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MIDDLE EAST



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DOWNSIZING INTELLIGENTLY



Closing a single restaurant unit without damaging the entire brand takes skill. **Chadi Chidiac**, managing partner of PROTOCOL hospitality management consultancy, guides us through this minefield

Closing an outlet is always tough, since it often sends out negative messages about the health and prosperity of both the business and the brand. If a unit is underperforming in a specific location and closure is required, activating awareness among your customer base is absolutely necessary. Furthermore, if the decision to close is left too late it can have negative reverberations upon the entire brand.

“The unit you finally decide to close may weaken you financially because you have been carrying it for so long; you now don’t have the working capital to implement capital improvements on [any] one of the other stores,” says consultant Chris Tripoli, FCSI, president of A’LaCarte Foodservice Consulting Group, a Houston-based partner of PROTOCOL.

If handled incorrectly, closures can send shockwaves throughout the system, the most significant of which could be psychological. If the surviving outlets are within the same marketplace, the closure of one of the outlets could negatively affect the power of the brand in the mind of its customer base, who might, wrongly or rightly, believe the brand’s equity to be diminishing. Indeed, suppliers and stakeholders will also be concerned. For this reason, a decent amount of explaining should be offered, in order that people are able to ascertain that the closure was a well thought out decision benefiting the business model.

There are two important points in a restaurateur's favor that may help restore the negative effects of a closure. One is that because of the regional economic and political turmoil in the Middle East, society is used to seeing businesses fold. Therefore, a closure may be viewed as less shocking here in the Middle East.

The second point is that with the almost instant tool of social media, a clear and strong message regarding the closure can be sent to your core customer base, to ensure they are kept up to speed with any new developments.

Although the shock of closing an outlet can be minimized (see Words of Wisdom), the market value of the brand still may take a blow. This could negatively affect future investments, since, in future, investors will be keener to ask more questions and request stricter credit conditions.

Whether or not the rented unit has a guarantee or a surrender clause, the operator can still be liable for the rent or lease of the property, even after closing down operations. Because of this, more and more operators have recently opted to seek advice from an attorney for approval of a sublease.

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WORDS OF WISDOM

Communicating the closure of a unit to customers and staff

- Let the internal team at the site know clearly, directly and with care and respect that the unit is closing.
- Communicate the reasons for closing the site, so that the brand survives, and your other locations are still able to thrive.
- Thank frequent diners in all communications, whether in person or through below-the-line (BTL) plans, for their brand loyalty; both from the ownership and the team.
- Provide notice if possible: "We are closing on this date to revitalize our brand and to sharpen our future focus."
- Refrain from offering too much notice, however, since employees will still need to show up for work, so the level of customer service remains high.
- Current customers should be offered a gift card or coupon with a message that encourages them to visit the new location.
- If planning on selling franchises, the closure will need to be sufficiently disclosed and explained.

Don't let labor obligations catch you off guard

Through the downsizing process, operators must be aware that the final paycheck to employees is not necessarily a closure on the operator's financial obligations. When employees are discharged, severance obligations will still need to be settled, which requires foresight in budgeting and provisions.

Reconcepting may not be the answer

Avoid reconcepting an underperforming unit. Reconcepting a branded restaurant is challenging and it will require a makeover of all locations, starting with the underperforming store. If the other units are performing well, then it's the location that is a bad fit and not the concept.

