



Nigel Witham

How to avoid the budget trap. Underestimating an outlet's fit-out costs is a common occurrence but how you handle the reality could mean the difference between a venture's success or failure

Despite its reputation for generous budgets, the majority of new-project enquiries I receive from the Middle East are from cost-sensitive clients.

I have found that these projects nearly always fall into what I call 'the budget trap'. You should avoid this trap, no matter what the cost; it is the reason so many new F&B ventures fail.

Here's how the trap works: a would-be restaurateur has devised a concept and partly developed their sales offer. They have raised funds based on their own research or an estimate from a small contractor.

It is unlikely they have done enough proper market analysis to find out if their concept is suited to the locality, nor analysed the competition to find out what they have to better, nor consulted a quantity surveyor.

So they have prices and market opinion based on gut feeling and can't really know what customers want or what it'll cost.

On this basis, they cannot accurately predict their break-even — but they still go forward and produce a business forecast.

Next they find a suitable architect or designer specialising in food outlets. Most of these specialist designers are cautious, as they have seen the budget trap before; this caution makes the client suspicious.

The specialist designer discusses the project, analyses local competitors and estimates the construction budget should be, for example, US \$4000 per square metre.

At this stage, based on other similar experiences, the designer may express concerns about the viability of the concept. They may say it is pitched too low to the market and the cost per metre should be higher, putting the set up costs and break-even out of reach.

The client, being suspicious, considers this advice — but has a budget of \$2000 per square metre. They haven't fitted a restaurant professionally before, but still they assume the specialist designer is wrong, or advising them to spend more out of self-interest.

They don't see the need to use specialist fit-out contractors or a quantity surveyor to get the most out of the expert design.

These matters may not be discussed openly, but the parties still agree to go ahead — the client believing the designer has overstated costs and the designer thinking they have advised the client fairly about much they are going to have to invest.



F&B developers are easily lured into the budget trap.

The budget trap has now been set.

The project proceeds and the designer produces remarkable drawings with which the client is happy.

Next the designer suggests some specialist fit-out contractors to build the outlet properly and asks them to tender.

A specification is drawn up by a quantity surveyor including many items that the client, being inexperienced, forgot to include in their original sums.

The tenders are returned and they are all around \$4000 per square metre: double the funds the client has raised but in line with the designer's predictions.

Guess what happens next? Well, if there isn't a dispute, then the design gets cut back. The costs of providing basic services to the restaurant, such as heating, ventilation, kitchens and toilets, are always about 65% of the total. These costs can't be reduced; they have been designed to minimum building codes. So the cuts happen in the furnishings, light fittings, decorations, support systems, brand design and marketing.

The project is built — but the budget trap has been sprung.

The outlet does not come up to the standard of the incumbent competition, let alone better them. It's not remarkable or memorable, so customers do not come; and if they do, they are unimpressed and don't return.

Negative word spreads quickly these days because of social networking. The venture fails, sometimes within weeks, and all the investment is lost.

The budget trap closes.

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