

How a vital ingredient can help restaurants go from stale to sizzling

Australia's restaurants need to find a point of difference to survive – but too many are missing the mark, says a leading insolvency and business restructure specialist.

In the face of a number of recent high-profile restaurant closures around the country, Andrew Spring, a Partner with insolvency firm Jirsch Sutherland, says restaurants, like all businesses, need to find their purpose.

“With pressures such as high rents, food prices and increased competition, restaurants need to provide a focus for their customers – something that makes them stand out,” Spring says. “Why do people continue to frequent a particular restaurant? Apart from low cost of staff, why does the local family restaurant continue to survive? Because they are unapologetic about their passions – they serve Grandma’s apple pie or the best chicken parmy in town, for example.

“While it’s not as simple as picking a signature dish, I think there’s something to be gained from thinking about how your business engages with its customers – how it presents its purpose.

“Historically restaurants have operated on very tight margins. By finding its niche a restaurant may be able to compete less on price, thereby allowing it to pass on the increasing costs of business.”

For restaurateur David Singer, who owns the popular Frenchies Brasserie on Sydney’s Northern Beaches, having a point of difference was crucial. “For us, it was about being crystal clear about what we wanted to deliver,” he says. “We needed to be a destination venue located off the beaten track, ‘over-delivering’ on the quality of dishes and service. To achieve this, we needed a team who had experience and most importantly were passionate about the industry.

“We have tested a number of initiatives and many have worked and some have not. The difference for us is that we measure their success and make business decisions based on numbers and feedback and when something is not working, make a change quickly.”

Spring says that a lot of restaurants that Jirsch Sutherland becomes involved with as a result of insolvency or restructure “seem to miss that mark”.

“Often there are very expensive fit-out costs which are designed to attract the customer’s eye, but that then saddles the business with high debt from the outset,” he explains. “While diners seeking new cuisine will give something shiny and new a chance, the role of the restaurant is to provide an experience and not just a satisfying meal. It’s like the test of a good movie – would you watch it again?”

“A restaurant should create a desire in a customer to return. In my experience, those that fail are unable to deliver that experience while also balancing the books.”

Spring says if a restaurant is struggling it needs to act immediately. “If your business is showing signs of financial difficulty, don’t ignore it,” he says. “It is critical that you seek advice from your accountant or other trusted adviser as soon as possible rather than wait until it’s too late.”

A quick fix could be to find ways to manage cash flow more effectively, Andrew says. “Restaurants have a fortunate cash flow cycle, as they often get paid by their customer before they have to pay their creditors. However, without good cash flow controls and management reporting, this may provide a false sense of security to restaurateurs.

“If margins are not maintained, then liabilities may accrue in the background like a sleeping bear about to wake up. Most commonly, the bear will awaken when statutory liabilities such as Pay As You Go (PAYG) Withholding Tax, deducted from employee wages, become payable at the end of the quarter. Having an ongoing discussion with your accountant about how to manage your money better can make the world of difference. In addition to your accountant, it’s also important to speak with your bank and your suppliers so you can work out better payment terms.”

Spring adds that restructuring your business and changing your business model could also be worth considering for some restaurateurs. “Adapting to the changing environment could be the key to survival,” he says.

About Jirsch Sutherland

Established in 1984, Jirsch Sutherland is one of Australia’s leading national independent insolvency specialists. The Jirsch Sutherland team works closely with small and mid-size accounting, finance and legal firms – and their clients – to provide a wide range of expert corporate and personal insolvency services including liquidations, voluntary administrations, receiverships and bankruptcy.

With head offices in Sydney, Melbourne, Brisbane, Newcastle and Perth, supported by a network of regional offices, Jirsch Sutherland’s national reach combined with a local presence underpins the company’s ongoing.

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