Benihana of Tokyo

"Some restaurateurs like myself have more fun than others," says Hiroaki (Rocky) Aoki, youthful president of Benihana of Tokyo. Since 1964 he had gone from deficit net worth to becoming president of a chain of 15 restaurants that gross over $12 million per year. He sported a $4,000 sapphire ring, maintained a $250,000 home, and kept five cars including three Rolls-Royces. One wall of his office was completely covered with photographs of Rocky with famous personalities who had eaten at a Benihana. Rocky firmly believed that "in America money is always available if you work hard."

Background

By 1972 Benihana was basically a steakhouse with a difference—the food was cooked in front of the customer by Japanese chefs and the decor was that of an authentically detailed Japanese country inn. From a humble 40-seat unit opened in midtown Manhattan in 1964, Benihana had grown to a chain of 15 units across the country. Nine were company-owned locations: New York (3); San Francisco; Chicago; Encino and Marina del Rey, California; Portland, Oregon; and Honolulu. Five were franchised: Boston, Fort Lauderdale, Beverly Hills, Seattle, and Harrisburg, Pennsylvania. The last unit, Las Vegas, was operated as a joint venture with Hilton Hotels Corporation. Rocky, who was a former Olympic wrestler, described his success as follows:

> In 1959, I came to the United States on a tour with my university wrestling team. I was 20 at the time. When I reached New York, it was love at first sight! I was convinced that there were more opportunities for me in America than Japan. In fact, the minute I was able to forget that I was Japanese, my success began. I decided to enroll in the School of Restaurant Management at City College basically because I knew that in the restaurant business I'd never go hungry. I earned money those early years by washing dishes, driving an ice cream truck, and acting as a tour guide. Most importantly, I spent three years making a systematic analysis of the U.S. restaurant market. What I discovered is that Americans enjoy eating in exotic surroundings but are deeply mistrustful of exotic foods. Also I learned that people very much enjoy watching their food being

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Research Assistant John Klug prepared this case under the supervision of Professor W. Earl Sasser as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. This case was made possible by the cooperation of the Benihana Corporation and Russ Carpenter, Executive Editor of the magazine Institutions/Volume Feeding.

> prepared. So I took $10,000 I had saved by 1963 and borrowed $20,000 more to open my first unit on the West Side and tried to apply all that I had learned.

The origins of Benihana of Tokyo actually date back to 1935. That was when Yunosuke Aoki (Rocky's father) opened the first of his chain of restaurants in Japan. He called it Benihana, after the small red flower that grew wild near the front door of the restaurant.

The elder Aoki ("Papasan"), like his son who was to follow in the family tradition, was a practical and resourceful restaurateur. In 1958, concerned about rising costs and increased competition, he first incorporated the hibachi table concept into his operations. Rocky borrowed this method of cooking from his father and commented as follows:

> One of the things I learned in my analysis was that the number one problem of the restaurant industry in the United States is the shortage of skilled labor. By eliminating the need for a conventional kitchen with the hibachi table arrangement, the only "skilled" person I need is a chef. I can give an unusual amount of attentive service and still keep labor cost to 10-12% of gross sales (food and beverage) depending on whether a unit is at full volume. In addition, I was able to turn practically the entire restaurant into productive dining space. Only about 22% of the total space of a unit is back of the house, including preparation areas, dry and refrigerated storage, employee dressing rooms, and office space. Normally a restaurant requires 30% of its total space as back of the house. [See **Exhibit 1** for operating statistics for a typical service restaurant.]
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> The other thing I discovered is that food storage and wastage contribute significantly to the overhead of the typical restaurant. By reducing the menu to only three simple "Middle American" entrees—steak, chicken, and shrimp—I have virtually no waste and can cut food costs to between 30% and 35% of food sales depending on the price of meat.
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> Finally, I insist on historical authenticity. The walls, ceilings, beams, artifacts, and decorative lights of a Benihana are all from Japan. The building materials are gathered from old houses there, carefully disassembled, and shipped in pieces to the United States where they are reassembled by one of my father's two crews of Japanese carpenters.

Rocky's first unit on the West Side was such a success that it paid for itself in six months. He then built, in 1966, a second unit three blocks away on the East Side simply to cater to the overflow of the Benihana West. The Benihana East quickly developed a separate clientele and prospered. In 1967, Barron Hilton, who had eaten at a Benihana, approached Rocky concerning the possibility of locating a unit in the Marina Towers in Chicago. Rocky flew to Chicago, rented a car, and while driving to meet Hilton saw a vacant site. He immediately stopped, called the owner, and signed a lease the next day. Needless to say, a Benihana didn't go into the Marina Towers.

The number three unit in Chicago had proved to be the company's largest money-maker. It was an instant success and grossed approximately $1.3 million per year. The food and beverage split was 70/30 and management was able to keep expense percentages at relatively low levels: food (30%), labor (10%), advertising (10%), and rent (5%).

The fourth unit was in San Francisco and the fifth was a joint venture in Las Vegas in 1969. By this time, literally hundreds of people were clamoring for franchises. Rocky sold a total of six until he decided in 1970 that it would be much more to his advantage to own his units rather than franchise them. Following are the franchises that were granted: Puerto Rico (not successful due to economic turndown), Harrisburg, Fort Lauderdale, Portland (company bought unit back), Seattle, Beverly Hills, Boston.

The decision to stop franchising was made because of a number of problems. First, the franchises were bought by investors, none of whom had any restaurant experience. Second, it was difficult for the American investor to relate to a predominantly native Japanese staff. Finally, control was considerably more difficult to maintain with a franchisee than a company employee manager. During the period to 1970 several groups had attempted to imitate the Benihana success. One even included a group with intimate knowledge of the Benihana operation who set up in close proximity to a Benihana unit. They, however, folded within the year. Bolstered by the confidence that the Benihana success could not be easily replicated, management felt that one of the classic pressures to franchise, in order to expand extremely rapidly to preempt competitors, was eliminated.

The amount of space devoted to the bar/lounge/holding area accurately indicated when the unit was built. When Rocky opened his first unit, he saw the business as primarily food-service sales. The Benihana West had a tiny bar that seated about eight and had no lounge area. Rocky quickly learned that this amount of bar space was insufficient, and at the second unit, Benihana East, he doubled the size of the bar/lounge area. But since the whole unit was larger, the ratio of space was not too different. A typical floor plan is included as **Exhibit 2**.

His third Manhattan operation, called Benihana Palace, opened in 1970. Here, the bar/lounge area was enormous, even in ratio to size. Figures from 1972 bear out the wisdom of the growth. At West, beverage sales represented about 18% of total sales. At East, they ran 20%-22%. And at the Palace, they ran a handsome 30%-33% of total sales. The beverage cost averaged 20% of beverage sales.

The heart of the "show biz" was in the dining area. The "teppanyaki" table was comprised of a steel griddle plate, with a 9 1/2" wooden ledge bordering it to hold the ware. It was gas-fired. Above every table was an exhaust hood to remove cooking steam and odors and much of the heat from the griddle. Service was provided by a chef and waitress; each such team handled two regular tables.

The four food items—steak, filet mignon, chicken, and shrimp—could either be had as single entree items or in combinations. A full dinner had three, with the shrimp as appetizer. The accompaniments were unvaried: bean sprouts, zucchini, fresh mushrooms, onions, and rice.

Normally, a customer could come in, be seated, have dinner, and be on his or her way out in 45 minutes, if need be. The average turnover was an hour, and up to an hour and a half in slow periods.

The average check, including food and beverage, ran about $6 at lunch, about $10 at dinner. These figures included one drink (average price $1.50) at lunch, an average of one-plus at dinner.

The big purchase was meat. Only U.S.D.A. Prime Grade, tightly specified tenderloin and boneless strip loins were used. The steaks were further trimmed in house. Only a bit of fat at the tail was left, which was for effect only. When the chef began cooking the meat, he dramatically trimmed this part off and pushed it aside before cubing the remaining meat.

The hours of operation for the 15 units varied according to local requirements. All were open for lunch and dinner, though not necessarily every day for each. Lunch business was important; overall it accounted for abut 30%-40% of the total dollar volume despite a significantly lower check average. Essentially the same menu items were served for both meals; the lower menu price average at lunch reflected smaller portions and fewer combinations.

Site Selection

Because of the importance of lunchtime business, Benihana had one basic criterion for site selection—high traffic. Management wanted to be sure that a lot of people were nearby or going by both at lunch and at dinner. Rent normally ran 5%-7% of sales for 5,000-6,000 square feet of floor space. Most units were located in a predominantly business district, though some had easy access to residential areas. Shopping center locations were considered, but had not been accepted by 1972.

Training

Because the chefs were considered by Benihana to be a key to its success, all of them were highly trained. All were young, single, native Japanese and all were "certified," which meant that they had completed a three-year formal apprenticeship. They were then given a three- to six-month course in Japan in the English language and American manners as well as the Benihana form of cooking, which was mostly showmanship. The chefs were brought to the United States under a "trade treaty" agreement.

Training chefs within the United States was also a continuous process. In addition to the competition among the chefs to perfect their art in hopes of becoming the chief chef, there was also a traveling chef who inspected each unit periodically and was involved in the grand opening of new units.

While Benihana found it relatively difficult to attract chefs and other personnel from Japan due to the general level of prosperity there as well as competition from other restaurants bidding for their talents, once in the United States they were generally not anxious to leave. This was due to several factors. One was the rapidity with which they could rise in the American Benihana operation versus the rather rigid hierarchy based on class, age, and education they would face in Japan. A second and major factor was the paternal attitude Benihana took toward all its employees. While personnel were well paid in a tangible sense, a large part of the compensation was intangible, based on job security and a total commitment of Benihana to the well-being of its employees. As a result, turnover of personnel within the United States was very low, although most did eventually return to Japan. To fully appreciate the Benihana success, the unique combination of Japanese paternalism in an American setting had to be appreciated. Or, as Rocky put it: "At Benihana we combine Japanese workers with American management techniques."

Organization and Control

Each restaurant carried a simple management structure. It had a manager ($15,000/year), an assistant manager ($12,000/year), and two or three "front men" ($9,000/year), who might be likened to maitre d's. These front men were really potential managers in training. All managers reported to the manager of operations Allen Saito who, in turn, reported to Bill Susha, vice president in charge of operations and business development (see **Exhibit 3**).

Susha came to Benihana in 1971, following food and beverage experience with Hilton, Loew's, and the Flagship Hotel Division of American Airlines. He described his job as follows:

> I see management growth as a priority objective. My first step was to establish some sort of control system by introducing sales goals and budgets. At the most recent manager workshop meeting in New York—with managers from all over the country—I asked each to project his sales goal on an annual basis, then break it out by month, then by week, then by day. After I reached agreement with a manager on the individual quota figures, I instituted a bonus plan. Any unit that exceeded its quota on any basis—daily, weekly, monthly, yearly—will get a proportionate bonus, which will be prorated across the entire staff of the unit. I've also built up an accounting staff and controller to monitor our costs. It's been a slow but steady process. We have to be very careful to balance our need for control with the amount of overhead we can stand. We may be able to justify extra "front men" standing around in the units if they improve service and bring in more business. At the corporate level, however, we have to be very careful. In fact, at present the company is essentially being run by three people—Rocky, myself, and Allen Saito.

Advertising Policy

Rocky considered that a vitally important factor in Benihana's success was a substantial investment in creative advertising and public relations. The company invested 8%-10% of its gross sales on reaching the public. Glen Simoes, the director of advertising and public relations, summed it up:

> We deliberately try to be different and original in our advertising approach. We never place advertisements on the entertainment pages of newspapers on the theory that they would be lost among the countless other restaurant advertisements.
>
> We have a visual product to sell. Therefore, Benihana utilizes outstanding visuals in its ads. The accompanying copy is contemporary, sometimes offbeat. A recent full-page advertisement which appeared in the *New York Times*, *Women's Wear Daily*, and *New York Magazine* did not contain the word "restaurant." We also conduct a considerable amount of market research to be sure we know who our customers really are.

Exhibit 4 shows the results of one market research survey. **Exhibit 5** is a further discussion of Benihana advertising policy. **Exhibits 6**, 7, 8, and 9 are examples of Benihana advertising copy.

Future Expansion

Bill Susha summed up the problems of the future as he saw them:

> I think the biggest problem facing us now is how to expand. We tried franchising and decided to discontinue the program for several reasons. Most of our franchisees were businessmen looking for investment opportunities who did not really know and understand the restaurant business—this was a problem. The Japanese staff we provided were our people and we have obligations to them that the franchisee could not or would not honor which at the time made us unhappy. The uniqueness of our operation in the hands of novices made control more difficult. Finally, we found it more profitable to own and operate the restaurants ourselves.
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> Presently, we are limited to opening only five units a year, because that is as fast as the two crews of Japanese carpenters we have can work. We are facing a decision and weighing the advantages and disadvantages of going into hotels with our type of restaurant. We are presently in two Hilton Hotels (Las Vegas and Honolulu) and have recently signed an agreement with Canadian Pacific Hotels. What we have done in these deals is to put "teeth" in the agreements, so that we are not at the mercy of the hotel company's management.
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> Further, one of our biggest constraints is staff. Each unit requires approximately 30 people who are all Oriental. Six to eight of them are highly trained chefs.
>
> Finally, there is the cost factor. Each new unit costs us a minimum of $300,000. My feeling is that we should confine ourselves to the major cities like Atlanta, Dallas, St. Louis, etc., in the near future. Then we can use all these units to expand into the suburbs.
>
> We've been highly tempted to try to grow too fast without really considering the full implications of the move. One example was the franchise thing, but we found it unsatisfactory. Another example is that a large international banking organization offered to make a major investment in us which would have allowed us to grow at a terrific rate. But when we looked at the amount of control and autonomy we'd have to give up, it just wasn't worth it, at least in my mind.
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> Another thing I'm considering is whether it's worth it to import from Japan every item used on construction to make a Benihana 100% "authentic." Does an American really appreciate it and is it worth the cost? We could use material available here and achieve substantially the same effect. Also, is it worth it to use Japanese carpenters and pay union carpenters to sit and watch? All these things could reduce our costs tremendously and allow us to expand much faster.

Rocky described his perception of where the firm should go:

I see three principal areas for growth: the United States, overseas, and Japan.

In the United States we need to expand into the primary marketing areas Bill talked about that do not have a Benihana. But I think through our franchises we also learned that secondary markets such as Harrisburg, Pennsylvania, and Portland, Oregon, also have potential. While their volume potential obviously will not match that of a primary market, these smaller units offer fewer headaches and generate nice profits. Secondary markets being considered include Cincinnati and Indianapolis.

The third principal area I see for growth is in suburbia. No sites have yet been set, but I think it holds a great potential. A fourth growth area, not given the importance of the others, is further penetration into existing markets. Saturation is not a problem as illustrated by the fact that New York and greater Los Angeles have three units each, all doing well.

We are also considering someday going public. In the meantime, we are moving into joint ventures in Mexico and overseas. Each joint venture is unique in itself. We negotiate each unit on the basis that will be most advantageous to the parties concerned, taking into account the contributions of each party in the form of services and cash. Once this is established, we agree on a formula for profits and away we go.

Four deals have not been consummated. Three are joint ventures out of the country. An agreement has already been reached to open a Benihana in the Royal York Hotel, Toronto, Canada. This will provide the vanguard for a march across Canada with units in or outside Canadian Pacific Hotels.

Second is a signed agreement for a new unit in Mexico City. From here, negotiations are underway on a new hotel to be built in Acapulco. Benihana stands ready to build and operate a unit in the hotel or, if possible, to take over management of the entire hotel. These units would form a base for expansion throughout Mexico.

The third extraterritorial arrangement was recently signed with David Paradine, Ltd., a British firm of investors headed by TV personality David Frost. Again, this is a joint venture with the Paradine group to supply technical assistance, public relations, advertising, and financing, and Benihana the management and know-how. This venture hopes ultimately to have Benihana restaurants, not only throughout Great Britain, but across the Continent.

Rocky also had a number of diversification plans:

We have entered into an agreement with a firm that is researching and contacting large food processors in an effort to interest them in producing a line of Japanese food products under the Benihana label for retail sale. There has been a great deal of interest and we are close to concluding a deal.

I worry a lot. Right now we cater to a middle-income audience, not the younger generation. That makes a difference. We charge more, serve better quality, have a better atmosphere, and more service. But we are in the planning stages for operations with appeal to the younger generation.

For instance, there is no Japanese quick service operation in this country. I think we should go into a combination Chinese-Japanese operation like this. The unit would also feature a dynamic cooking show exposed to the customers. Our initial projections show margins comparable to our present margins with Benihana of Tokyo. I see a check of about 99¢. We are negotiating with an oil company to put small units in gas stations. They could be located anywhere—on turnpikes or in the Bronx. I think we should do this very soon. We might call it the "Orient Express." I think I will get a small store in Manhattan and try it out. This is the best kind of market research in the United States. Market research works in other countries, but I don't believe in it here. We are also negotiating for a site on Guam and to take over a chain of beer halls in Japan.

The restaurant business is not my only business. I went into producing; I had two unsuccessful Broadway shows. The experience was very expensive, but I learned a great deal and learned it very fast. It's all up to the critics there. In the restaurant business, the critics don't write much about you if you're bad; but even if they do they can't kill you. On Broadway they can. They did.

I promoted a heavyweight boxing match in Japan. It was successful. I am going into promoting in the entertainment field in Japan. I am doing a Renoir exhibition in Japan with an auction over television. I am thinking about buying a Japanese movie series and bringing it here. I am also thinking of opening a model agency, probably specializing in Oriental models.

My philosophy of the restaurant business is simply to make people happy. We do it many ways at Benihana. As we start different types of operations, we will try to do it in other ways. I have no real worries about the future. The United States is the greatest country in the world to make money. Anybody can do it who wants to work hard and make people happy.

Russ Carpenter, a consultant and editor for *Institutions/Volume Feeding* magazine, summed up his perceptions as follows:

I basically see two main problems. What is Benihana really selling? Is it food, atmosphere, hospitality, a "watering hole" or what? Is having entertainment in the lounge consistent with the overall image? All the advertising emphasizes the chef and the food, but is that really what the public comes for? I don't know. I'm only raising the questions. The other thing is how do you hedge your bets? Is Benihana really on the forefront of a trend of the future with their limited menu, cooking in front of you, and Oriental atmosphere, or is it just a fad? This relates to whether the firm should emphasize restaurant operations only.

Exhibit 1 Operating Statistics for a Typical Service Restaurant

	Ranges (%)
Sales	
Food	70.0-80.0
Beverage	20.0-30.0
Total Sales	100.0
Cost of sales	
Food cost (% of food sales)	38.0-48.0
Beverage cost (% of beverage sales)	25.0-30.0
Cost of total sales	35.0-45.0
Gross profit	55.0-65.0
Operating expenses	
Controllable expense	
Payroll	30.0-35.0
Employee benefits	3.0-5.0
Employee meals	1.0-2.0
Laundry, linen, uniforms	1.5-2.0
Replacements	0.5-1.0
Supplies (guest)	1.0-1.5
Menus and printing	0.25-0.5
Miscellaneous contract expense (cleaning, garbage, extermination, equipment rental)	1.0-2.0
Music and entertainment (where applicable)	0.5-1.0
Advertising and promotion	0.75-2.0
Utilities	1.0-2.0
Management salary	2.0-6.0
Administration expense (including legal and accounting)	0.75-2.0
Repairs and maintenance	1.0-2.0
Occupation expense	
Rent	4.5-9.0
Taxes (real estate and personal property)	0.5-1.5
Insurance	0.75-1.0
Interest	0.3-1.0
Depreciation	2.0-4.0
Franchise royalties (where applicable)	3.0-6.0
Total operating expenses	55.0-65.0
Net profit before income tax	0.5-9.0

Source: Bank of America, *Small Business Reporter*, Vol. 8, No. 2, 1968.

Exhibit 2

A typical Benihana floor plan

Benihana West on West 56th Street in Manhattan, which replaced the original restaurant Rocky opened, is typical of the standardized 112- to 120-seat restaurant with a 55- to 60-seat cocktail lounge. The typical Benihana operation has 5,000 to 6,000 square feet.

2 Towel Washer by Hamilton
3 Work Table, custom
4 Work Table, custom
5 Three Compartment Sink, custom
6 Double Overshelf, custom
7 Double Slant Overshelf, custom
8 Rice Stocker, custom
9 Rice Cooker
10 Range With Oven by Vulcan Hart
11 Stock Pot Stove by Vulcan Hart
12 Swing Faucet
13 Exhaust Hood, custom
15 Reach-in Refrigerator by Traulsen
16 Scale by Howe Richardson
17 Combination Walk-in Cooler-Freezer by Bally
18 Adjustable Modular Shelving by Market Forge
19 Adjustable Modular Shelving by Market Forge
20 Shelf, custom
21 Dishwasher with electric booster by Champion
22 Soiled Dishtable with Pre-Rinse Sink, custom
23 Slant Overshelf, custom
24 Clean Dishtable, custom
25 Exhaust Hood, custom
26 Double Wallshelf, custom
27 Twin Soup Urn by Cecilware
28 Single Tea Urn by Cecilware
29 Towel Warmer
30 Water Station with Sink, custom
31 Rice Warmer
32 Utility Table, custom
33 Double Wallshelf, custom
34 Two Compartment Sink, custom
35 Overshelf custom
46 Work Table, custom
37 Open-Front Cold Cast with Adj. Shelves by Tyler
38 Double Overshelf, custom
39 Pre-Check Register by NCR
40 Utility Table with Dipperwell, custom
41 Double Overshelf, custom
42 Ice Cream Dipping Cabinet by Schaefer
43 Ice Cream Storage Cabinet by Schaefer
44 Double Wallshelf, custom
45 Reach-In Freezer by Traulsen
46 Ice Cube Maker by Kold Draft
47 Ice Crusher by Scotsman
48 Adjustable Modular Shelving by Market Forge
49 Pass-Through Refrigerator by Traulsen
50 Sake Warmer
51 Cash Register by NCR
52 Underbar Workboard by Perlick
54 Back Bar Refrigerator by Perlick
56 Underbar Bottle Cooler by Perlick
57 Remote Soda System Dispensing Station by Perlick
58 Remote Soda System Power Pak with Stand by Perlick
59 Pre-Check Register by NCR
60 Cash Register by NCR
61 Shelving, custom
62 Glasswasher by Dorex
63 Time Clock
64 Telephone Shelf Booth
65 Platform Truck by Roll A. Liss
66 Utility Table, custom

Exhibit 2 (continued)

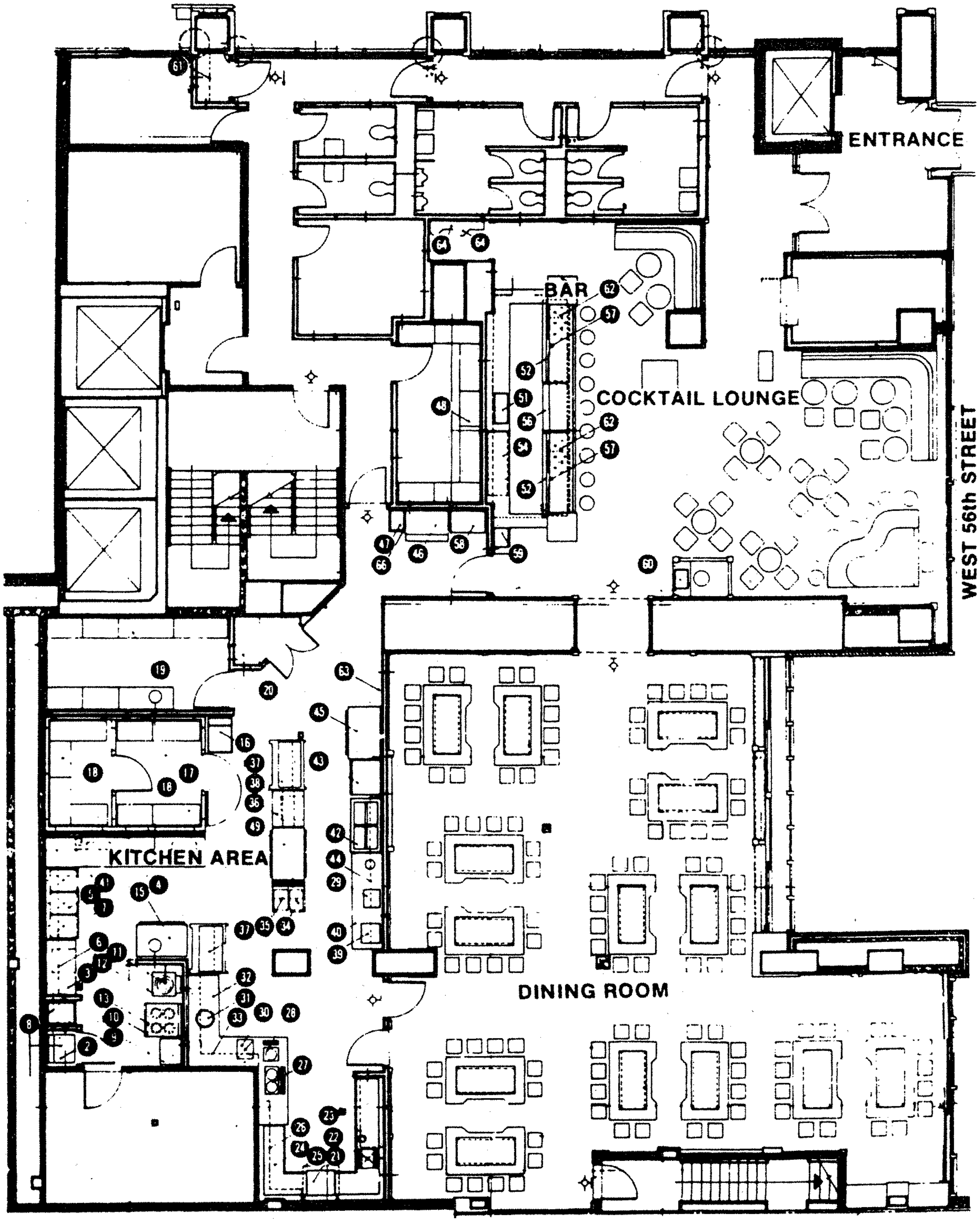

Exhibit 3 Organization Chart