A REAL ESTATE ROLL-OUT 6 PACK FOR CEO'S

The biggest mistake that the CEO of an emerging, restaurant growth company can make after witnessing brand success, is to rush into a real estate roll out program unprepared, and at the cost of losing touch with day to day operations. Successful companies plan time to build a strategic foundation and systematic approach to expansion. So before you pack your bags and hit the road to tour new locations, take a moment to partake in this 6 pack of real estate fundamentals that will help to minimize the risks associated with executing a development program for your brand.

1. **ANALYZE YOUR CUSTOMER**: Most good (and bad) real estate decisions can ultimately be traced back to how well you know your customer. A flawed profile of the brand's customer will, inevitably, result in a flawed real estate decisions. Conduct a professional analysis of the consumer traffic in your currently operating units to get a deeper picture of the demographic composition, spending habits, trip origination tendencies and lifestyle (psycho-graphic) characteristics of your brand's most loyal customers. Research can identify consumer characteristics and patterns that contribute to brand success, and this research often contradicts internal, management assumptions grown from instinct, expectation and observation. Customer exit surveys, zip code pin maps and credit card data will help to build an accurate profile of what types of characteristics define the brand's proven customer base. Use consumer research as a benchmark to evaluate potential markets and sites, and gain validation from by your financial partners.

2. **PACK THE WAR CHEST:** Waiting until after the letter of intent is signed to seek project funding, or hire and train key employees, is simply a recipe for disaster. Sign a deal without financing in place and you'll lose credibility in the development community and with your own team. Make the investment up front to build bench strength and secure funding for the initial phase of expansion BEFORE the real estate site selection process is initiated. This will provide greater credibility with the development community, enhanced leverage at the negotiating table, and lower the anxiety of investors and senior management.

3. **BUILD A WORK LETTER:** In most real estate transactions the landlord tries to dictate not only the amount of rent and tenant allowance, but also the condition of delivery for the real estate premises. Tenant allowance money evaporates quickly if it has to be applied to the cost of developing base building components and infrastructure that will ultimately become and remain the property of the landlord after the tenant vacates. Architect and contractor should collaborate with your real estate team to develop detailed, "restaurant ready," shell specifications required of the landlord for delivery of the leased premises, that are unique to the concept's requirements for non-proprietary improvements, such as utility and infrastructure related components.

4. **INVEST IN DUE DILIGENCE:** BEFORE incurring costly legal and design fees, conduct a market analysis to thoroughly vet the real estate decision. Residential demographic analysis is only one

facet of that study. For example, only 1/3 of customer visits to full service restaurants originate from home. Hotel guests are captive and must eat out. Understand where your target customer works and plays in each market under study. Invest in experts who will research the permitting and licensing process for each locale to ensure that there are no hidden time and cost issues associated with accessing utilities, zoning, liquor license, etc., and with construction professionals to evaluate existing site conditions, infrastructure and development costs to ensure they comply with your pro-forma.

5. **DON'T CHASE DEALS**: Be pro-active, not reactive. Real estate expansion strategy should follow a strategic plan defined by logistical, physical and demographic considerations unique to the concept. Access to distribution channels, travel time and cost for senior management to visit sites, access to your target customer, are just a few of the many considerations at hand. Stick to the plan and refine it over time, but don't be tempted to jet around the country every time a developer drops a flattering call, enticing you to consider a vacancy or new development in a project far outside your comfort zone.

6. **ASSEMBLE A DEVELOPMENT TEAM**: The focus of the CEO and COO should not be responding to, and investigating calls from, brokers, developers and contractors. Director of Real Estate and Director of Construction roles are critical to the process, but most small to medium sized restaurant companies cannot typically justify the cost (salary, expenses, benefits and profit-sharing) associated with hiring key, real estate team members on an in-house basis. For some period of time real estate functions may only require part time focus. Consider outsourcing real estate functions (site selection, construction, due diligence, design, legal) to free up senior management empowering them to remain focused on operations, profitability and strategic/critical path decision-making, without abandoning focus on keeping the company healthy and profitable at the operating level.

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