or increase personal skills, resulting in direct benefits to local and visiting consumers.

For Service Professionals, Standards:

- Identify career paths;
- Identify the skill and knowledge needed
- Enhance the public image of occupations;
- Provide a basis for challenge, self-improvement, and advancement;
- Provide the basis for certification based on competent performance.

For Employers and Owners, Standards:

- Define area where employees must be proficient, which assists in recruiting, training, and development of staff. It is important to understand that Standards are not a training program or a training manual in themselves; they do not specify learning objectives, learning activities or evaluation methods. To serve as a training tool, the Standards need to be translated into a learning experience with detailed objectives, activities, and evaluations.

- They can be used to create job descriptions and conduct performance evaluations, as well as to develop and enhance training programs

- Provide employers with a highly trained workforce, which can increase productivity and decrease costs incurred by staff turnover.

For Educators, Standards:

- Provide the basis for curriculum and program development;
- Identify areas of industry where educational expertise is needed and applicable.

For Students, Standards:

- Promote the tourism/hospitality industry as a viable and fulfilling career choice;
- Identify career options within the industry.

For the General Public, Standards:

- Increase the level of professionalism of employees in the tourism/hospitality industry. This results in a higher level of service to customers and a better image of the industry.

Many Standards are available in a Workbook that is a self-study guide including all the Standards as well as exercises, performance reviews and self-tests. The Workbooks are available through the Nova Scotia Tourism Human Resource Council and can be ordered on-line from their web site.

National Certification

What is National Certification?

National Certification is a three step process. Professionals who achieve National Certification will be recognized across Canada for meeting industry requirements in their selected occupation. The candidate must be employed in the occupation and must have achieved a minimum number of hours work experience (varies depending on the occupation) prior to completing certification.

Candidates may challenge the knowledge component (i.e. the written examination) of the process at any time with no prerequisite. Study materials are recommended to assist in achieving optimal results.

The Certification process is as follows:

<u>Step 1:</u> <u>Written Examination</u>

The examination tests the candidate's familiarity with the knowledge component of the Standards. If unsuccessful, re-testing may be arranged. Oral examinations are available in special circumstances. Some certification exams are available on-line.

<u>Step 2:</u> <u>Performance Review</u>

The Performance Review is derived from the Standards and enables the candidate to practice performance skills on-the-job. The candidate is encouraged to practice the skills outlined in the Standards using the Performance Review as a guide. The review can be completed as it best suits the candidate's situation, but it is recommended that a candidate work together with his or her supervisor or a certified peer to complete it. The supervisor/certified peer can provide feedback for those skills which may need improvement.

When the candidate is ready to have his or her performance skills evaluated, the candidate contacts the Certification Team and requests an Industry Evaluation. In addition, the candidate must have a minimum number of hours experience (varies by occupation) before the Industry Evaluation can be conducted.

<u>Step 3:</u> <u>Industry Evaluation</u>

A trained evaluator observes the candidate on-the-job to ensure the candidate possesses the essential competencies of the occupation as established by the industry.

Certification

The Certification Team reviews the file to ensure that all requirements have been met. The successful candidates receive a certificate, a pin, and the Industry Evaluation comments. Unsuccessful candidates receive the Industry Evaluation comments and are encouraged to reapply.