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The Real Reasons Why Restaurants Struggle or Fail

According to the National Restaurant Association, there are approximately 990,000 restaurants in the United States. Of these, 7 out of 10 are independently owned – 692,991 locations. From a high-level perspective, approximately, one third or 230,997 of these (independently owned) locations will go out of business ("failing restaurants") within the first year. Another one third or 230,997 will do well. The remaining one third ("Struggling restaurants") or 230,997 will flounder until they are fixed, closed or sold. Every year in the United States alone, 2/3rds or 461,994 (again, independently owned) restaurants will need help to avoid failure (1/3rd) or to get past the struggling (1/3rd) phase. As these numbers illustrate, the restaurant business is statistically one of the most difficult businesses to profitably run.

In our many years of consulting experience specializing in troubled or failing restaurants, we have found that almost without exception that the core reasons why restaurants struggle or fail are as follows:

REASON #1. Lack of a high quality business plan before committing to the venture.
Having a business plan that is written by restaurant professionals is significantly to the advantage of the business owner when compared to an "out of the box" plan or a plan written by someone that does not have restaurant business acumen. Some key questions that a good business plan will answer are: What will sales be? How much will this venture cost? Is there enough operating capital? What should rent cost and can the concept handle it? What size should the premise be? What will labor, food, occupancy, operating and other expenses be? Is the projected amount of profit worth it considering the cost? A good set of business plan financial projections will show not only dollar figures, but also percentages that should all be in line with, or better than industry averages. Nothing can replace the value of an accurate set of financial projections based around the concept to be opened.

Knowing what the entire project will cost and how much rent the business can handle before entering into a lease is of paramount importance from the very beginning. Many operators that did not have a business plan find themselves constantly short of opening or operating capital and that the rent is too high for the business.

When this scenario happens, the business is in jeopardy before the doors first opened and it could have been easily avoided. Knowledge of what the venture will cost, what levels of profit can be achieved and what the operating costs are can all be easily identified in a thoughtfully crafted business plan that is specifically designed around a particular concept. However, just because an operator has a business plan does not mean that the restaurant will be successful. The decision ultimately needs to be made, "do I move forward, do I have enough money, do I have to rework my concept, or should I bail?" Unfortunately, many decide to move forward undercapitalized, with a lease that the business can't support.

REASON #2. Lack of prior restaurant management or ownership experience.
It's quite amazing how many people get into the restaurant business because they "find the right opportunity" or "my food is outstanding and people have been telling me for years that I should open my own place." You get the picture here. Newbies that are unseasoned, untrained and most likely lacking in prior practical experience in the financial management of a restaurant business are unequipped to handle the full reality of their new restaurant. A struggling or failing restaurant is the likely result unless corrected while there is still time to act.

REASON #3. An extenuating life or business circumstance.
Life sometimes throws a curveball and for many operators in the restaurant business, they come fast and furious, many times without warning. Auto accidents, divorce, health issues and other extenuating circumstances happen and the business takes the hit – emotionally and financially. In a similar fashion, landlords, partners, investors, unforeseen construction, weather and many other factors can alter the course of business in a hugely negative way.

REASON #4. Lack of functional operating systems within the business.

Business operations that are extremely dependent upon the owner are those that lack operating systems. Operating systems are the established procedures for every aspect of the operation and they include personnel, administration, product, marketing and many others. It's easy to spot a restaurant that has few systems because they don't have profit and loss statements, they are usually undercapitalized, the staff is untrained, social media reviews are all over the board, marketing is a "seat of the pants" effort, there's poor communication and management is in a constant state of "putting out fires." Unless identified and corrected while the owner still has the energy to do so or outside help is engaged, the lack of operating systems is one of the major reasons a restaurant struggles to a point of eventual failure/closure.

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If you would like help with a struggling or failing restaurant anywhere in the world, please contact:

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