

The Peter Principle of management - by Dennis Serpone

June 27, 2025 - Spotlights



Dennis Serpone

Managing a restaurant is no different than managing a manufacturing business. For the most part whether you're taking integrated circuits and assembling a computer or putting cold cuts into a sandwich, the general process is the same...assembly.

That being said, profitability or the lack of profit is tied directly to the quality of management. There is a theory called the Peter Principle which applies both to general industry and the food service industry...everyone rises to their level of incompetence. The Peter Principle is therefore expressed as: "In a hierarchy, every employee tends to rise to his level of incompetence." This leads to Peter's corollary: "In time, every post tends to be occupied by an employee who is incompetent to carry out

its duties.”

You will be promoted to higher and higher levels based on satisfactory performance. However career advancement ends at that point where you're no longer suitable for advancement.

In the food industry, a dishwasher may be given the opportunity to make pizzas, then given the proper circumstances, given the opportunity to be trained to be a cook. If the opportunity arises this person could be considered to be kitchen manager...but is passed over for a new hire who has more experience and may be more proficient at organizing and may have a more congenial personality.

Prior to building and operating a chain of restaurants, I studied 'management' in college. My success in business was a direct reflection of my 'management' education.

I see it so often in the appraisal or sale of restaurants where a successful restaurant doing \$80,000 per week is sold. Three years later the owner wants to sell but is only doing \$30,000 per week. The location hasn't changed, the facility hasn't changed but the menu has been modified, the advertising has been cut back, and the staff hasn't been trained to be attentive and personable with the customers. Most notably the uniforms are not uniform.

Management has to be taught, then practiced...practice makes perfect.

In some circles, the manager is the 'adult' teaching the children correctly. Not praising them when they do something wrong, but praising them when they do something right. The hardest part of a business appraisal is determining what part of the value can be attributed to management.

In selling the landmark Hilltop restaurant, I met and interviewed six of the owner's managers. The owner was present almost every day to ensure his managers did their jobs...the owner/manager has managers who manage his business.

We recently sold a \$100,000 per week fast food business where the owner netted over a million dollars in profit every year...he was on site every day managing his managers.

One's ability to manage is as important as having a good location.

The restaurant industry is projected to reach \$1.5 trillion in sales in 2025, with an expected workforce of 15.9 million. While operators are cautiously optimistic, challenges like rising labor and food costs, as well as competition, persist. Consumer demand remains strong, with many diners expressing a desire to dine out more if they had the means. The National Restaurant News indicates that the restaurant workforce is projected to grow by 200,000 jobs, reaching 15.9 million by the end of 2025. However, despite growth, the industry is highly competitive, with operators anticipating increased pressure to attract customers. Consumers are more value-conscious, and restaurants are adapting by offering more deals, discounts, and value promotions, according to the National Restaurant Association.

Rising labor costs and inflation remain major concerns, with operators seeking ways to manage expenses through productivity improvements, retention efforts, and technology adoption.

Attracting and retaining qualified employees remains a top priority.

More so today, than yesterday, the industry is becoming increasingly competitive, requiring restaurants to differentiate themselves. Coming up with a 'competitive advantage' has become crucial to offsetting other challenges.

After 45 years of analyzing the strengths and weaknesses of food and beverage businesses, we've found that location, competent management, accessibility, and that competitive advantage are the foundation for financial success in the hospitality industry.

The restaurant industry in 2025 is poised for growth, but it will be crucial for operators to navigate a complex landscape of rising costs, intense competition, and evolving consumer preferences. Focusing on value, enhancing the dining experience, and leveraging technology will be key to success.

The National Restaurant Exchange, with its 20 restaurant specialist and liberal financing resources, has in the last 45 years help both buyers and sellers, reach their goals of financial success.

Dennis Serpone is the founder of The National Restaurant Exchange, Wakefield, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540