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The effect of commercial real estate prices on independent food businesses in Helsinki Business District

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This research studies location factor and commercial real estate market effect on food businesses in Helsinki Business District. The high mortality rate in restaurant industry is alarming when the yearly amount of new entrants stays roughly the same. Helsinki centre commercial real estate prices and its additional costs are relatively high for a saturated industry which operates on low margins. This study looks at the severity of the effect between real estate and restaurant industry and whether this fixed business cost truly is a determinant of success for food business entrepreneurs in Helsinki Business District.

**Keywords**

Restaurant industry, commercial real estate, location, success factors, failure factors, Helsinki Business District, independent restaurants, food businesses, real estate market
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1 Introduction

Restaurant industry has one of the highest failure rates among new businesses. Meanwhile, the influx of new entrants remains roughly the same year by year regardless high real estate costs, high regulatory burden and not having the largest consumer market although urbanisation is expected to increase. The total retail space in Helsinki Metropolitan area is about 3.9 million square meters which was 25% less just a decade ago (KTI, 2017). Despite this increase, there is still a shortage of prime property. During past recent years, Helsinki Metropolitan area has experienced a surge in new development projects such as residential buildings and additional large shopping centres. As much as Helsinki centre area seems safe for food business operators, new shopping centres outside of the city centre, offering convenience, less traffic and parking ease, could pull customers away from wandering the city centre streets. Existing city centre shopping malls do so already.

Research on what makes a company fail has been studied from several points of view, however this research focuses on determinants of success and failure factors, particularly, for restaurant/food businesses. Current available data and research mostly presents informative findings about offices and retail shops, however not about food business premises which performance state is kept in a fog. The greater Helsinki area is saturated with different types of restaurants and tough to survive in with or without experience. However, the focus of this research is narrowed down to the Helsinki Business District (HBD) area for it is made of the fiercest competition and scarcity of land and is a centre of the most populated area in Finland.

The overall aim of this thesis is to seek a deeper understanding of how serious is the commercial real estate market impact on the food/restaurant business survival chances for independent businesses which operations are based on High Street locations with an entrance from street. Commercial real estate market impact on food businesses and the location as a success or failure factor are studied in more detail to find the direct or indirect effect. The research will unfold the most potential reasons why some restaurants can survive and succeed in poor economic environment while others fail during an economic uprising.
2 Literature review

The literature review will focus on food service businesses’ real estate market impact on ongoing operations. Literature review is divided into two parts. First part covers a brief introduction of restaurant industry and competitiveness as well as determinants of success and failure. That is continued with Finnish restaurant market review and coupled with the role of real estate and finally exploring market implications when restaurant premises are located on Helsinki Business District streets. The second part covers commercial real estate market and its current environment regarding food businesses, in addition to wider view on Finnish economy, consumer shopping trends and preferences.

2.1 Restaurant industry

This chapter contains relevant literature review regarding restaurant industry where the writer has gathered previous studies and research to gain a deeper understanding of what makes restaurant a success and what will eventually do the opposite.

Restaurant defined by Oxford dictionary is “a place where people pay to sit and eat meals that are cooked and served on the premises” (Oxforddictionaries.com, 2018). Restaurant industry comprises of “all of the activities, services, and business functions involved in preparing and serving food to people eating away from home. This includes all types of restaurants from fine dining to fast food” (Moore, 2018).

Restaurant industry among others has relatively low barriers of entry and tends to attract people who want to start their own business. Practically anyone with love for food or artistic beverages and a wish to have their own restaurant or café can do so, since necessary starting capital does not require large investment. As easy as it is to begin the operations, it is not that easy to continue, particularly, without a sound financial management at place. “Low entry barriers could be partly responsible for the higher failure rates observed in the smaller size restaurants” (Parsa et al, 2011). That can be further supported by high market saturation and competitive influences which create market correction as time wipes out the most ineffective businesses (Schumpeter, 1934). Some researchers in the field claim that in order to achieve success in this industry the business operators must have a clear assessment of competition, in addition to well-established competitive advantages from a strategical management perspective.
(Harrington, 2011; Tavitiyaman et al., 2012). The product and service differentiation are crucial in saturated and highly competitive restaurant industry which then shapes market with plenty of niches (Fine, 1996; DeLuca, 1995). Accordingly, business operators in restaurant industry are living under two market structures where one is pure competition regarding individual food business operators and the other is monopolistic competition regarding chains and multi-unit restaurants (Hua et al, 2013).

2.1.1 Determinants of success and failure

Restaurant industry has one of the highest failure rates among newly founded businesses (Camillo et al 2008), therefore it is important to have a look at studies of what influences the restaurant survival or mortality.

A study done in Northern California explored critical success factors for independent restaurants (Camillo et al, 2008). The study pointed out that failure rate is also influenced by underestimating the difficulty of running a restaurant business accompanied with little industry’s knowledge and false expectations of owner’s lifestyle. Researchers compiled enough data to link restaurant success to five constructs which have about 50 variables as shown in Appendix 2. The five constructs compose of the following: Strategic choices (e.g. location, positioning, differentiation), competitive factors (e.g. restaurant density, competition), marketing (e.g. customer relationship building and advertising), resources and capabilities (e.g. financial management and profitability, financial risk, employee turnover), and owner-manager traits (e.g. vision, leadership, business acumen and experience) which are all important when aspiring to start a new restaurant business. (Camillo et al, 2008).

Results of this study showed a connection of destructive emotional factors to restaurant failure, for example, restlessness, depression, overconfidence or wishing to expand too early. Restaurateurs experiencing these emotional factors conjoint with poor balance between work and personal life would eventually trigger failure. Comparatively, the results from successful businesses show that when putting ego aside, having a prior experience in restaurant operations, investing time and actions toward well planned marketing in addition to fully developed business concept, is more likely to promote longevity of business. Few key determinants of restaurant success, in addition to excellent customer relations were identified such as the use of differentiation strategies, and
a genuine and dedicated leadership which is extremely important towards handling employees. (Camillo et al, 2008); (Hume et al, 2015); (Smith Killian, 2013)

The proposed exploratory model as shown in Figure 1, portrays personal emotions as a key determinant from many other factors discussed in this study, which have an impact on restaurant success.

![Figure 1: Proposed Model. Restaurateur’s emotions used to predict the viability. (Camillo et al, 2008)](image-url)

The study concluded that apart from emotions, the restaurants can have a success if they can create a clear vision and an excellent business plan following with proper resource allocation and implementing actions to realize the vision. Following must-haves to succeed in restaurant industry are having a convenient location with plentiful demand and proficient staff in all levels. Furthermore, managing and controlling the restaurant on daily basis as well as maintaining the balance between operational costs such as food and labour, meeting and exceeding the food and service quality standards, dealing with employee turnover, are all fundamental and necessary components for restaurant success (Camillo et al, 2008). Hence, if management is performing at its best then external factors may not cause failure (Parsa et al, 2005). (Macdonald, 2009)
The above studies are showing the success and failure determinants which, for the most part are under management influence. Then again research on organizational mortality gives a different type of understanding. Although, researchers that have studied managerial variables, namely, the management team, the length in position, and discretion, say that managerial actions are more important for survival than the environment in which organisation operates (Parsa et al, 2011). Then again, studies done on organization ecology suggest that mortality is due to a “natural selection process of industry life cycles, company size, age and population’s competitive density” therefore, an environment in which an organisation operates is important depending on industry (Freeman, Carroll, & Hannan, 1983; Hannan & Freeman,1989; Schumpeter, 1942, quoted in Parsa et al, 2011). Studies done from managerial variables perspective and studies done on organizational ecology perspective, both try to explain why some companies survive and thrive during an economic downturn when some companies close even in prosperous times.

Organization ecology theory’s main approach for new companies entering the market is to forecast the failure or growth of organizations in terms of density dependence which partly relies on the total amount of companies in the market and is subject to population dynamics (Singh, 1990). Experts in the restaurant industry have analysed organizational mortality to understand restaurant failure from population ecology viewpoint in a recent study of why restaurants fail. The leading author of this study Dr. H. G. Parsa, an Ohio State University hospitality management professor, analysed the influential factors of location, affiliation (presence/no presence of multi-unit locations in a specific geographical area), and restaurant size. The reasons for restaurant failure or success are complex, however this study proved with evidence that the factors mentioned above, each have a significant influence on restaurant failure. Not only internal factors such as management decisions but also external factors, namely location, affiliation and density have an impact on restaurant mortality or survival. Multi-unit group affiliation demonstrated results where groups with multiple locations had fewer closing rates than independent restaurants. The study also found that competitive density has a significant impact on firm’s life-cycle, in situation that companies established during high density periods are subject to higher mortality rates (Hannan, 1989). In regard to multi-units or franchises, the restaurant failure rate decreases when the organizational complexity increases with implementation of systems and controls, and a growth in company’s size. Likewise, the smallest companies with least systems and controls, the failure
would occur earlier. Moreover, it is not enough to have more units under a restaurant’s brand, since the survival rate would favour only if there was a significant corporate presence and the benefits of franchisor’s experience and support. (Parsa et al, 2011; Frazer, 2012)

Having looked at research on organisational mortality, financial characteristics that influence restaurant risk can be added. Common industry knowledge and a good projection of whether a restaurant would fail can be projected through financial ratios as it has been used in investment field in banking industry and more. For example, low revenue but high total liabilities should alert for a very likely restaurant failure. (Olsen et al, 1983; Gu, 2002).

Stephen Borde (1998) studied firm characteristics and restaurant risk from which some are in management control. Borde (1998) had found an influence of financial characteristics on restaurant risk by studying liquidity ratio, dividend pay-out ratio, leverage, and return on assets. His findings suggest that higher liquidity ratio may not always be a determinant of lower risk in terms of liquid assets to total assets, where higher ratio indicates company’s ability to meet short term cash needs. It might imply that company is not investing its resources with care and careful consideration. According to dividend payout ratio, it is typically viewed bad when a company cuts its dividends therefore, when a restaurant business is distributing smaller share of earnings or not at all, most likely the business is under high level of operating risk. Furthermore, Borde (1998) claims that capital structures of restaurant businesses are relevant in determining restaurant risk, therefore highly leveraged business operations usually increase the financial risk. In addition, Gu Z. (2002) analysed US restaurant firm bankruptcy using a multiple discriminant model and found that low earnings before taxes and high total liabilities were triggers for potential failure. Accordingly, high return on assets is associated with exceptional operational performance where restaurants would endure smaller chances of bankruptcy, indicating a well-planned and executed management. (Borde, 1998)

Since location hurts independent restaurants more than multi-unit or franchises, then more literature review is dedicated for this variable. H. G. Parsa et al. (2011) in the aforementioned study confirms that location indeed has influence on failure rates, additionally, the study done by Camillo et al (2008), too, acknowledges the importance of business premises location. Moreover, leading text books in restaurant industry em-
phasize on location, rent and accessibility as crucial requirements for success when choosing premises. For instance, Roger Fields, an author of Restaurant Success by The Numbers book, writes that location is only perfect if it fits the concept of chosen premises. Furthermore, central business district of a city is suggested as the ideal location in order to seize the most customers throughout the day and evening, however it is not always an option. (Fields, 2007)

2.1.2 Restaurant industry in Finland

Having discussed models, variables and determinants that are responsible of success and failure in restaurant business, restaurant industry in Finland followed by Helsinki Business District analysis by Porter’s Five Forces of Threat framework can be explored.

The revenue of restaurants has increased from 2016 for all types of restaurants shown in Figure 2, which is a good indicator of the rise in customers’ available disposable incomes. As for the contribution to the GDP of Finland, industries’ value added as a proportion of gross value added was 1.7 % in 2017 as seen in Appendix 1, however it has not significantly shifted over previous few years, staying between 1.6 and 1.7%.

![Figure 2. Revenue of restaurants % increase in Finland. (MaRa, 2018)](image-url)
Furthermore, the number of restaurants in Finland since 2006 till 2016 had increased by more than 1000 as shown in Figure 3. According to Finder.fi database there are about 1855 restaurants in Helsinki (Finder.fi, 2018).

![Figure 3: Number of restaurants in Finland from 2006 to 2016, (MaRa(1), 2018)](image)

To illustrate the difficulty for a restaurant business to survive in Finland, the following data can be considered. Failing or closing restaurant rate in Finland throughout the years of 2005 to 2015 remains roughly the same with slight fluctuations as seen in Figure 4. This is not a new phenomenon as reviewed in previous chapters and e.g. Wilke English (1996) points out at other researches done at the time in the United States where only one-third of the retail and service businesses after their first 5 years had remained in operations. As discussed earlier in chapter 2.1., low barrier of entry is suggested to be one of the main factors of restaurant failure since inexperienced operators with insufficient skills, capabilities and capital can enter the market. Savvy mega chains advantage in branding is another variable which dispositions single-unit restaurant owners who might lack even the basic branding skills, therefore having fewer chances in the fierce competition market such as Helsinki Business District HBD. (English, 1996); (Parsa(1) et al, 2011)
The financial institutions lending to restaurant businesses, especially for new businesses is quite unwilling as these businesses are considered highly risky investments according to OP, Finnvera and POP Pankki. Lending would be offered only if it is possible to offer a decent collateral in order to protect against a possible default. In addition, the general real estate rules by regulatory institutions towards other areas such as housing market and office market are found to be relatively simple in the light of the restaurant real estate. The Finnish legislation is pouring burdens over food service businesses operators requiring plenty of permits and necessary adjustments in premises which is also costly. (Evira, 2017)

To achieve success in a restaurant battleground there several aspects of the industry where the owner must obtain relevant advantages as reviewed in Success and failure chapter. Sustainable cashflow appears to be an entry barrier for the newcomers in saturated areas to survive and advance.

Usually the chains run by franchisees acquire already built up business concept and are supported by the team of know-how specialists. Regardless the situation where the premises are being rented, e.g. from shopping centres, having high requirements accompanied with high rents, the business model and brand that is acquired by the franchisees gives more chances to succeed rather than solo business owners (Morgan, 2016). Taking on a franchisee business operations concept rather than a solo restaura-
The quality of the food is still a key success factor for any restaurant. Recent years the global awareness for the environmental pollution created “Green” and “Healthy” tendencies that also reflected in a restaurant business. (Casini et al, 2013). The food cost for fast food restaurants and café chains is much lower than those that are having a relatively healthy menu. When most of the food coming in is frozen and half-done, the cost of producing it on place is much less also time-wise. The real food restaurants find it difficult to compete since everything is produced in-house from raw materials. Storing and upkeeping stocks of food also requires developed infrastructure and warehousing to keep the quality of the food for the longer time and avoid large amounts of waste (Lindblom, 2015). Additionally, a higher quality customer service requires for skilled employees which increase the operating costs since more employees are necessary for good service. That makes for small or no margins in the field and in many cases, restaurants might operate on loss for several years until they improve or divest.

Food business industry in Helsinki center analyzed by Porter’s Five Forces of Threat Framework in Figure 5 shows a detailed structure of the players and their impact on profitability. Porter’s Five Forces of Threat Framework is used in order to evaluate attractiveness of an industry through the five forces which are competitive rivalry, threat of entry, threat of substitutes, power of buyers and power of suppliers (Johnson et al, 2017). According to Porter, if all of these forces are strong then industry is not attractive since the chances of decent profitability diminishes. (Katz-Stone, 2000)
Figure 5: Porter’s Five Forces of Threat Framework applied to food service business industry in Helsinki center.

The middle of Figure 5 shows Competitive rivalry force which for food service businesses is rather high as a result of heavily saturated market at every level. The types of food service businesses found in the area range from food trucks, fast food chains, fast casual chains, independent restaurants, cafes to full-service gastronomic restaurants. As discussed earlier in success and failure factors, companies such as chains with advertising power have a better position over smaller players. Additionally, social media has opened doors to reach customers that might have never visited particular businesses otherwise, therefore options for eating out had grown significantly and reducing the amount of regular customers. Next force is Threat of new entry which for food service industry is rather high. Apart from dealing with bureaucracy burden and obtaining rental premises for those without experience, other costs do not require a significant up-front investment. New entrants can also be subject to survivorship bias, a term mostly used in finance meaning that survivorship bias occurs when only still operating companies are taken into consideration when looking at data while excluding the ones that have failed (Kaiser, 2011). In terms of food service industry that can be translated as such that for potential new entrants starting a food service business can be rather attractive since from the perspective of public, people look mainly at the currently operating restaurants and cafeterias while the number of bankrupt ones go unnoticed. Ac-
cording to the writer’s own experience in food service business, there is a serious se-
crecy revolving around data regarding the performance of such businesses to public or
between the business operators themselves. Therefore, it is easy to have a false sense
about potential of success in the industry which gives a high score for threat of new
entrants. Therefore, saturation of market increases and returns decrease including the
possibility of staying in business for longer term.

Next forces discussed are Buyer and Supplier bargaining power. The bargaining power
of suppliers in Helsinki market is strong largely for independent businesses due to few
wholesale suppliers and high costs in Finland to run their own operations. For example,
high-end restaurants might offer meals that include exotic ingredients for which there
are even less suppliers in the market therefore, the bargaining power is in the supplier
side. However, the bargaining power of buyers is not on the buyer side since typically
customers cannot bargain for their meal prices. Then again, food businesses can offer
combos or group pricing for large orders or reservations. Nonetheless, businesses
cannot set prices too high due to the open information about prices in market and cus-
tomers willing to go to a place offering the same value for less. The bargaining power
of suppliers and knowledgeable customers therefore are additional forces that join in
narrowing food businesses’ profit margins.

Final force is threat of Substitute products. In addition to fierce competition, food busi-
nesses face a rising threat of substitute products and services. For example, with a
little help from how-to videos on YouTube and endless recipes found online, customers
can opt out and get groceries instead, while making their own delicious dishes and
therefore reduce the spending on eating out. Moreover, groceries super markets have
adapted to fast pace environment with offering fresh and prepared food bars where a
customer can pick what they like, weight it and continue on their day. Then another
factor that gives strength to this force is rising trend in delivered food, as discussed at
the final paragraph of next chapter. In situation where food business still gets sales
from a delivery order, it loses the opportunity to up-sell e.g. dessert or drinks when the
customer dines at the premises.

Porter’s Five Threats Framework analysis for a food service business in Helsinki center
indicates that industry is quite unattractive if one is looking for decent returns. However,
customers still value good quality food and delighted experience. This gives an oppor-
tunity for those operators who are innovative in terms of differentiation and improving
cost structure, therefore decreasing their direct competition and perhaps the threat of new entrants.

To conclude, as a beginner in the field, it is difficult to get rental premises since the landlords do not trust on the beginner’s ability to successfully run the operations. This could be one of the factors that raise the entry barrier in the market since without premises one cannot begin their operations. From the other hand, previously successful restaurant owners also have gotten their restaurants bankrupted as shown in Figure 4, the turnover of restaurateurs yearly is rather high. Negotiating rents and appropriate premises selection for the business concept has become more challenging in addition to convincing that one is the right tenant and can be trusted (Jennings, 2017). The pickiness of landlords could be attributed to the demand which for particular RE can be influenced by emotional, social or brand value. For example, when the restaurant has a certain location which would add to its reputation and influence the brand’s name. Moreover, if the restaurant has established a good name and has been operating successfully in a particular building or location for several years, that increases chances for it to have an impact for the types of businesses or the type of residents moving in the area or building. As a result, new businesses or business concepts preying for potential premises on a particular street or building are encountering difficulties. (Pirounakis, 2013)

It could be that the commercial real estate market data availability is posed as unimportant in comparison of other real estate markets. The possible reason might be to keep the field attractive to newcomers and therefore continue the flow of capital to various other industries, e.g. those selling kitchen equipment and premises renovation services. (Koivisto, 2017); (Tuominen, 2014)

2.1.3 Commercial real estate development effect on restaurant businesses

Real estate for the restaurant business shows importance as a success factor for its given advantages or disadvantages in terms of location, accessibility, and the premises’ characteristics in the building. This factor weighs more importance for single-unit restaurateurs since they lack differentiation in this sphere, therefore, the chosen premises for the specific business concept may help or pull back from profitability. The option to choose the best premises for the concept is not always practical or possible because of continuous under supply and surplus demand for these properties. Acquiring
licences, keeping up with rental and building maintenance expenses, employee costs, and accumulation of significant amount of cash flow, creates difficulties for the new entrants in the food business regardless of the relatively low entrance barriers compared to other industries.

According to the recent commercial RE market news, more shopping centres are yet to be completed. This is discussed in more detail in the following chapters of commercial RE. Taking into consideration the winter conditions, the population is more likely to go for the shopping centres and combine the relaxation and entertainment preferences, such as shopping, eating and relaxation. (Goodyear, 2013) Development of shopping centres by creating an easy access and adding more advanced, entertaining, and preferable concepts appealing to the greater public, has created destination locations which consequently provide continuous consumer base for the businesses located in the shopping centres. For the food businesses usually, it is more preferable food courts for mid-low income segments and restaurant courts for the high income cluster. (KTI, 2017)

The higher rental prices demanded by shopping centres typically are non-negotiable since the premises guarantee the constant pull of consumers in addition to reliable and organised infrastructure. Therefore, the shopping centre premises are good locations for the already built up franchises or other small businesses with more than one location or single-unit businesses that are about to open the second location. Just starting food businesses stand lesser chance to be granted a tenant agreement for premises in shopping centres mostly because the business has not yet proved the concept. Additionally, it is rather risky for micro size businesses to adhere to the high operating cash flow requirements by shopping centres, nevertheless they are willing and ready for increasing the financial leverage in order to get their business where the people are. Then again, not enough consultancy and overestimated leverage could increase chances to fail the business. (Savills, 2017)

On a governmental level it is necessary to stimulate the SME projects by providing loan guarantees and advisory service. In addition, creating commercial clusters are known to boost the economic development of the area by upgrading the infrastructure and opening more opportunities for the business to develop. For example, Mall of Tripla, scheduled to be ready by 2019 and located directly next to Pasila train station, and is only one train stop after the Helsinki central Railway Station. This project is established
to boost the regional economic development by offering 7,000 workplaces, 250 units in the shopping centre, over 400 hotel rooms and provide dwellings for 1,000 residents. (Europa.eu 2017); (Finnvera, 2017); (KTI, 2017)

Furthermore, another trend is creating uncertainty for the future of the way the restaurant businesses have been operating traditionally. The integration of the internet into the businesses can cause transformations of the traditional business concept, by allowing to reduce significant costs, namely real estate and yet reach even wider number of consumers. The technological advancement together with well thought value chain allows to break down the profit factors and the cost factors and achieve even more efficient cash flow generation. E-commerce already has demonstrated its use in the retail segment, however the possibilities for the restaurant business are still uncovered. The traditional business concept still strongly dominates the market apart from now being exposed to online reviewers and a rise in food delivery businesses as a middle man between the restaurants and customers. UK and U.S. markets already have other emerging food delivery concepts up and running that can even be adapted to customers’ previously specified dietary preferences. For example, in U.S. Blue Apron and Plated are a subscription delivery services of ingredients for the variety of meal recipes on their sites. These businesses encourage people to explore the world of cooking by teaching "how-to" and letting them escape the hassle for the ingredient search. Additionally, the subscription offers no commitment with an option to skip some deliveries or cancel altogether. Furthermore, The Pure Package in London, UK offers daily pre-prepared meal packages according to the dietary choice by the customer. This business concept saves time and is helping a customer to stay consistent with specific dietary lifestyle in the era of abundance of food choice. It might be a matter of time before these concepts reach Finnish market. (Foodora.fi, 2017); (Kolterjahn, 2017); (Paytrail, 2017); (Blue Apron, 2018); (Plated, 2018); (The Pure Package, 2018)

2.2 Commercial real estate industry

In this section of literature review, commercial real estate market is analyzed and its implications and effect towards food businesses explored. Real estate (RE) as such is an essential part of the global and therefore the country specific economy as it significantly impacts the wealth and income. As seen in Figure 6, it constitutes over a half of the wealth in the world, respectively, nearly 60% in 2016 or $217 trillion of the total val-
ue of other mainstream assets globally (Savills World, 2016). Price appreciation over time alone, makes the RE an attractive investment asset.

Definition: “Real Estate is a name given to land, buildings, and legal rights over immovable property, especially when they can be priced for possible sale in an actual or potential market.” (Pirounakis, 2013)

<table>
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<tr>
<th>Asset*</th>
<th>Investable (trillions)</th>
<th>Non-investable (trillions)</th>
<th>All (trillions)</th>
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Figure 6. Global asset universe. (*values in US$ trillions - rounded) (Savills World, 2016)

Commercial RE market consists of properties which typically are owned for the purpose to produce a rental income or sold for profit, whether shortly after the acquisition or eventually later. The five largest types of commercial properties are retail, office buildings, hotels, industrial property and apartment buildings. Retail properties consist of shopping centers, high street shops, big-box retailer premises (e.g. Ikea), grocery stores and restaurants. According to Cambridge Dictionary, a High Street is a street where the most important stores and businesses in a town are (Cambridge, 2018). Because retail business is not only about selling goods but additionally providing service, therefore the restaurants, bars, cafeterias and hotels are all included under this type of properties. Office buildings are usually occupied by one tenant or multitenant use. Hotels include hostels, luxury and spa hotels, and business hotels, however the homes that rent out rooms or entire place through Airbnb are not included. Industrial property is used by manufacturing businesses or those involved in logistics operations such as distributing or warehousing products. Apartment buildings usually are considered a commercial RE only when they are in a stage of being a development project with an aim to be sold to the general public, thus are no longer considered to be a commercial RE after being bought by the occupier since these typically are bought for consump-
tion. Alternatively, if an investor owns the apartment building and rents out the apartments, the property may be called a commercial RE. This property market has enough grey areas and according to Professor of Economics and economic analyst/consultant Nicholas Pirounakis, it is speculatively built and speculatively managed. (Pirounakis, 2013); (KTI, 2017); (Suarez, 2009)

2.2.1 Commercial real estate in Finland

Urbanization is one of the drivers to push the construction industry and therefore impacts the growth of the real estate industry in Finland. According to Toivonen and Viltanen (2015), Helsinki Metropolitan Area (HMA) is attracting more population and businesses to locate or relocate into the area which makes the urbanization apparent, therefore causing extensive reuse of land and traffic connection projects. The urbanization is expected to increase from 69% in 2015 to at least 75% of Finnish population living in 14 largest cities in Finland by 2040. These 14 cities comprise of 70% from all jobs in the country and fills up about 75% of the total GDP (KTI, 2017). Helsinki region is expected to have the most rapid growth. Consequentially the rapid growth of RE in this region will eventually boost the population density and provide opportunities for the business growth and development supported by the impulse of positive economic, social and political environment. The weight of RE growth is more likely to be focused on economically significant centers of Finland, such as Helsinki area.

The Helsinki metropolitan region consists of three main cities, Helsinki, Espoo and Vantaa which are the focus areas in this thesis. Currently, about 1.4 million inhabitants call this area home and this number is estimated to increase between 1.7 and 1.8 million by 2050. The biggest 20 shopping centers in Helsinki Metropolitan Area account for €2’760 million sales and 176 million visitors in year 2016 (Kauppakeskusyhdistys, 2017). The most significant real estate market, however, is the Helsinki central business district (CBD) since most administrative buildings and financial sectors are located within or around this area, in addition to many tourist attractions. Furthermore, plenty of companies have chosen this area for headquarters location or simply their business premises regardless of the higher rents. The urban opportunities in Helsinki has resulted in a relatively younger population in contrast to the rest of the country and the area is accounting 36% of the GDP.
The residential market situation and demand for housing has initiated several new development projects which is also supported by a strong investment demand. As seen in Figure 7, until 2015 the housing production in Helsinki region has accounted for 30% while the urbanization forecast as a driving force for development projects, shows a much larger increase in 2016 onwards. That constitutes nearly one half of all housing production in the country. The rise in residential RE has left an impact on commercial RE as the number of new development projects and the upgrading of existing properties has surged simultaneously in several locations around the metropolitan area as shown in Figure 3 on page 7. The total retail space in Helsinki Metropolitan area is about 3.9 million sqm which was 25% less just a decade ago and yet there is a shortage of the prime property.

The performance of retail properties has been good, and they keep on attracting investors whether through new development or major sale-and-leaseback transactions. In addition to the good economic outlook, Finnish market has developed transparent legal and financial environments which contributes to the attractiveness by foreign investors and therefore increasing the market liquidity. Positive dynamics towards the growing RE zones fuel the competitive situation for restaurant businesses as demand and respectively purchase or rent space prices for these businesses will move fairly.

However, international investors might have spoiled a previously good market from investor perspective, since after continuous investments the prices have soared accompanied with less returns. (KTI, 2017); (Savills World, 2016); (Karakozova, 2005); (Falkenbach & Toivonen, 2010); (Suarez, 2009)
2.2.2 Advantages for renting premises from shopping centres

In daily basis, the busiest life flow happens in the HBD, highlighted green area shown in Figure 8, which is also the most expensive area for business premises rents. Plenty of B2C businesses have based their operations in the areas within the reach of 15-minute walk to either directions from Helsinki central railway station or central bus station which is the home for large shopping centers as well as main shopping streets. For more efficient daily commute, it has become more convenient to leave the vehicle further away from the Helsinki center and continue the trip to the center by train or metro avoiding traffic jams. Trains and metro are the usual public transportation which further outside of the city center offer parking lots right next to the stations.

Figure 8. Helsinki center map. Helsinki Business District area highlighted in green. (KTI, 2017)

In addition, the heart of the center offers protection against poor weather conditions in a form of underground pedestrian tunnels. Those are connecting the central railway station with the nearest shopping malls such as CityCenter, Sokos and Forum from
which continues with another connecting underground tunnel to Kamppi shopping center under which resides the Helsinki central bus station. On the street level around these shopping centers are enormous amount of High Street retailers and food businesses in particular. Other shopping malls, namely, Stockmann and Kluuvi or entertainment centers such as Forum cinemas are found right next to or opposite the street from the aforementioned shopping centers. This specific environment hosts the perfect web of providers for shopping, eating out and entertainment experiences all nearby and with a minimum need to walk the distances outdoors between premises. Such market environment setting works poorly for High Street retailers and restaurateurs when the weather conditions are unfavorable.

Shopping centres in the other areas of Helsinki are located in the district centers which usually are accompanied with good public transportation connections and therefore has the most visits. The same applies for the city centers of Espoo and Vantaa, including the centers of largest districts within these cities. The shopping centers are planned and filled in a sustainable manner with an aim to have as many services and consumer goods under the same roof and be conveniently accessible (Kauppakeskusyhdistys, 2017). Furthermore, as more leisure and other free time activities are increasing the occupied space of shopping centre premises, the whole experience for customers changes from just a shopping experience to becoming a community hub and encouraging a sense of coming together. As time becomes tighter and consumers are trying to unite several activities at one stop, the shopping centers win. “The ongoing trend is to provide non-retail uses by increasing leisure in shopping centres and additionally in town center regeneration. The mixed-use town centers can be a central component of successful local economies, offering a base for businesses and jobs and being at the core of community life (Kauppakeskusyhdistys, 2017).” (Postnord, 2017)

According to the Finnish Council of Shopping Centers (FCSC), there are 99 shopping centers in Finland as of 2016 and during this time the number of visitors had exceeded 385 million and providing 38’500 people with jobs. Furthermore, 33% of all shopping centers are located in HMA and their sales equal to 52% of the whole shopping center market. In 2016 the HMA centers’ sales increased 3.3% while the growth for the rest of Finland was 2.8%. Additionally, shopping centers are the most popular places to shop in all of the Nordic countries. (YIT, 2017)
Commercial RE prices are significantly influencing the bottom lines of large chains or groups of multi-concept food businesses portfolios. For example, Restamax Plc, a group which specializes in restaurants and hiring, is pointing out at the risk section of the Interim Report 2017 that the cost of their premises is a substantial portion of operating expenses which leaves a significant impact on operations. As most of the premises are rented rather than owned, the taxation and a heavy cost structure present with its own challenges (Restamax, 2017). The conditions of owning the commercial RE pushes restaurateurs to look for renting opportunities in dense areas of customer concentration as Shopping malls and districts regardless of cost level.

2.2.3 Impact on the wider economy

RE market has a rather significant impact on the wider economy and everybody, directly or indirectly, needs a piece of it. The different real estate markets are having a different effect on supply and demand which is therefore driving the prices. For example, the office supply is greater than demand, however the demand for food business premises is greater than supply even with the newly built shopping malls which restaurant space is pre-let 2 to 3 years before a project is completed (KTI, 2017). Because of the current market situation, some premises originally designated for office or non-perishable goods retail use are turned into use for perishable goods such as restaurants or cafes. RE market emerges when the income-producing properties market in terms of tenant space come together with RE capital market as a supply of and demand for investment amount in the RE development process (Miles et al, 2007).

The previous economic crash in 2008 had damaged Finland’s economy on such a level that even a decade later, Finnish economy still has not risen to at least the same level as it was before the global financial crisis. However, economy is approaching it and currently strongly fluctuating around pre-crisis levels as shown in Figure 9. The graph demonstrates the quotes on 137 Finnish companies’ financial market performance listed in Helsinki Stock Exchange. Interest rates in terms of mortgage rates will have an effect on the wider economy once the rates will rise again, therefore making real estate less affordable for smaller players. (Eurojatalous.fi, 2017); (Labour.fi, 2018); (Investing.com, 2018)
Given the typicality of the economic environment of cities, the countryside has less opportunities for younger and working generations which, as mentioned earlier, move to the cities or close enough to make the daily commute possible. The already increasing population in Helsinki and the largest nearby municipalities had created a room for development projects to take place, namely, new shopping mall construction projects or renovation and upgrade of existing ones as seen in Figure 10. These large projects require a good amount of workforce and plenty of materials. Additionally, the need to ease the daily commute and better the transportation infrastructure had initiated projects such as ring rail road connecting two sides of Vantaa through Helsinki/Vantaa Airport. Furthermore, Länsi Metro line project extended the existing metro line into Espoo and contributing to even more jobs and material purchase.
The total retail space in Helsinki Metropolitan area is about 3.9 million sqm which was 25% less just a decade ago and yet there is a shortage of the prime property. The performance of retail properties have been good and they keep on attracting investors whether through new development or major sale-and-leaseback transactions. (KTI, 2017); (Savills, 2016)

2.2.4 New development projects versus consumer behaviour trends

This thesis focuses on food businesses performance and development, nevertheless it is crucial to discuss the retail shop market situation since the food businesses in shopping centres depend on retail customers. The metropolitan area has experienced growth in new shopping centre development projects, including the upgrading of existing ones only in a matter of few years. Several reports, such as Postnord Nordic report, PwC 2018 Global Consumer Insights Survey and Adobe (2017), bring up the evidence of consumers’ buying behavior towards clothing and house appliances switching to
online for several reasons, e.g. the ability to shop whenever the customer wants, as seen in Figure 11. If the consumers lower their visits to physical retail stores, it would immediately impact the food businesses under the same roof. In addition, it makes the amount of undergoing construction projects to increase the retail space too ambitious. Nevertheless, the KTI 2017 report states that the total sales and the amount of consumers visiting shopping centres has increased. (KTI, 2017); (Yle, 2015)

To elaborate, the rise of e-commerce has pushed retailers into omnichannel strategy which ultimately means that the business is using different channels to reach the buyers, from physical store premises to phone and online (V12DATA, 2017). Adobe Digital Trends in Retail 2017 report, which is based on a sample of more than 14’000 digital marketing and ecommerce professionals of almost 500 retailers from countries across EMEA, North America and Asia Pacific, has found that: “More than half (54%) of retailers said the customer experience is their most important area of focus, way ahead of cross-channel marketing (16%), data-driven marketing (14%), mobile (11%), and programmatic buying/optimization (4%)” (Adobe, 2017). In addition, more than one half of retail respondents (62%) said that the budget for mobile marketing was going up in 2017 and mobile in itself has reached a strategic priority for 55% of retailers.

In Finland the consumer behavior is yet to mature to the extent of the Europe, not to mention United States. However, the PostNord report about e-commerce in Nordics claims that amount of online consumers are growing, moreover the gap is continually
disappearing between the online shopping and physical retail shopping. Nordic online consumers are beginning to spend on larger and heavier goods than before. Delivery is an important factor for the increase in online shopping as it becomes more convenient over time and therefore attracts shoppers to spend online. (Postnord, 2017); (Paytrail, 2017)

Jouni Lamberg, the Vice President Sales, Marketing and E-commerce of PostNord in Finland claims that the price and range of products are the important variables as consumers turn to international sellers and retailers. As the online shoppers have more convenient and trustworthy channels from which to buy their desired items for a better price than what Finnish vendors can offer, both online or physical retail. (Postnord, 2017)

3 Research methods

Having looked at secondary research findings, the process and results of primary research can be discussed. This section of thesis will explain the process through which the research question is examined using primary research method. Qualitative research methods were chosen due to advantages for exploratory research. “The most common qualitative methods are participant observation, in-depth interviews and focus groups” (Gubrium et al, 2012). The method of in-depth interviews appeared as the most suitable for obtaining the data for this thesis research since the collected data would provide with interviewees’ personal experiences, history and perspectives in descriptive manner.

3.1 Data collection and implementation

For the purposes of gaining an understanding on the effects that commercial real estate market implies on small food businesses in Helsinki Business District, the following data collection methods were implemented. The secondary data was collected by studying previous researches and relevant market indicators as shown in literature review of this thesis. Then a primary data research was conducted in a form of interviews. After collection of primary data, the analysis and drawing connection to the secondary data was studied. The timeframe during which this research took place was from August 2017 till April 2018.
Helsinki Business District area was selected for its convenience and the extent of attractiveness to food business entrepreneurs. This area entails relevant characteristics of high density of food businesses in addition to high fixed costs and usually it being the first area for testing new trends and concepts because of the wider consumer base and broader acceptance of innovation.

The research question was approached by studying the experiences and conceptions of single-location food business owners in the HBD commercial real estate market through an interview study. The interviews were conducted as half-structured interviews, which focused on previously set themes however, it gave the interviewer the possibility to modify questions and ask some clarifying questions (Gubrium et al, 2012). Two random food business owners were chosen for the interviews according to the set criteria. The criteria narrowed potential participants to those whose business premises had an entrance from the street, was not part of a shopping center and had been operating between 2 to 5 years.

3.2 Advantages and limitations

An advantage of qualitative methods in exploratory research over quantitative methods is the giving of opportunity for the participants to respond in their own words rather than pick fixed answers and the use of open-ended questions. The in-depth interviews have the ability to collect responses which are meaningful and rich in nature and the researcher could discover information previously unanticipated. Likewise, researcher can be flexible in order to gain elaborated answers to participant’s initial responses. (Gubrium et al, 2012)

The main limitations of this study are related to the methodology which was chosen for the research. Real estate effect is very case specific as it has been discussed in Success and Failure section in secondary data research. Only two interviews were conducted as a result of time constraints. Additionally, regardless of the depth and value of the information collected, the results only give a narrowed view and cannot be generalized. While these interviews provide valuable and detailed information, the results cannot be generalized due to the narrow view.
4 Results and Discussion

This section of thesis presents the primary research findings and results obtained from the two interviews and discusses the reflection with the secondary data findings. The respondents were chosen within HBD whose restaurants are located in opposite sides of this area to avoid any chance of participant recognition. Both interviewees are the owners of their restaurants, however respondent Y also performs responsibilities of a chief. Interview results in full format can be seen in Appendices 3 and 4. Findings are presented for both interviews together according to each question of an interview and later discussed in accordance with findings from the literature review.

First question of the interview, “In your opinion, what are the key success factors for restaurants in Helsinki center area?” intends to identify the success factors which are perceived as crucial in HBD and whether it is true that location and business premises have a high importance. Both respondents began with location as the most important factor to succeed in the HBD after which came the factor of well-made business concept that has to fit in the area and with chosen rental premises. Respondent X additionally mentioned having a good budget as a success factor in terms of managing costs. Both respondents confirm that commercial RE in terms of location and business premises is important. Second question of “How important is rent as a percentage of costs?” seeks to find out the restaurateurs’ observations about monthly cost structure and how important are the RE costs. Respondent X claims that rent cost is very important and the money which is saved on rent can be used for other things that would help the business grow, e.g. hire more staff. Additionally, respondent X confirms that rents in Helsinki are quite expensive yet for now manageable. On the contrary, respondent Y claims that in their situation rental costs are about 10% per month which by respondent Y is not considered a worry. The results on the second question show a diversity between rental agreements as well as business concepts all within HBD and further proves the importance of commercial RE effect on food businesses.

Third question, “When you were looking for potential premises for your business, why the centre of Helsinki? Did you consider other areas?” aims to obtain an understanding for the incentives as to why restaurateurs are driven to open their businesses in the most competitive area in the city regardless of high fixed costs. Both respondents agreed on being able to get a good amount of customers just by being located where the people traffic is large daily. The respondent X claimed that it was also important to
be near their direct competitors. Then again respondent Y continued with the importance of other buildings or state agencies located nearby their restaurant which then would drive more traffic in terms of both, locals and tourists. Question 4, “Was building characteristics important?” meant to complement the third question and augment the RE effect. Respondent X agreed on the importance and continued with the specifics which also included the rent and location for particular premises as well as the building aesthetics. On the contrary respondent Y emphasized the importance of a restaurant concept and quality rather than building characteristics. However, respondent Y still mentioned the location as a means of being conveniently reached by customers.

Fifth question, “Was competition fierce for your chosen premises and how many places you were trying to get before winning this place? How long time was the search process until signing the contract?” intends to picture the competitive scene and the level of difficulty to enter the market. The process of finding premises for respondent X took about six months, however once the right place was found, negotiations and sale happened fast. However, respondent Y claimed to have found their premises rather fast and without having to see other potential premises while recognizing that finding a good location on first try might have been due to a luck. Question 6, “What were the main difficulties to negotiate rent agreement?” aimed at illustrating restaurateurs’ negotiation power. According to both respondents, if the restaurateur has an experience in the field then negotiating an agreement is not an issue from the owner point of view. Respondent X suggests that a beginner in the field seeks help for rental agreement matters from a professional since it is easy to manipulate an inexperienced person.

Question 7, “What do you think of the new development projects (new shopping centres) impact on your business continuing operations?” intends to understand the correlation of the restaurant business performance and the new development projects which eventually would take more customers away from the streets and are also partly responsible for commercial RE prices rising. Respondent X is confident and claims that it would not lessen the customer base and further justifies being safe because they are located in center area. One unfavorable point was mentioned which is the lack of sufficient amount of parking spaces or not being able to park for free nearby the restaurant. However, that is quickly disregarded since it is preferred that no customer would use a vehicle after an alcohol consumption and the alternative where the customer does not consume alcoholic beverages, reduces potential sales. Respondent X continued to illustrate that renting from a shopping center is not for their current brand. Moreover,
respondent Y agrees with the little importance towards the impact of new development projects in the city since their restaurant is based in the city center as well. Then, Y continues to elaborate that it is a good thing as well since they can learn from the new business concepts that are succeeding in the shopping malls or learn from mistakes.

Eighth question, “Would you move the business in shopping center if you had been given an offer?” aims to understand how appealing is having premises in a shopping mall and to gain an insight for a demand to this type of commercial RE. Both respondents are quick to deny the attractiveness of shopping centres from the perspective of their particular restaurant brand or business concept. Respondent X considers having a business premises in a shopping centre in case if they come up with something else since there are always people in shopping malls. Question 9, “Which types of weather has a negative impact on your sales?” aims to elaborate on the incentives behind the attractiveness or lack, thereof, to have business premises in a shopping center. Interestingly, given responses are entirely opposite. Respondent X claims that the better the weather the worse sales it is since people would rather be outdoors. However respondent Y claims that rainy days are those that impact sales to a negative direction.

Tenth question, “How positively do you view being part of a chain/franchise or have a multi-unit business?” intends to portray the attractiveness of owning or operating a well-known brand franchise restaurant and having multiple locations. Respondent X suggested that it is a positive thing from the perspective of being present in multiple locations in order to get the name out there and building a reputation. Contrarily, respondent Y claims that being a part of a chain deprives a business owner from creative moves and differentiation. However, Y agrees that being part of a chain has a positive side since the brand provides with a ready customer base. Question 11, “Would you open more units in future? Which locations would you prefer?” aims to understand the willingness to build a chain business and whether choosing Helsinki city center location is considered again after having experienced this area. Respondent X again viewed having a franchise a positive thing because of ability of getting the name out there more easily and building reputation. Respondent Y on the contrary did not consider to open more units, at least not at the moment.

Question 12, “Have you put efforts in social media marketing? How that has impacted your business?” was intended to find out the restaurateur perspective and application of the changed media landscape in terms of usability and return on investment. It was
found that both respondents could not measure whether there is or isn’t a positive change in sales because of investment in social media. Respondent Y had considered to hire somebody to plan and implement social media strategies for them to test how social media can impact their business. Question 13, “In your opinion, if people would choose more online shopping versus physical shopping, would that impact your business operations? In what way?” aimed to gain a perception from restaurant entrepreneurs if they are concerned to lose potential sales in situation where consumer buying behavior shifts more and more online and therefore less consumers are found walking along street shops and food businesses. Respondent X claims that it would not impact their business since they rely on the safety of Helsinki center customer traffic. Respondent Y believes that people will always be interested in physical buying when it comes to food and that experience and atmosphere available in restaurants will continue to attract.

Question 14, “How likely your business would survive an economic downturn if it was as close as the one in 2008?” intends to comprehend the level of awareness that food business entrepreneurs have towards economy impact on survivability of their operations. Both respondents believe that their businesses would survive an economic downturn and according to respondent X’s observations, economy is only starting to climb. Final question, “In your opinion, why other restaurant businesses in Helsinki center have failed” seeks to gain food business owners’ perspective on what failed restaurateurs have not implemented or executed poorly. Respondent X, claims that it is bad management and everything that has to do with cost structure. The respondent gave examples of wrong budget, wrong business idea, wrong people working for you, and the owner not being experienced enough. Additionally, the owner has to be aware of everything that is going on at the business 24/7. Respondent Y claims that some owners underestimate the necessary knowledge and experience to run a restaurant. The respondent added that another reason for failure is if the restaurant concept is not working well for the size of the rented space since that can negatively influence costs.

4.1 Discussion

The aim of this thesis research was to seek a deeper understanding of how severe is the commercial RE effect on food business/restaurant chances of survival in Helsinki Business District which is the densest area regarding restaurant/food businesses in addition to prime property rents. Research was narrowed to single-unit businesses
which are not a part of shopping centre and have an entrance from street. A considerable concern at the beginning of this research was the vast number of new development projects being planned, under construction or just finished, which eventually would influence real estate prices in the corresponding areas and therefore the cost structure of food businesses. This section discusses the connection of the findings in literature review and findings from interview results to answer thesis question.

Findings from primary research suggest that the importance of RE market effect in HBD varies between the areas within the district. This could be attributed to a particular business concept for a particular size of the premises, respectively, how well-matched these two variables are. Demand after the prime property is high according to KTI (2017) which is keeping up and rising the prices. Additionally, interview responses reveal that this area is highly sought for because of the never-ending customer flow which is influenced by the nearby large shopping centres, public transport stations and connections, offices, business’ headquarters, state services and other institutions within the HBD.

Evidence from primary research additionally suggests that location is the most important factor to succeed in HBD and therefore RE effect does matter. That is further supported by findings from secondary research on failure factors and by determinants of mortality as studied by H. G. Parsa et al (2011) and A. A. Camillo et al (2008). Nonetheless, restaurant’s management is still the most important success determinant when it comes to survivability since strategic choices which include location, marketing, resources and capabilities and owner-manager traits are all dependent on the company’s decision maker. The intensity of competitive factors such as restaurant density and competition are somewhat a result of restaurant decision maker’s choices when it comes to picking a location and strategic tactics to tackle the fierce competition in HBD as found through Porter’s Five Forces of Threat framework. These determinants are intensified with the level of decision maker’s destructive emotional factors. Then again, incentives for going multi-unit or franchise would be for brand and reputation growing purposes, not RE differentiation. The concerns are more about having one’s name seen in multiple places within this dense food business market.

Furthermore, the interviews revealed that the budget and cost structure as such is very important, however the property rents as a percentage of costs are considered important per restaurant owner individually. That again could be contributed to previously
mentioned importance of matching business concept with most suitable premises, since in accordance with both, primary and secondary findings, a poorly chosen concept can ruin cost structure and cause the real estate fixed cost seem astronomic. Then again if the concept would have been better matched, the same cost could have been manageable.

Experience plays an important role which then determines the likelihood of survivability. Primary research suggests that it is relatively easy and quick to obtain a rental agreement in HBD and negotiate the terms in agreement if an applicant has experience in the field of operations. The same applies in obtaining funding from financial institutions on account of the high mortality rate in industry. Therefore, the fierce competition in influx of new entrants is irrelevant in the face of experience and successful track record.

According to secondary research, new development projects of shopping centres have surged in last few years KTI (2017) which means that there already are and will be completed soon modern shopping premises with everything a customer might need, all without the struggle of parking spaces and Helsinki city center traffic. This could potentially draw away that part of customer flow which use personal vehicles for transportation, particularly in poor weather conditions and decrease the already low margins for restaurant businesses. However, according to primary research findings, the respondents have a confidence in the HBD area to always provide with the necessary customer flow excluding the “bad for business” weather days. The confidence remains regardless of the rising online shopping trend which would result in less physical shopping and therefore wandering in these restaurants and additionally regardless of an economic downturn scenario. Social media strategies are being used, however their contribution to sales is difficult to relate for lack of measurability. Moreover, findings suggest that the attractiveness is rather low for renting business premises in shopping centres, claiming that these are more expensive and accompanied with more rules to comply with. However, according to one respondent, renting premises in a shopping centre could be considered for a different type of restaurant concept since shopping centres always provide with a consumer flow.

All things considered, it could be that the confidence in survivability regardless the high and continuously rising RE costs, first, stems from having an experience in the field, awareness of success factors and good observations and avoiding of failed competi-
tors’ mistakes, and second, from inexperience and survivorship bias. Findings suggest that location has a severe importance and impact on restaurant/food businesses’ survivability. However, commercial RE market as such does not have a serious effect on single location food businesses in HBD apart on inexperienced new entrants. Otherwise, the experienced restaurateurs are forced or glad to take the offered premises at any set price and give their best shot at building and running a successful business.

5 Conclusion

The goal of this research was to acquire a deeper understanding of commercial RE market effect on independent food/restaurant businesses in HBD because of the industry’s secrecy revolving around RE for food businesses. Restaurant industry as such is highly competitive and has one of the highest failure rates among new businesses. Running a restaurant/food business has extremely high costs in particular, in Helsinki center area for it is a prime property and is sought after at most times. Regardless aforesaid market environment, the amount of newcomers is not decreasing mainly because of survivorship bias (Kaiser 2011), since the failed restaurants are rarely seen leaving the market while new restaurant openings are highly advertised. After conducting review of restaurant success determinants and failure factors, it was found that location and business premises is one of the influential factors. Additionally, findings from primary research suggest that location as a determinant of success is the most important when it comes to a restaurant success in HBD. It is the most expensive area from a food business perspective, however that is the price to pay for having a location in the busiest streets of Helsinki. Both secondary and primary research show that although commercial RE market situation does not directly affect the independent food businesses in HBD, however location, RE prices, and rented premises match with business concept do have a severe effect.

Primary research was conducted in a form of interviews where two independent restaurant owners were interviewed in order to answer the research question. The process of finding the potential interviewees presented some limitations since most entrepreneurs are busy or generally not interested to participate, therefore only two interviews were conducted. Another limitation was the type of questions which could be asked without making the interviewee feel that the researcher was trying to find out the secret business details. Some interview questions could have been answered more in-depth since
the researcher was expecting more information to fill the gaps, however interviewees felt reluctant to give away more. The interview responses acknowledge the majority findings from literature review such as attractiveness of HBD, reasons for high and continuously rising prices and determinants of success and failure within this area. HBD will always be attractive to newcomers in restaurant/food business industry regardless of high fixed costs and low margins as long as the area provides a solid customer flow.

More in-depth research is needed, and a larger number of in-depth interviews conducted. Additionally, professionals from financial institutions could be interviewed in order to gain market knowledge from lenders’ perspective. There are extensive reliable and independent RE market databases such as KTI which could provide with more specific and narrowed data. In further research, HBD market could be compared to Business District of Stockholm or alternatively to all of the Nordic countries’ capital cities.
References


National Accounts Finland: Industries’ value added as a proportion of gross value added, % (Statistics Finland, 2017)

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**Owner-manager traits**

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Interview questions and responses for Restaurant X

1. *In your opinion, what are the key success factors for restaurants in Helsinki center area?*

Location, Location, Location. But also having a good business plan and having a good budget. Basically, everything related to costs such as how much the rent, how much staff etc.

2. *How important is rent as a percentage of costs?*

It is very important, you don’t want to be paying too much rent because at the end of the day that is money that can be used for more staff. The more staff you can afford to employ the more sales, theoretically, you should do because you have more people to sell. But in Helsinki the rents are quite expensive but for the moment still manageable.

3. *When you were looking for potential premises for your business, why the center of Helsinki? Did you consider other areas?*

In the center of Helsinki, we were looking in particular for this brand because of the amount of people we could attract. Basically, our main branding product is really growing now so everything has been right here in Helsinki and that’s where the competitors are, and we want to be right where they are also.

4. *Was building characteristics important?*

Yes, it was. It had to be a certain size such as 80 seat capacity which is what this place has. Therefore, not too big, not too small and the rent and mainly the location. And, of course, we would look at the building also, it is important.

5. *Was competition fierce for your chosen premises and how many places you were trying to get before winning this place? How long time was the search process until signing the contract?*

We looked at one other place in the west side of the center for this brand, but we thought that it is a bit too far from the very center where are most public transports and people traffic. After six months or so of semi-active looking, we heard that this place was going to be for sale and we negotiated the price. Then it didn’t take more than six weeks to get everything done. They want to sell, and we want to buy and since we have an experience in the field, then everything happened quite quickly.

6. *What were the main difficulties to negotiate rent agreement?*

To be honest, it was not very difficult because we have had restaurants before. Basically, just going through what should be in the rental agreement and what shouldn’t be, it was okay. In case of little experience, one should hire someone to look it through because mainly if the people who rent out the premises are private then they do not want to take on a responsibility for everything. The responsibility is always on the person who is renting, therefore important to make sure of everything.
7. What do you think of the new development projects (new shopping centers) impact on your business continuing operations?

I don’t think that this would lessen the customer base. Center is pretty safe area and our premises has quite good connections in terms of metro, tram and busses. For the car parking it is not so great, but we don’t want our customers to drink and drive, we prefer them coming with a public transport. The shopping centers are shopping centres, it is franchises, maybe bigger brands and it is not really for us.

8. Would you move the business in shopping center if you had been given an offer?

Not this specific brand but possibly we could come up with something else. Sure, why not. There are always people in shopping centres but they are also quite renowned for being expensive in regards to rent.

9. Which types of weather has a negative impact on your sales?

To be honest, the better the weather the worse it is for us because people then go off to their summer cabins or the parks etc. and they don’t really want to spend time indoors. I would say that sunny, hot summer weather is the worst. In the winter e.g. extra cold or snow storms doesn’t matter, people come.

10. How positively do you view being part of a chain/franchise or have a multi-unit business?

I don’t have one, so it is hard to answer. We have two restaurants each being a separate company, therefore it is not a chain or a franchise. However, I think that getting the name out there is a positive thing. You get many different locations in different places and try to build up the reputation in that way.

11. Would you open more units in future? Which locations would you prefer?

Sure, for this brand we have thought of moving intercity, e.g. Tampere, Tallinn, Stockholm but it is all about the time and money, getting all the people to make it happen. It is not always so easy. However, growth is good for this type of business.

12. Have you put efforts in social media marketing? How that has impacted your business?

Yes, we do use but you cannot really see it still how many people come just because of those. We have some campaigns nowadays running all the time, therefore it is quite difficult to see.

13. In your opinion, if people would choose more online shopping versus physical shopping, would that impact your business operations? In what way?

No. They could order more online, buy their food online or take away but it doesn’t really affect. Again, it is the center area which provides the safety of people always coming
14. How likely your business would survive an economic downturn if it was as close as the one in 2008?

I would say pretty well. We have a lot of customers which use their own money. 2008 was a lot to do with businesses. A lot of businesses stopped using anything such as having dinners and that kind of things, which really affected. I know because I used to work in a company that lost a lot of its business during 2008 and 2009 and it wasn't really very nice time. However, in that regard we are only starting to climb so I don't see that there would be an economic downturn coming now but still, I think we would be okay.

15. In your opinion, why other restaurant businesses in Helsinki center have failed?

Bad management. That is basically all it is down to. Everything that has to do with cost structure. E.g. wrong budget, wrong business idea, wrong people working for you and not being experienced enough. You really need to know what you are doing, restaurant game unfortunately isn't easy and you have got to be 24/7 awake and active to know what is going on.
Interview questions and responses for Restaurant Y

1. **In your opinion, what are the key success factors for restaurants in Helsinki center area?**

I think that success factors for the restaurants haven’t changed in many years. Still have to figure out a good business concept with right place, design, style, menu, personnel and so on. But about Helsinki area, when we were launching our restaurant, first we were trying to create a good concept for the center which I think is the key success factor, and then of course we were choosing the right place for the restaurant that would be suitable for the idea.

2. **How important is rent as a percentage of costs?**

The rental expenses are about 10% per month because we could get a decent contract with owners. So, while it is important as a cost in general, for us it is not too high to be a serious worry.

3. **When you were looking for potential premises for your business, why the centre of Helsinki? Did you consider other areas?**

We chose Helsinki center because there are always people around. The place was important too because of nearby shopping malls and state buildings so we get different types of customers. Some nearby streets give historical look which attracts also tourists so other areas were not an option.

4. **Was building characteristics important?**

We believe that quality and concept of the restaurant is much more important than location and that well designed restaurant will attract clients to anywhere. So, we were not very picky about location and building characteristics, but at the same time we wanted to be in a convenient location for our customers.

5. **Was competition fierce for your chosen premises and how many places you were trying to get before winning this place? How long time was the search process until signing the contract?**

Well I can say we were very lucky in these terms as it was our first search for the location and we got this place without looking elsewhere for other options. But I know from some of my friends who have had struggle when looking for a place. They saw several locations before winning a good contract.

6. **What were the main difficulties to negotiate rent agreement?**

As we introduced our concept and with my experience, the landlord was supportive and as I said before it wasn’t really hard to get this place. We’ve been working a lot on our concept, pushing on sustainability and that “green” trend.
7. **What do you think of the new development projects (new shopping centers) impact on your business continuing operations?**

Well I think for our location it is not so impactful because we have our own customer base and because we are in center, we get random walk-in customers. Also, we are working towards loyalty programs. But I think we can get some ideas for ourselves from businesses that will be operating in the new shopping centers. Helsinki center is more competitive than it used to be but we will work hard to keep our market share and we strongly believe in our product and team.

8. **Would you move the business in shopping center if you had been given an offer?**

We are already doing good in these premises and majority of our client base knows us by this location. The change of location would be a very important step for us and we don’t want to lose our place here and probably will not take an offer if it was given. We are building a brand here and want to connect our brand’s history with one place.

9. **Which types of weather has a negative impact on your sales?**

Mostly rainy days are the worst on our sales as there are less people who want to come all the way to this place. But we are saved by our low costs, especially the employee costs.

10. **How positively do you view being part of a chain/franchise or have a multi-unit business?**

I think chain businesses have no original ideas or creativity because you are locked in the frames of head company and it does not allow you to be different from others. But a good thing is that being part of a chain comes with a ready customer base because of the branding and also the proper management tools. But I rather have the freedom to create and adopt to anything.

11. **Would you open more units in future? Which locations would you prefer?**

Not at the moment, no. But anything can happen, and then we can change our mind.

12. **Have you put efforts in social media marketing? How that has impacted your business?**

Yes, we put lots of effort in social media. I mean, people are in their phones almost all the time. We have to be visible. But it has been difficult to tell which campaigns have brought in more clients or even how many. Maybe if we have a larger budget later, we will hire somebody to do only social media for some time. Just to test where we can go with this. It has been an idea for some time.
13. In your opinion, if people would choose more online shopping versus physical shopping, would that impact your business operations? In what way?

Food is food. I think people will be always interested in physical buying when it comes to food. The restaurant experience is still important and probably will be. You know how they say… “restaurant is more than just a food.” We offer the feeling, culture, the atmosphere. Enough people still will want to spend time out. We are not much worried about it.

14. How likely your business would survive an economic downturn if it was as close as the one in 2008?

As I said earlier we have very low expenses to support our business and we also don’t need much staff. And if it will be needed then we can try to lower prices on menu to attract those who are still spending money on eating out.

15. In your opinion, why other restaurant businesses in Helsinki center have failed?

Well it could be anything. But in my opinion, some owners underestimate the necessary knowledge and experience to run a restaurant. Also, if restaurant concept is not working well for the size of rented space then all costs rise too high and then one thing leads to another.