

Long term stable building lease management for restaurants and bars

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journal or publication title	Society for Social Management Systems Internet Journal
volume	7
year	2011-09
URL	http://hdl.handle.net/10173/829

Long term stable building lease management for restaurants and bars - A way for re-vitalization of downtown in local city-

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ABSTRACT:

A case of building lease business for restaurants and bars have been investigated. The building is located in down town Saga, in Kyushu-Island, Japan. The owner had managed the business to survive for a few decades, which contributed to vitalization of the regional economy in variety of local business. This paper will discuss the owner's intentions at the business launching, the efforts for the stable management in the course of long term business history and contribution to regional economy. Various unique management ideas are found in his early stage business planning, including efforts to be a trophy building, strong desire of uniqueness among the region, etc. He deconstructed the night life area which is horizontally distributed in the city to the vertically integrated tall buildings of "restaurant and bar" cluster. The building lease business has survived 32 years as opposed to other similar business in the town. The factors for success are discussed in terms of service profit chain and solution platform.

KEYWORDS: Regional vitalization, Long term stable management, Buildings lease business, Restaurants and bars

1. Introduction

Local cities and the surrounding rural areas in Japan are seemed to be losing economic activity in general. It causes major social problems such as reduced employment opportunities. It is important to have healthy long term local business activities for regional vitalization. The areas to be considered could be classified into the following three groups. The first one is old coal mining area where depopulation began since coal as energy source was substituted by oil during period of rapid economic growth. The second group is the area where primary industries dominate. This area did not turn to industrial district, in the postwar high growth period. The third one is economic stagnant town area with full of closed stores. The old coal mining area located in Hokkaido, Fukushima, Yamaguchi, Fukuoka, Saga, and Nagasaki Prefecture in Japan.

Considering such characteristics as dominance of primary industry, and economic stagnation, Saga city

was chosen as a sample for the case study. Saga City is the capital of Saga Prefecture with a population of 270,000. It is an average local city in Japan. Major industries in Saga are services, retails, manufacturing, agricultures, forestry and fisheries. Among them, retail and service industry occupies relatively large portion of thirty percent. If you take a look at shopping district in Saga city, you will see a large number of shutdown shops, and you will notice very slow economic activities there.

In case of service business, local people manage business like restaurants and bars, real estate, apartment and building leasing, hair dressing, and IT-related business. Number of firms which run these service business have decreased after the so-called bubble economy period. However, these business activities are still active in the city center yet, as opposed to retail business. Most of them are managed by local people. Hence, buildings lease business for restaurants and bars in Saga City was

chosen as a sample to study stable management of local small business.

2. Objectives

It is important to have many local small firms which keep healthy business activity in order to sustain stable economy and the lives of local residents. This paper will analyze the case of building lease business for restaurants and bars, and discuss effects of building lease business on regional vitalization. Key factors for sound business management are also to be discussed.

3. Literature review

Regional society is a system consisting of various stakeholders such as local companies within the region, relocated companies from outside area, local residents and administration. So far, many studies have been conducted about the regional revitalization, from the perspective of management of the region, regional marketing and from the perspective of increase of nonresident population. Every local firm is needed to remain as a going concern for regional economy. This stable management of the companies has also been discussed from the perspective of corporate growth.

3.1 Regional management perspective

The regional management is total effort of community planning, regional revitalization, and regional development. Susumu Umino suggested that each stakeholder in the region need to participate in regional management activities cooperating as a network [1]. In other words, regional management means that every players including residents, communities, organizations, and firms work autonomously as a member of the region. If they keep continuous economic activities sharing the common regional vision, satisfaction of local people will be eventually fulfilled. Philip Kotler

investigated regional vitalization from the point of marketing concept [2]. He showed planning process for a place to build strategic advantage and lasting prosperity. He discussed also how a town copes with problems in order to revitalize the place. The goal of "marketing places" is to enhance the ability of the town, to adapt to changing environment, to grasp the chance, and to sustain its attractiveness.

3.2 Increase of nonresident population

Tourism can be an effective tool for regional vitalization in terms of increase of nonresident population if the place has such resources as land marks, historical sites, scenic area, beautiful natural environment, hot springs, theme parks, variety of events, sports and festivals. In recent years, "experience type tourism" with residents participation are getting popular in Japan as a means of tourism promotion. It features interaction between tourists and residents through events, joint agricultural works, etc. It increases nonresident population and regional tourism consumption, resulting in regional vitalization [3].

3.3 Growth of individual companies in the region

It is important for a region that companies in the region survive and keep operations. In order to survive, companies, in general, have to grow. Larry Greiner analyzed evolution and revolution in the growing process of organization [4]. He described size of organization as a function of age of organization. He identified a series of developmental phases through which companies tend to pass as they grow. Each phase begins with a period of evolution and ends with substantial organization change. According to Greiner, the task for management in each revolutionary period is to define a new set of organizational practices that will become the basis for managing the next period of evolutionary growth.

N. Churchill, on the other hand, proposed a framework of growth stage which is appropriate for small business, using size, dispersion and complexity as one dimension and company maturity as a second dimension [5].

In this study, a building leasing company was investigated from the perspective of growth and continuity of a firm in the region focusing on the management style. The business has survived more than thirty years and has contributed to regional vitalization as a core of related business cluster.

4. A case of building lease business for restaurants and bars

4.1 Circumstance at startup

It was about ten years later after the Tokyo Olympic game, when the owner of the building started planning of the building lease business. It was a historic epoch of economic investments in Japan. In these days, Japan enjoyed substantial economic growth not only in metropolitan cities, but also in rural area like Saga in Kyushu. He purchased the land for his first building, S-building #1, in Saga. Saga city had 215,000 populations and it was increasing year by year. In general, the residents of Saga were relatively rich those days, hence, the shopping stores and the drinking spots in the downtown were very active. There were many drinking places like dinner pubs, yakitori shops, bars, and cabarets. But they were small scaled and old-fashioned as of one in typical rural area. Almost all of them used small houses or two-story small buildings.

The owner thought that a new tall building for bars and restaurants would meet the local people's needs and it would be potentially profitable. So he decided to purchase land for the new buildings in the neighbor of existing drinking spots area.

4.2 Intentions at the planning

Management's intentions at the business planning for the buildings are summarized in the following three points. They are;

- 1) risk management through cost control,
- 2) to provide the best building in both software and hardware,
- 3) community-based management.

He has performed risk management adequate to a large fixed cost as initial investment and the lasting running cost. A typical approach of his risk management was to implement vertically integrated "restaurants and bars" cluster in the tall buildings instead of traditional horizontally distributed nightlife area in the city.

Since land cost was about 50% of the total cost of building construction, he was able to reduce land cost per unit floor area by this concept and he increased the competitiveness of the building.

With respect to quality of buildings, he aimed for so-called "Trophy building", which means building having exceptional design and prominent tenants located in excellent places [6].

4.3 Management efforts

The building lease business has continued successfully for thirty two years. Key factors for healthy and stable management can be characterized by the following two points.

1) He has managed his building lease business defining as providing a "platform for customer solutions".

2) He has performed continuous innovation unconsciously.

The first one is to provide a solution services for tenant. He believed that simply leasing room space was not sufficient to sustain the business. Rather, he thought that it is important to provide consulting service by telling his management experience, knowhow to his customers. This made strong relationship between tenants and the owner, resulted

in stable business management. The building owner accumulated a variety of customer service menus according to his fundamental idea of forming a solution platform.

4.4 Business continuity

4.4.1 History of the Business

The owner purchased the land for the first S-building #1 and #2 in 1974. At this time, he intended to build a building for restaurants and bars, but he did not have any concrete idea for the building. So, he spent four years to investigate major buildings in entertainment district in Sapporo, Sendai, Tokyo, Kyoto, Osaka, Hiroshima and Fukuoka, before he started building construction. He completed the S-building #1 as a five story tall building in October 1979. He rent the spaces of the ground floor and the second floor for tenants. The sound business profit made him to prepare rest of room on the third and the fourth floors of the building. In 1982 the S-building #1 was completed thoroughly. Land for S-building #2 was acquired at the same time as land for S-building #1. He temporary started lease business using existing one-story house. He started the building design of the S-building #2 in 1987 and completed it as a tall nine story building in 1988.

4.4.2 Business performance

Typical index which shows building lease business performance is occupancy rate. It is defined as the ratio of occupied floor area per total area of the whole stories. In 1979, the rate was 62%, when the business was started utilizing the first and second floors as shown in Figure 1. Since then, the ratio for S-building #1 increased smoothly up to 100% in 1985. Average ratio of S-building #1 is 87% from the start of building operation until today. As for the S-building #2, the occupancy ratio was 73% when it was open in 1988, but the ratio was 100% if tenants

who were expected to contract were

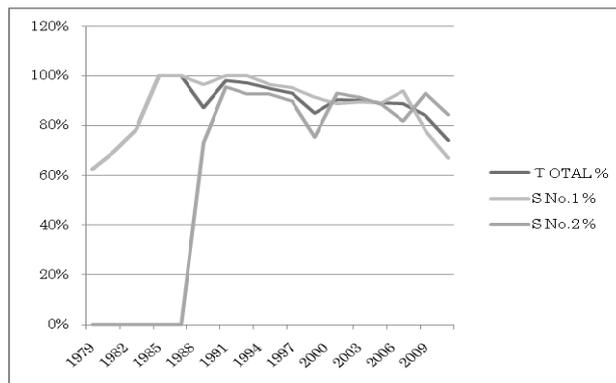


Figure 1 Occupancy ratio of two buildings

included. The total occupancy rate for the two buildings was 85% during the thirty two years operation. This is pretty high point compared to other nearby buildings, the occupancy ratios of which are distributed from 50% to 70%. The average of them is 60%. It is believed that the break-even point is about 60%. The building lease business in this case seems very successful from the point of occupancy ratio.

4.5 Impact of building lease business on other industries

If leasing business of building for restaurants and bars are stable, it develops a variety of peripheral

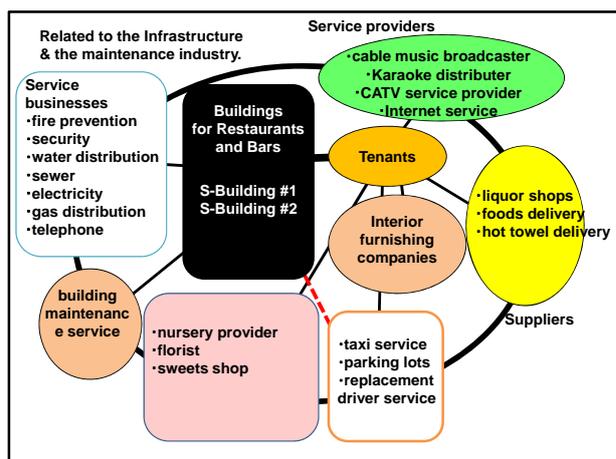


Figure 2 Peripheral industries surrounding the building lease business

businesses as shown in Figure 2. There are many service businesses related to infrastructure, which

include fire prevention, security, water distribution, sewer, gas and telephone services. As an industry which supports building hardware, there are maintenance service businesses for building structure, piping works and electric wiring. Furthermore, industries which directly support tenants include interior furnishings, liquor shops, and foods delivery. And there are some specialized professions which support the tenants directly like cable music broadcasting, LAN and Karaoke music broadcasting service. Besides, the other professions also support indirectly the tenants. They are nursery, florist, and sweets shop. Furthermore the end-user of the tenant, who is the customer of the restaurants and bars, frequently requires taxi service, parking lots and replacement driver service.

Consequently, the building owner produced a great deal of business opportunities around his leasing business. In another word, he contributed to the local economy and succeeded to re-vitalize the local activities.

5. Analysis of building lease business for restaurant and bars

5.1 Layered service profit chain

The management model of the case was analyzed from the standpoint of the service profit chain [7]. The management model for the case could be explained in a layered service profits chain as shown in Figure 3. The layered chain is explained using the relation among the three players, who are the building owner, the building tenant and the customers of the tenants. Interaction between the building owner and part of end customers who have direct relationship with the owner may form solution service chains. Each player wishes to raise his own value in society. The player's value is produced from his good experiences. The stacking of good experiences raises the personal value. The solution service provides opportunity for three players to

experience.

The layered service profit chain proposed is consist of three sub chains, which are the chain for the

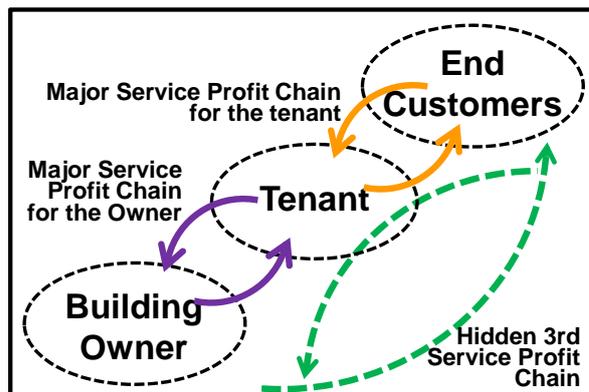


Figure 3 Service profit chains for three groups

tenants, the chain for the owner and the other hidden chain.

5.2 The chain for the tenants

The chain for the tenant is the mutual relation between the tenants and the end customers, namely drinkers of the bars. The chains for the tenants are illustrated in Figure 4. Receiving high quality service from tenants, the degree of customer's satisfaction increase and it leads to customer loyalty. When the customer receives high quality services from the tenants repeatedly, the loyalty increases the "Value" for the customers more. On the other hand, the employees of the tenant's bars are highly motivated

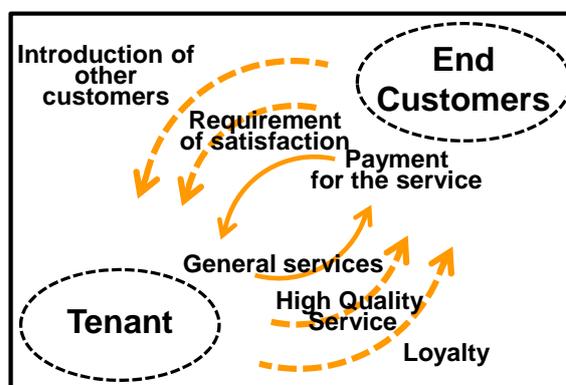


Figure 4 Service profit chain for tenants

and deeply satisfied with their own performances of

high quality service, when they can feel satisfactory responses from their customers. This provides them with “Loyalty” and makes it possible to create a place where the employees can fully demonstrate their abilities to provide amenities and good quality service, which in turn enables even further improvements of their services.

The feedback is repeated and the value of the tenants raise, resulted in getting more customers for the tenant. This fact contributed to the stable management of the business for the tenants.

5.3 The chain for the owner

The chain for the owner is the mutual relation between the building owner and the tenants who rent the space of the buildings for running a restaurant or a bar. The chain for the tenants is illustrated in Figure 5. Between the building owner and the tenants, relationship more than rent of the property can be seen. It is a relationship between the building owner and the tenant as partners to live together. There is underlying context which is shared by the building owner and tenant. It became clear that general consultation by the building owner had started when the tenant moved into the building after

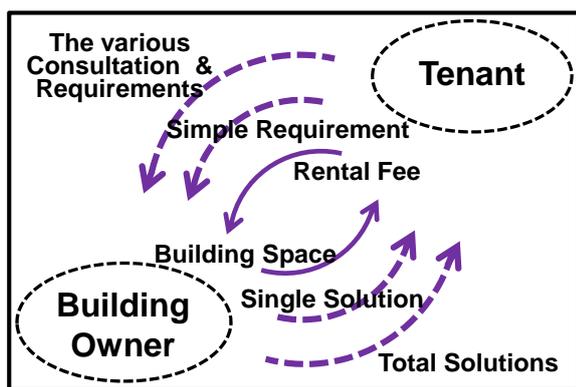


Figure 5 Service profit chain for the owner

the lease contract. It was also made clear that the building owner had offered overall solution service to the tenants. Overall solution service includes financial consultation, risk management,

introductions of companies for shop design, interior furnishing, food and beverage supplier, karaoke music broadcasting service and manpower dispatching service. And it also includes other private consultations.

Apparently, the human relationship or cultural factors unique to the local area or local community supported this overall solution service [8].

5.4 The New Chained Relation

The new chained relation is the important point for explaining the stable management of the case. It is the hidden mutual relation between the building owner and the end customers as shown in Figure 6.

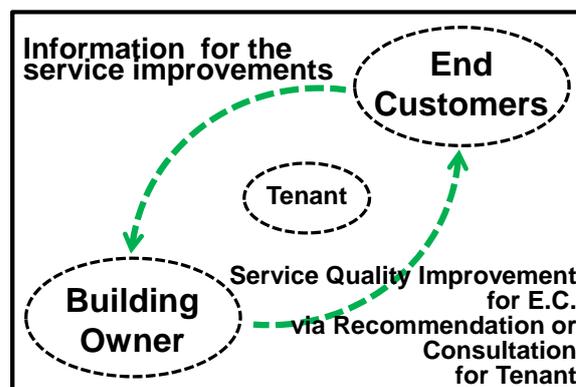


Figure 6 The new chained relation

The building owner brought his acquaintances to the tenants as customers by using his own personal network. These customers became “regular customers”. He also brought executives and prominent persons of the local area to the tenants with him, which contributed to the upgrading of tenants’ reputations. Furthermore, he grasped each tenant’s problems through the direct conversation with the customers so that the tenants can improve their management.

All these activities came to form a direct relationship between the building owner and the end customers who are the building owner’s friends or acquaintances.

6. Discussion

Nonaka proposed a concept of a “field” in which individuals can interact with each other through face-to-face dialogues [9]. The interaction between the building owner and the tenants can be explained using the field as shown in Figure 7. There exists a

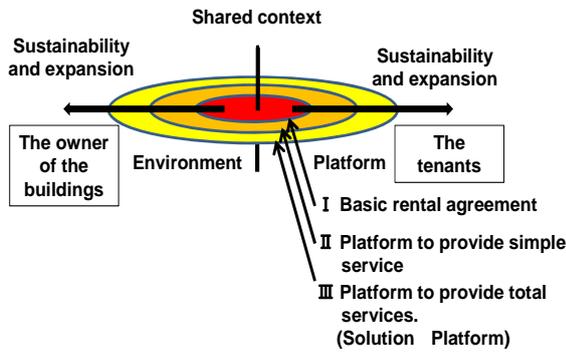


Figure 7 Interaction field for the owner and tenants

principle shared between the building owner and the tenant, which is “To gain profits and to remain as a going concern”. The field I relates to basic rental agreements and value is exchanged in the form of money. The field II is the field where simple services are offered. The field III is where overall services are offered through wide variety of communication. This can be viewed as the field where solutions are provided. The chains discussed in section 5.1 can be recognized as they are working on the solution platform. The building owner fully utilized the “Solution Platform” to provide the tenants with variety of services and, at the same time, he improved the quality of his own business management. The outstanding example is forming of “the new chained relation” with end customers.

He has kept providing the tenants with ever better solutions and built ever closer relationships with them by bringing the information and experiences obtained through this new chain into the solution platform that has been established between the building owner and the tenants.

As solutions are provided repeatedly, they got

improved in quality with time. Even the same types of solutions get improved in quality as time passes

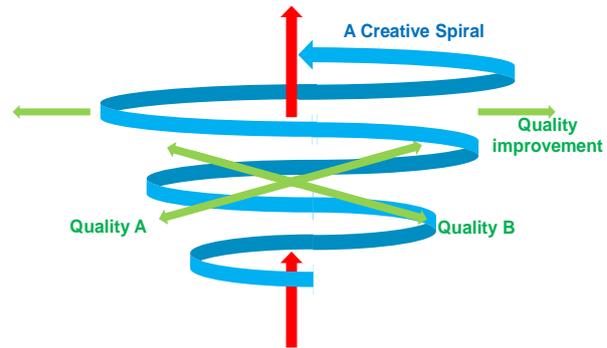


Figure 8 Model of creative spiral on the interaction field

by. Continuation of these spiral solution provision itself was the very core of “stable management” of this case study. The case is also analyzed from the point of regional revitalization of Saga city. As mentioned in section 4.5, building lease business for restaurants and bars relates to various industries in the region including infrastructure, building maintenance, communication service etc. It contributes to regional vitalization if the business survives for long term.

7. CONCLUSION

A case of building lease business for restaurants and bars are analyzed with respect to long term sustainable management. It was clarified that a major factor to remain as a going concern was the management style to form a solution platform for the owner and the tenants.

Another important result is that the building lease for restaurants and drinking bars stimulates a lot of the other peripheral industries so that the regional economic activities are vitalized.

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