Introduction

Restaurants have been part of the human experience for millennia. The modern restaurant industry’s entrepreneurial roots date back to 3500 B.C., when the first restaurant opened as an extension of its proprietor’s home (Reynolds 2003). The target market, as it were, consisted of weary travellers who wanted a meal in a family setting while away from home. The modern retail landscape is of course vastly different; restaurants are ubiquitous in everyday life. Throughout the civilized world, humans embrace the convenience, epicurean pleasure and value of eating meals outside of the home. The seeds of the chain restaurant industry were, however, sown long before the advent of contemporary chains. Restaurant patrons have always sought consistency, value and availability, the hallmarks of the chain experience.

In 1955 – when chain restaurants began to establish a foothold in the market – Americans spent approximately 25% of their food dollars outside of the home; the National Restaurant Association (2006) now predicts that, during the current decade, this number will exceed by 50%. Worldwide, annual consumer expenditures on restaurant visits during the same time frame should exceed $1 trillion (Reynolds and Namasivayam 2006). More than 900,000 restaurants blanket the United States today. Of these, some 270,000 are chain restaurants (National Restaurant Association 2005). Sales statistics suggest, however, that chains command an even bigger share of the restaurant business – chain outlets capture half of all restaurant revenues in the United States. As Muller (2005) also noted, more than nine out of every ten hamburgers eaten away from home are purchased from a chain restaurant.

The preponderance of chains appears to be increasing. While foodservice industry revenues in the United States are growing at a rate of approximately 4% annually, total revenues at the top 25 chain restaurants have in recent years grown by approximately 5.1% (National Restaurant Association 2005; Technomic, Inc 2004). Global chain restaurant growth is also increasing faster than growth in the foodservice industry in general, a phenomenon that is projected to continue long into the twenty-first century.

Segmentation and definition

So what is fuelling this growth? To answer this, we must understand all the factors affecting chain restaurant operations. Howard Johnson, an entrepreneur who realized that he
could maximize operational efficiencies and sustain excellence in quality across many units through replicating a solid business concept, was the first to describe his restaurants as links in a *chain of restaurants* (Muller 2005). He achieved a competitive advantage by leveraging brand recognition through multiple operations with the same identifiable physical attributes and service offerings. Yet he also appreciated that the failure of one link in the chain could have dramatic consequences throughout the system.

Researchers, in attempting to conceptualize the chain restaurant in a way that would be conducive to quantifying chain restaurant operations, have offered a variety of definitions. The most widely accepted, however, stems from Wyckoff and Sasser (1978) – two or more eating establishments at separate locations under common ownership or related through other legal entities (e.g. franchising), which, as the dominant activity, provide food for consumption on or off premises. Such a definition supports the understanding that a chain restaurant can take on many forms (e.g. kiosks, quick-service counters with limited seating, steakhouses) and can be located in almost any location, even non-traditional sites such as healthcare settings, sports stadiums or within hotels.

Today, the quick-service segment claims the largest number of chains. Chains in the full-service, casual-theme segment, while dramatically fewer than those in the quick-service segment, nevertheless comprise a substantial share of restaurants globally. The smallest number of chain restaurants, in terms of both units and concepts, is in fine dining.

The benefits of chain operations remain the same across all segments. Chain restaurant organizations have the advantage of economies of scale regarding materials and supplies, with vast market reach generated by brand recognition allowing for quick penetration into new markets (Muller and Woods 1994). Siguaw et al. (1999) describe a variation on the advantage for chain operators in the competitive restaurant industry discovered by Howard Johnson: the ability to leverage brand personality. As these researchers noted, ‘A well-established brand personality has been shown to result in increased preference and patronage, higher emotional ties to the brand, and trust and loyalty’ (Siguaw et al. 1999: 49). In large part because of these advantages, chain restaurant management requires specialized acumen. Furthermore, there are a number of considerations that, if left unattended, can result in business failure. These include:

- Understanding the differences between single- and multi-unit management
Single-versus multi-unit management

Chain restaurant operations are very different from independent operations and therefore require different managerial approaches. Jones (1999) notes the following differences between chain and independent operations: ownership and management are usually separate in large chains; large firms assign management functions such as operations, marketing, human resources and financial accounting to specialists; the role of management changes as a firm grows in size; and large firms are geographically dispersed.

To understand chain restaurant operations, however, it is more important to understand the difference between the single-unit manager and the multi-unit manager. In an independent restaurant, the person at the top of the hierarchy has overarching responsibility for that single operation. Such a manager may report to an owner, partner or investors, but ultimately decision making occurs at this level. For multi-unit managers, who – depending on the industry segment – may face a span of control of anywhere from 5 to 15 restaurants, decision making fits into a more complex decisional structure. Decisions in a chain may stem from corporate policy, from the multi-unit level involving a manager who oversees some subset of all units in the chain, or – for minor issues – from the unit-manager level. Moreover, the multi-unit middle manager typically reports to a vice president or director of operations who has at least another layer of management above him.

Recent research emphasizes that single- and multi-unit managers need different management skills, primarily because of the multi-dimensional structure of the chain operation. Researchers have identified five key dimensions of multi-unit management: financial management, restaurant operations, marketing and promotions management, facilities and safety management, and human resources management. Successful management across these dimensions requires a more complex set of skills than those that are required in single-unit management. Reynolds’ (2000) qualitative study involving a survey of leading restaurant executives found that the top five characteristics required of a single-unit manager are organizational skills; interpersonal skills; restaurant experience, knowledge and skills; honesty, integrity and strong ethics; and leadership skills. Similar key
characteristics have been reported in several previous studies (e.g. Kakabadse and Margerison 1988; Boulgarides and Rowe 1983; Van der Merwe 1978).

While such skills are arguably necessary in any position, research regarding multi-unit manager success characteristics suggests that they are more specifically reflective of the broader perspective and varied priorities that face multi-unit managers. For example, Umbreit (1989) interviewed executives and practicing multi-unit managers to determine key job requirements for a manager of two or more restaurants. The results suggested that managing restaurant operations was the most important component of the multi-unit manager position, followed closely by human resources management. The respondents in this study indicated that they spent over half of their time on the job performing tasks related to problems in restaurant operations and resolving issues in human resources in the restaurants.

More particularly, Umbreit and Smith (1990) listed some key, self-determined success factors that multi-unit managers said they needed prior to promotion from single-unit management. These included knowing how to manage managers, how to motivate people, how to work with a diverse group of people, how to get things done and solve problems through other people, how to build teams, how to manage time and set priorities, how to deal with unstructured time, how to enforce standards in multiple restaurant units and how to recognize differences in each unit’s operational situation.

A follow-up study completed by Muller and Campbell (1995) was conducted to validate the Umbreit findings through a large empirical study with a single quick-service restaurant chain. The researchers analysed differences in perceptions on the part of single-unit (store or restaurant) managers, multi-unit managers (often referred to as ‘district managers’) and headquarters or corporate staff personnel regarding the tasks or skills needed by the multi-unit manager. The results indicated that, while all respondents believed that they were competent at their own positions, they were not comfortable with being promoted to the next level of supervision. Unit managers felt especially that they needed more training in marketing and interpersonal skills to move up to the district level. This study also emphasized that multi-unit managers need strong human resources skills.

Among the key findings in related studies (e.g. Umbreit and Tomlin 1986; Campbell 1994) was that all levels of management were in consensus regarding the rank order of the three most important job dimensions of a multi-unit manager. Of the five key dimensions noted above, the most important was human resources, followed by restaurant operations and
then finance. These findings can serve as the foundation of a programme for the successful promotion of single-unit managers to multi-unit managers (Muller and Campbell 1995).

More recently, Umbreit (2001) published a qualitative Delphi-style study of 10 chain restaurant executives who were asked to review and comment on the changing role of the multi-unit manager. The findings suggested that the trend towards expanding the span of control for multi-unit managers seen in the late 1980s and early 1990s had reverted to the tighter spans of control that characterized previous decades. One additional outcome of this study was the suggestion from surveyed executives that multi-unit management titles and responsibilities have changed. In their view, the district management role in 2001 required more ‘soft skills’ of the sort that facilitate productive interpersonal relationships as compared with the more traditional ‘hard’ or technical skills of previous times. This finding re-emphasizes the importance of the human resources skills that previous studies had found to be a critical component of the success of the multi-unit manager.

The Umbreit (2001) study also suggests that organizations are increasingly viewing employees in new ways. Traditionally, most organizations saw labour mainly as an expense. More recently, organizations are realizing the importance of embracing employees at all levels as assets that can be leveraged in many creative ways.

Training and development of multi-unit managers

The continued growth of the chain restaurant industry and the corresponding organizational complexity it brings translates to a distinct need in the market for well-trained and qualified multi-unit managers. These are the professional knowledge workers whom Peter Drucker called the ‘manager[s] of managers’ (Drucker 1955: 24). Clearly, as the roles and duties of these knowledge workers change over time, continued development is required.

Building on the seminal work cited above regarding the identification of key attributes and role dimensions in multi-unit restaurant management, Muller and DiPietro (2006) developed a model of multi-unit manager development (see Figure 15.1). The highlights of this model include a pathway along which the developing multi-unit manager progresses from ‘super operator’ with strong technical organizational skills to master of the more complex management issues entailed by human resource development. The model helps us understand how to
augment skills mastered at the unit level with those needed to succeed at the multi-unit level across the five key managerial dimensions.

As shown, a developmental training programme for the newly promoted multi-unit manager would be constructed on an assumption of personal growth over a period of time. Upon promotion from a successful single-unit position, the new multi-unit manager would most likely exhibit the attributes and behaviours associated with a ‘comfort zone’ of existing skills (McKenna 1994). These skills might include those required for the dimensions of restaurant operations and facilities management and would by necessity have a tactical short-term decision window.

As the multi-unit manager gains experience and perspective, the next step in managerial development is the understanding of multi-unit profit, which represents a shift in focus from the actual output of the individual unit. A new focus on finance complements the focus on multi-unit profit. This includes a shift in the multi-unit manager’s approach to longer-term thinking, particularly as it applies to budgeting for preventive maintenance or capital investment in physical plant equipment. Associated training, then, should centre on methods for driving district-level profits, which include a better understanding of forecasting, budgeting and cash flows (Littlejohn and Watson 1990). Finally, this phase in management development includes...
a broader, macro-oriented focus, as the multi-unit manager learns to consider individual units within the district as small parts of the greater organization.

In order to facilitate district-level growth in sales and eventually in number of units, the multi-unit manager’s development turns next to marketing. This shift in outlook can be difficult and may take as much as a year to accomplish. As Nakata and Sivakumar (2001: 269) stated, ‘Activating the marketing concept is a complex process of interdependent steps facilitated and inhibited along the way by particular cultural values’. Such cultural values include those brought into the situation by the manager and those embodied in the organization’s operations and human resources management approach. Because the manager’s values are inevitably shaped by unique past experiences, it may take some time to develop the proper philosophical fit of individual and corporate behaviour.

As part of such a programme of marketing training and development, the multi-unit manager begins to appreciate the importance of managing the brand image. As Muller (1998) noted, a brand can build equity when it focuses on product and service quality, the execution of service delivery, and the advantageous leveraging of a symbolic and evocative image. This is particularly challenging given that brand management relies on positioning strategies based on clearly defined product attributes and demographic-cohort identities.

A thorough understanding of pricing and competition naturally becomes more critical during this phase. As Reynolds (2003) noted, pricing must reflect market and demand drivers. Prices are market driven in that they must be responsive to competition, particularly for menu items and service systems that are common across multiple providers. Demand-driven pricing can be adopted more fully only when there are few providers or alternatives in the marketplace.

The final phase in a multi-unit manager’s development centres on retention and, correspondingly, human resource issues. This is underscored by assertions made by Baum et al. (1997: 221) wrote, ‘Human resource management is a central strategic and operational concern … with implications for quality and market positioning at [the] local, regional, and national levels’. The notion that such human resources skills as leadership, team building, delegation and persuasion characterize strong managers is not unique to chain restaurant middle management. For example, more than two decades ago the U.S. Office of Personnel Management (1985) developed a competency-based model of managerial performance that identifies success characteristics including leadership and interpersonal sensitivity. Moreover,
McClelland and Burnham (1995) found similar success factors necessary at higher levels of management.

Human resources skills that improve employee and customer retention and increase market share are not developed in the vacuum of a workshop or training session but rather require feedback to develop properly. This is underscored by the role that feedback plays as an antecedent in various forms of social-cognitive theory. As noted in Reynolds’ (2006: 65) empirical study of 296 managers at differing organizational levels, ‘Positive feedback in the workplace may lead to broader outcomes such as enhanced retention, productivity, and loyalty’.

As this model appears to be useful for researchers and practitioners alike, it can easily be expanded by drawing on future empirical work on key success factors within existing conceptual frameworks. For corporate trainers, the model provides the basis for a programme in which multi-unit managers can develop skills that lead to success in the chain restaurant industry. As Becton and Greatz (2001) noted, a lack of rudimentary skills in key areas of hospitality management can best be addressed through such management-development programmes. Managers, too, understand the importance of such training and development. As Berger and Ferguson (1986) reported, although experience is vital in developing the necessary skills to run multiple operations, in an age of rapidly changing industry trends, managers increasingly turn to training programmes to tailor those developing skills to newly emerging market conditions and competitive situations.

Embracing best practices

The term ‘best practice’ refers to any process, know-how or experience that has proved valuable or effective in a specific setting and that may apply to other situations. For multi-unit managers, the study of best practices ‘allows [the manager] to integrate proven practices with minimal trial and error – it lessens the risk’ (Reynolds 2003: ix). Of still greater importance, the study of best practices can spark new ideas and suggest new possibilities for a manager’s specific district of operations.

Research on best practices in chain restaurants covers a broad range of functional areas. For example, chain managers learn early on that managing revenue requires managing dining duration. As Taylor (1994) explained, lengthy wait times or perceived delays during any part of the dining experience increase customer dissatisfaction. Unnecessarily long dining durations also result in lower seat turnover, reducing revenue accordingly.
As Noone and Kimes (2006) reported, restaurant customers prefer promptness during the seating and first-course-delivery processes; they also desire promptness once the meal is completed and the check-out process begins. The time between courses, however, must be managed so that guests feel neither rushed nor neglected. This is sometimes difficult to accomplish since customers possess differing interpretations of ‘too fast’ or ‘too slow’, often owing to variations in previous dining experiences, differing reasons for the patronage (e.g. a celebration versus a ‘quick meal’) and differing chain restaurant segments (Hui and Bateson 1991; Woodruff et al. 1983).

A related area is shifting time-variable demand. As Kimes and Chase (1998) noted, shifting time-variable demand – practiced in the airline industry for decades – is a strategic revenue-management lever that is intended to fill restaurant seats during traditionally slower times. For example, a typical mid-scale chain restaurant is busy from 6:00 p.m. until 8:00 p.m. in most suburban settings. Shifting time-variable demand means reducing possible waiting times during such a peak period by shifting customers to non-peak periods.

Research on best practices related to shifting time-variable demand has focused on alternative pricing structures that vary with demand (a technique used by airlines and hotels) and incentives that work without changing pricing structures. Alternative pricing structures can be effective (see Kelly et al. 1994), but operators must use caution to avoid perceptions of unfairness. For example, if prices are varied such that they increase at a specified time, two tables could conceivably order at the same time yet be charged different prices (if, say, guests at one of the tables arrived before the cutoff time but lingered over cocktails).

Incentives have often taken the form of ‘early bird’ pricing. As Susskind et al. (2004) demonstrated, customers generally are willing to shift their dining time in exchange for discounts on menu items. Such research indicates that an optimal approach is to offer such incentives in tandem with a specialized menu in order to prevent a perception of unfairness similar to that noted in the case of alternative pricing structures.

Research on yet another best practice that is specifically targeted at multi-unit management is menu engineering. Noting that menus in chain operations are the most critical component of revenue management, Miller (1980, 1987) developed a matrix model that focused on food cost and product mix to analyse menu-item profitability in quick-service operations. Kasavana and Smith (1982) used the Boston Consulting Group Portfolio Analysis as the basis for the menu engineering matrix approach to menu analysis for mid-scale and fine-dining restaurants.
Atkinson and Jones (1994) suggested this could use simpler performance criteria (popularity and cash gross margin), whilst Pavesic (1986) modified these matrix models by using food cost and weighted averages of gross profit and popularity.

While others have added unique additions to these existing models (e.g. LeBruto et al. 1995), the most provocative menu-engineering research that has the promise of best-practice applicability posits holistic models. For example, Hayes and Huffman (1985) developed an individual profit and loss statement for all menu components in an attempt to allocate all costs, including labour and fixed costs, to individual menu items. Horton (2001) segmented the menu prior to analysis and evaluation into categories of comparable items for comparison. He modified the Kasavana and Smith model to include pure variable labour costs defined as those labour costs that could be calculated in the direct production of a menu item. Bayou and Bennett (1992) included a profitability-analysis model to evaluate the financial strength of menu items in an attempt to allocate variable costs such as labour. They did not, however, specify how the specific labour costs associated with a specific menu item would be ascertained.

Cohen et al. (1998) introduced a multidimensional approach that takes food cost, price, labour cost, popularity and contribution margin into account to evaluate menu effectiveness. Unfortunately, they did not specify how such variables, including labour, would be calculated and did not include other potential factors related to food production. Most recently, Taylor et al. (2007) developed a robust multi-factor menu analysis model that employs data envelopment analysis, a technique that simultaneously integrates quantitative and qualitative variables to fully assess menu efficiency and profitability.

Such studies suggest that further research on best practices or approaches that may lead to best practices will pay off in yielding successful new techniques for chain restaurant management. While the majority of these will likely pertain to revenue management, research in related areas such as human resources, marketing and service management offer the promise of contributing strongly to the industry’s evolution.

The chain restaurant business lifecycle

When chains became entrenched in American society in the mid-1900s, the notion that understanding each chain’s lifecycle

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1 See Chapter 12 for a more detailed explanation of DEA.
would be necessary to success was implausible. However, as Sassar et al. (1978) noted, effective service-sector management must recognize the importance of the unique periods in a concept’s evolution. These researchers observed phases they classified as introduction, multi-site rationalization, growth, maturity and decline. Kotler (1988), drawing from related work on competitive strategy (e.g. Porter 1980), pared the model’s phases down to introduction, growth, maturity and decline (see Figure 15.2).

Shay (1997) summarized the lifecycle concept within an integrated framework, arguing that each of these stages has unique market characteristics, objectives and strategic levers. For example, in the introduction stage, when a concept is created and launched, sales are typically low and customers can best be described as early adopters. The operator’s goal is to create awareness in the marketplace and convey to potential customers the value associated with the core offerings.

In the growth stage, units are added to the chain, resulting in increased market share and sales. As Pearce and Robinson (1997) noted, the goal during this phase is to offer product extensions (as explicited by Muller 1998) and ensure service consistency. Both of these strategies serve to forestall competitors who seek to create similar concepts and therefore impinge on the success and popularity of the concept.

As a chain matures, its sales stabilize, its brand identity achieves widespread recognition and acceptance, and business
becomes predictable in the context of an established market. The objective now, as D’Aveni (1994) explains, is to raise barriers to entry for potential competitors while ensuring retention of the concept’s heaviest users. Such barriers may include building a more intensive distribution network, thereby lowering costs (and allowing for creating greater value), and diversification of offerings, such as menu items or delivery methods (e.g. adding take-out as an option). To keep the loyal customer loyal, advertising and discounting (if used) are targeted almost exclusively at the core customer.

Often owing to overwhelming competition and newer concepts that are more responsive to current trends, when a chain enters a period of decline, it sees sales and profit margins, and possibly standards, begin to fall, and market share shift away. Chain restaurants in this stage are faced with two choices: invest in a new ‘rebirth’ strategy, where product offerings are changed and a fresh approach is applied to operations, or launch an exit strategy and harvest available assets before they decrease in value (Muller 1997).

The goal, then, for chain restaurants is to identify these stages for each of their concepts. In doing so, they can employ appropriate competitive strategies and plan for future stages along the curve. Handy (1994) noted that the sigmoid curve shown in Figure 15.2 also offers opportunities in that operators can launch new concepts progressively: When concept one is in a growth phase, concept two can be launched. Later, when concept one is in decline, it can be readily replaced by a later concept. In this way, organizations can protect against losses during the decline of a single concept, whether from evolutionary growth leading to decline in the lifecycle or loss in market share from competitors.

With growth in the number of chain restaurant concepts increasing on a global scale, conducting lifecycle analyses and related research fills a correspondingly critical need. The main objectives of such research should be to identify defensive strategies that lead to desired outcomes at each lifecycle phase and to integrate changes in consumer behaviour that affect chain operators in the various segments as the four phases unfold. Such research will increase the body of knowledge in this area and can result in stronger business models for operators.

Summary and conclusions

In this chapter we have considered every aspect of chain restaurant management, including concept introduction through
segmentation and definition, the unique requirements of multi-unit management, personnel development and training, the use of best practices, and the business lifecycle. A thoughtful discussion of chain restaurants must also, however, address the various controversies that accompany this field of study. For example, there is a misconception that a chain’s entry into a new market will inevitably result in the demise of ‘mom and pop’ restaurants. Controversy also arises about a perceived nationwide homogenization of culture, the low wages often paid to chain restaurant employees and the contribution of chain proliferation to suburban sprawl. Such concerns are hardly unique to chain restaurants, applying equally to any large service-sector business. Critics argue that existing operations cannot defend against such new market entries and that any such entry will have negative net consequences (e.g. Quinn 2005).

In truth, chain restaurants have evolved naturally in an industry that must cater to customer demand. As customers become more globally aware, and as they continue to seek new concepts with which they can identify, new concepts will be born. In a global, market-driven, capitalist environment, such concepts must replicate in order to maximize market share, revenue, and ultimately, profit. Furthermore, customers ultimately determine whether a chain restaurant is desirable through their purchasing behaviour. Can we blame a concept for its success with customers?

There is also a counter-argument to those who view chains as destructive. Chains are becoming increasingly important in educating customers regarding nutrition and promoting healthy lifestyles. As Gregory et al. (2006) explain, quick-service chain restaurant leaders such as Wendy’s have made adjustments in their children’s menus that include healthier options in combo meals. In other segments, too, chain restaurant operators are emphasizing the importance of moderation (Frumkin 2003). And these trends are no less demand driven than the convenience and low cost that built the market in the first place. If customers demand healthier food and lower environmental impacts, chain corporations will deliver.

Chain restaurants are a critical part of the foodservice landscape. This segment of the foodservice industry is continuing to grow and will continue to capture increasing percentages of total foodservice expenditures globally. For researchers, this equates to a rich source of interest and opportunities on the basis of which to conduct rigorous empirical studies.
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