BIELAT SANTORE & COMPANY

A PROFESSIONAL REAL ESTATE ORGANIZATION

RESTAURANT TIP OF THE MONTH

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BIELAT SANTORE & COMPANY

A PROFESSIONAL REAL ESTATE ORGANIZATION

Bielat Santore & Company is an established commercial real estate firm. The company's expertise lies chiefly within the restaurant and hospitality industry, specializing in the sale of restaurants and other food and beverage real estate and businesses. Since 1978, the principals of Bielat Santore & Company, Barry Bielat and Richard Santore, have sold more restaurants and similar type properties in New Jersey than any other real estate company. Furthermore, the firm has secured in excess of $500,000,000 in financing to facilitate these transactions.

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Restaurant Tips

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***Bielat Santore & Company's "Restaurant Tip of the Month"** is a monthly series providing restauranteurs and those who may wish to start a career as a restauranteur with professional tips and guidelines on operating a successful business. Showcased on the company's YouTube channel and Bielat Santore & Company's blog, the program provides guidance on everything from finding and financing a restaurant to operating, staffing, maintaining and promoting a successful business.*

Restaurant Tip #1: Choosing the Right Location

Our philosophy at Bielat Santore & Company for the independent is to penetrate the downtown centers of cities and townships where impending growth is evident. There are really two reasons for this approach. The first, already mentioned above, is that national chain restaurants have taken over the highways, but have little or no presence in the downtown marketplaces.

The second, which may be more important, is that future growth in the northeast will take place predominantly through "urban renewal," the revitalization of older cities and neighborhoods. There is very little open land having the right attributes for new development, including water and sewer. Developers are moving into the downtown neighborhoods to redevelop what is already there and in need of rejuvenation.

So if you are looking to buy or to lease, it may "B" that a block or two off the hottest highways, within the bustling downtown areas may be your best option. Granted you have to do your homework. The things you should look for are: (i) does the city have plans to revitalize the area? (ii) is anything planned for the future that could affect your business, such as additional buildings nearby or road construction? (iii) are there any tax breaks that would be available if you put money into the area? (iv) is crime under control? (v) where is your trade coming from (i.e. local business, professional offices, residential)? (vi) how easy will it be for customers to get to your business? If you are relying on strong pedestrian traffic, consider whether or not nearby businesses will generate foot traffic for you. (vii) does the site provide convenient, adequate parking as well as easy access for customers? (viii) find out the recent history of each site under consideration before you make a final selection. Who were the previous tenants, and why are they no longer there?

Restaurant Tip #1: Choosing the Right Location (continued)

(ix) what is the public perception of the area?

Although relocating may be the right move, it will not ensure success. Opening a restaurant is like opening a Broadway play. It better be good every time the curtain goes up! You are going to have to have your concept refined, your operation fine-tuned and you are going to have to be special. You will have to be that destination restaurant for a while until the public realizes that yours is the place to "B."

Restaurant Tip #2: Developing a Business Plan

<u>What should a business plan include?</u>

A business plan should prove that your business will generate enough revenue to pay all of your expenses, including debt service and make a satisfactory return. Most funding sources are looking at a minimum debt coverage ratio ("DCR") of 1.2/1 (we will explain more about DCR in our next tip, "Financing Your Restaurant." A good business plan should include:

1) Executive Summary - Characterize the highlights of your plan and sell your concept in two pages or less.

2) Company Summary - Provide a factual description of your company, ownership hierarchy chart, and brief history.

3) Concept Statement - Describe your concept, products (including menu) and/or services and how they stand out from your competition. Include photographs and/or renderings that can help paint a picture (a picture tells a thousand words).

4) Implementation - Illustrate how you will implement your concept, how you will put your plan into action, and establish goals and milestones.

5) Management - Present background on yourself, your management team, your key employees, their experiences, and notable accomplishments.

6) Market Analysis - Include area demographics with a summary of your typical customers, competitive landscape, market size, and expected market growth.

7) Financial Proformas - Model your business financially to show year 1 income & expense forecasts, a 12-month operating plan and cash flow analysis, multi-year projections and a break even evaluation.

Restaurant Tip #2: Developing a Business Plan (continued)

Finally, your business plan must be well thought out, written clearly and concisely, with a clear, logical structure, illustrating management's ability to make the business successful and profitable.

How do you write a business plan?

A good business planning software package will provide you with an outline for a well-developed, objective-based and professional business plan. Software packages will remove the problem of starting from scratch by structuring your plan for you. The software should ask you the right questions that will pull out the most important underlying concepts within your business idea. However, producing a professional product that is tailored specifically to your business and has all of the specific components your intended audience is looking for, usually does not come out of a generic software package.

Hire a Professional

A professional consultant may be the right way to go. He/she will create the business plan that is specifically tailored for your business and specifically targeted at your intended audience. However, you still have to be prepared to think through your business and understand the underlying. You will have to work closely with the consultant to ensure that he or she develops a good plan that accurately represents your business idea. One such firm with a great deal of experience in creating business plans within the hospitality industry is Equity Enterprises, Inc., Allenhurst, New Jersey (732) 988.2722.

Restaurant Tip #3: Financing Your Restaurant

<u>What should a financing requisition presentation include?</u>

A lot of the work has already been completed when you assembled your business plan in last month's Step #2, "Developing a Business Plan." There you should have compiled: Executive Summary, Company Summary, Concept Statement, Implementation, Management, Market Analysis, Financial Profmoras.

Now time to add:

1) Contract of Sale
2) Personal Information
    a. Resume, credit release authorization, financial statement, and three years' tax returns
3) Business information (if you are purchasing a business)
    a. Three years' tax returns, current profit and loss statement
4) Property Appraisal (if you are purchasing real estate)
5) Lease Agreement (if you are leasing space)
6) Demographics between a 3-5-10 mile radius of the subject business

What are your funding sources?

1) Personal Resources
    a. Savings, IRA accounts, credit cards, home mortgages, and personal assets, family or friends
        i. If you are borrowing funds from friends and relatives be careful to arrange the loan in a business-like manner. Draw up papers stating the loan repayment schedule and interest to be charged
    b. Real Estate assets; you may have enough equity in your home and/or other properties to finance your business

Restaurant Tip #3: Financing Your Restaurant (continued)

c. Life Insurance; you may carry a life insurance policy that has a loan value. You can borrow on the cash value at a low interest rate

2) Private Investors

a. Also known as "angel investors," are investors who provide financial backing for small startups or entrepreneurs

i. Angel investors are usually found among an entrepreneurs family and friends. The capital they provide can be a one-time injection of seed money or ongoing support to carry the company through difficult times

3) Banks

a. Commercial Banks will lend money to purchase a business, generally when there is real estate involved as part of the purchase.

i. This source of financing is still difficult when purchasing a restaurant

b. A Small Business Association ("SBA") guaranteed loan is the most common form of financing for a restaurant business with or without real estate.

i. SBA-guaranteed loans are made by a private lender (bank) and guaranteed up to 75 percent by the SBA, which helps reduce the lender's risks and helps the lender provide financing that's otherwise unavailable at reasonable terms

4) SBA Guaranteed Loans

a. There are three most common types of SBA guaranteed loans

i. 7(a) Guaranteed Loan Program

- The SBA's primary business loan program is the 7(a) General Business Loan Guaranty Program. It's generally used for business purchases (with or without real estate), start-ups, and to meet various short and long-term needs of existing businesses, such as equipment purchase, working capital, leasehold improvements, inventory, or real estate purchase. The maximum amount of an SBA guaranteed is $5,000,000.

ii. 504 Local Development Company Program

- The 504 Loan Program provides long-term, fixed-rate financing to small businesses to acquire real estate, machinery, or equipment. The loans are administered by Certified Development Companies (CDCs) through commercial lending institutions. 504 loans are typically financed 50 percent by the bank, 40 percent by the CDC, and 10 percent by the owner.

iii. The Express Loan Program

Restaurant Tip #3: Financing Your Restaurant (continued)

- The SBA's Microloan Program offers anywhere from a few hundred dollars to $150,000 for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery, and/or equipment to businesses that cannot apply to traditional lenders because the amount they need is too small. Proceeds may not be used to pay existing debts or to purchase real estate.

5) Line of Credit

a. An arrangement between a financial institution, usually a bank, and a customer that establishes a maximum loan balance that the bank will permit the borrower to maintain. The borrower can draw down on the line of credit at any time, as long as he or she cannot exceed the maximum set in the agreement.

i. This type of funding is typically available only to established businesses with good credit and banking relationships.

6) Merchant Cash Advance

a. Business cash advances, also called merchant cash advances and account receivables factoring, give businesses money in return for a cut of future credit card sale

i. Merchant cash advance companies stress that this is not a loan because the client "purchases" the money with a business asset

ii. Once again, this type of funding is typically available only to established businesses

What are funding sources looking for?

Whether you are purchasing an existing business, an existing business and real estate, or looking for financing to start a new business, funding sources habitually want to see:

1)A borrower with good credit

a. 720 or above

2) A borrower with experience

a. Very few funding sources will lend to a borrower without experience in the industry. The more experience you have in the field

3) Adequate Collateral

a. Usually when real estate is involved, funding sources will look at the amount of the requested funding in relationship to the value of the real estate collateral ("Loan to Value or LTV")

i. Normally lenders are comfortable with a LTV of between 70 and 80%

ii. Outside collateral can also be used to help secure a loan

Restaurant Tip #3: Financing Your Restaurant (continued)

4) Adequate debt coverage ratio

a. Most funding sources are looking at a minimum debt coverage ratio (DCR) of 1.2/1

i. For example, if your annual mortgage and/or note payments are $100,000 funding sources will generally want to see that you have a minimum of $120,000 in available annual cash flow, after paying all costs and expenses to satisfy the debt

Hire a Professional

A professional consultant may be the right way to go. He/she will create the business plan that is specifically tailored for your business and specifically targeted at your intended audience. However, you still have to be prepared to think through your business and understand the underlying. You will have to work closely with the consultant to ensure that he or she develops a good plan that accurately represents your business idea. One such firm with a great deal of experience in creating business plans within the hospitality industry is **Equity Enterprises, Inc**., Allenhurst, New Jersey (732) 988.2722.

Restaurant Tip #4: Restaurant Design & Layout

<u>Below is a list of items to consider when designing your restaurant.</u>

Costs: It's tempting to cut corners when designing the layout of a restaurant. But doing so can lead to long-term problems and unnecessary renovations. As with any investment, it's important to consider a long-term business plan when deciding where and how to spend money during the design process.

Space: The amount of space in the building is usually a product of the location and property selected. Ample space has to be given to the kitchen for food storage and equipment. A small area for staff and a manager's office should be factored in. Otherwise, revenue-generating areas must be maximized. This includes the dining area, bar, and hostess stand, all of which should be large enough to accomplish the goals of the business.

Entrance: The entrance is the first and last impression your business makes. It has to be inviting, and it has to capture the essence of your restaurant. It should be big enough for guests to gather if there's a wait, but not so big that it takes space away from the dining room and bar.

A good entrance contributes to the natural flow of a restaurant's layout. It sends guests on their way to a revenue-generating destination. It provides a platform for the buzz of the building. Something positive should be happening inside your building; whether it's great food, a crowded bar, or a banquet event. This should be visible from the entrance, and convince guests to enter.

Dining Room: When designing dining room layout, a few questions stand out. Tables or booths? Open or tightly packed spaces? Dark or bright colors? Modern or classic fixtures? The answer to these questions comes with the clientele your business covets.

Restaurant Tip #4: Restaurant Design & Layout (continued)

The important point is that finding a middle ground with any of these questions usually makes a dining room attractive to all customers. A dining room should have a natural flow, from the lobby to the bar to the dining room to the kitchen. Enclosed spaces and partitions generate opportunities for large parties and banquets. In many cases, a healthy combination of booths, tables, large tables and private spaces give the best chance to maximize revenue.

Bar: The bar has to fit into the concept of the restaurant. At the same time, it should stand alone as a comfortable destination for any dining experience your restaurant offers. A great bar space does both, while being visually inviting and highlighting the products the bar hopes to sell. More and more customers are choosing to dine at the bar, so oval bars where patrons can see and converse across the bar are most popular. The installation of flat screen TV's are contingent on the concept and customer base you are looking to attract.

Kitchen: The kitchen has to have adequate space for all of the necessary equipment, plus ample room for employees to work. Necessary equipment can include ovens, stoves, broilers, fryers, a dish machine, triple sinks, and plenty of shelf space.

A prep area and industrial sinks usually accompany dry storage space. The kitchen should be just large enough to accomplish the goals of the restaurant. Employees should be able to move comfortably and safely in a fast-paced, high-stress environment.

Food storage area: There must be plenty of room for food storage. This includes a walk-in refrigerator, a walk-in freezer and a dry storage area with plenty of shelf space. A new, roomy walk-in refrigerator is a wise investment for a new restaurant, since refrigeration failures are common and can lead to serious losses. Storage space should be in a corner or far wall of a kitchen, and preferably near the manager's office. This way, it will be more secure and less prone to theft.

Restrooms: The restrooms are the most underrated aspect of the design and layout of the building. Most guests who dine in a restaurant will visit the restroom during their stay. The restroom has to have fixtures that contribute to the sense of cleanliness. It should be large enough to accommodate multiple guests without taking room away from the dining room.

Office: The manager's office should be as small as possible, while still allowing business to be properly conducted. It should be in a secure location of the building, far from the dining room, employee area, and buzz of the kitchen.

Restaurant Tip #4: Restaurant Design & Layout (continued)

Employee Area: There must be space for employees to congregate, store personal belongings and hang coats. There must also be room for important information to be communicated, such as work schedules, managerial notices. The best opportunity to create this space is usually in or next to the kitchen area.

(Source: all foodbusiness.com)

Restaurant Tip #5: Menu & Pricing

The food cost a restaurant maintains depends on the type of restaurant. One major, well-known sandwich/bread-style national chain maintains a food cost of around 26%. Another, well-known national steakhouse chain keeps its food cost at around 35%. Of course, for national corporations healthy cost goes hand-in-hand with the power of bulk purchasing to reduce costs. However, you get the point. Industry standard food costs range between 30-40% depending on the type of operation,

the competitive buying practices of the kitchen manager and/or chef and the continual oversight by the presence of an on-site owner.

Remember, your menu prices have to make your food cost goals reasonable.

Include Everything

When creating your menu's prices, be sure to cost out the entire entrée. Every sauce, ingredient and garnish should be included when determining the total cost of a menu. Many operators like to use a plate-and-table wraparound cost that covers the average sum of ingredients that aren't essential to the recipe but which are used nonetheless. A wraparound cost would include items like bread, butter, salt and pepper. This should be part of the cost of your entrée, and is a factor in determining their total cost. However, it's more accurate to take the time to price out each specific ingredient on a spreadsheet and add it all up.

Vary Your Price Points

You have a concept, and your price points are a central part of that concept. That's good. But are your price points the same as those of the restaurant across the street? You don't have to have price points that are different from everyone else's. But price points that are different from those of other restaurants make it easier to create your niche within the marketplace. Don't be afraid to actively compare your menu prices to those of the competition.

Restaurant Tip #5: Menu & Pricing (continued)

The best price points either represent a unique level of quality that is worthy of the expense or demonstrate significant value to your customers. For most customers, your menu prices are essential to your business's identity, and are the first thing they notice about your menu. Reaching something few or no other restaurants are reaching for gives you an instant identity. However, you don't want that identity to be "overpriced".

Be Willing to Adjust on the Fly

Obviously, your menu prices will reflect changes in cost from the vendors that supply you. We've all seen how this will trend upward over time. However, a willingness to adjust your price points is sometimes necessary to meet your clientele base in the middle. Many great restaurants have lowered prices in response to dwindling revenue, the flagging economy, or the opportunity to grow. Restaurants that can maintain high quality while publicly adjusting prices downward or offering discounted items can make a strong push to demonstrate value.

Your Concept Creates Your Price Points

So, you have a concept and you have established your price points. In most cases, these are essential steps in executing your vision as a restaurant operator.

They're part of the dream of owning and running a business, and so they are part of your identity. It can be difficult to adjust your identity, especially if you are stubborn, as many restaurant operators tend to be. But most of us are more loyal to success than we are a restaurant concept. Don't let an unwillingness to adjust prices to meet guests be all that stands between you and success.

Software

Here is some software that you may wish to check out:

Chef Tec Software: Designed by an executive chef and a staff of programmers for food-service professionals. Chef Tec lets you customize management reports and print out recipes, organize monthly inventory procedures, generate ordering lists and maintain your par levels. You can instantly analyze recipe and menu costs by portion or yield, update prices and change ingredients in every recipe.

PC-FOOD II: A food costing, inventory and margin management system for use in restaurant, catering and all food service operations. Calculate and maintain food cost and required selling prices based on desired margin. Edit portion sizes and ingredient costs to see the effect on costs and margins. User selectable sorted displays and reports. Unlimited departments, export ingredients to file, up to 30 ingredients per recipe, up to 30 ingredients and/or recipes per menu item.

Restaurant Tip #5: Menu & Pricing (continued)

Three levels of recipes (recipes may use other recipes). Also calculates total revenue, food cost and gross profit for a banquet, etc. Available option to change currency symbol. PC-FOOD II also maintains inventory quantity and value. Input your ending balances in the purchase unit and/or pack unit (i.e. 2 cases + 3 #10 cans). PC-FOOD II then calculates the ending value at the latest cost. Inexpensive - $49.00.

CostGuard: A tremendous inventory, recipe, menu, food costing and pricing tool. Software for food service operations: restaurants, hotels, institutions, corporate, B&I, clubs, caterers, retail, and educators.

For more Software Programs click http://www.allfoodbusiness.com/culinary_software.php

(Source: all foodbusiness.com)

Restaurant Tip #6: Employee Manual

There are several reasons why creating an employee manual is critical to your restaurant's success. This document is home to your specific restaurant policies, local and federal laws, employment standards and working procedures for all areas of the restaurant.

<u>Enhance Professionalism</u>

The employee handbook shows your staff that you are serious about your restaurant, and more importantly, their performance. You have taken time to create it and your staff needs to take serious time to read and understand it.

Answer Employee Questions Before They Ask

Many employees want to know what they need to do and how to do it. A good employee handbook will cover this, so you will spend less time answering the same questions over and over.

Improve Employee Confidence

Restaurant employees do better work when they are confident of their job requirements and the specific procedures. This translates to better customer service as well.

Elevate Level of Consistency

When you have the policies written out, you can consistently train every employee. Conversely, if you need to take disciplinary action with someone, the employee handbook gives you written documentation of procedures in case of any messy legal action

Writing the Employee Handbook

Here are a few tips for writing the employee handbook that will make it as useful as possible for your restaurant staff:

Restaurant Tip #6: Employee Manual (continued)

1) Write Multilingual Handbooks
If necessary, make up employee handbooks in different languages to accommodate any non-native English speakers on your restaurant staff.

2) Write So Employees Can Understand
No need to write the employee handbook in unfamiliar jargon or legal terms. Write simply and clearly so any of your employees can understand it. After all, they are your main audience.

3) Produce Specialized Handbooks
Depending on your restaurant, you may find that handbooks for every type of employee make the most sense. In full service establishments, job descriptions can be very different and may require separate policies and procedures. Limited or quick service restaurants often function just fine with one universal employee handbook.

4) Add Information As Needed
New situations come up, and you may need to make additions to your handbook in order to cover procedures that you feel are important enough to be in the handbook.

To avoid publishing new handbooks every time this happens, print off the new procedures and hand out copies with the next round of employee paychecks.

Essential Components of an Employee Handbook

All employee handbooks will look slightly different due to variances in concept, layout, service type, location, hours and specific policies enforced by the owner or manager. Despite differences in content, the following components are important in any restaurant employee handbook.

1) Disclaimer and Acknowledgement

The disclaimer and acknowledgement section of your restaurant's employee handbook establishes that employees have read and understand the policies, procedures, expectations and benefits outlined in the handbook. It also asserts that the handbook does not act as an employment contract. This is especially important for states with "at-will" employment laws, which are laws delineating that an employment relationship can be terminated at any time, by the employer or employee, without cause or liability.

2) Employment Policies

A section on hiring policies helps outline any state laws that apply to interviewing, hiring and otherwise bringing people to work in the restaurant. An employee handbook needs to cover any applicable state or federal employment law, including the commitment to Equal Opportunity Employment.

Restaurant Tip #6: Employee Manual (continued)

Handbooks may also include information on the following:

- Recruiting
- Interviewing
- Applications
- Background checking
- Find and hire the right people
- Termination

3) Work Hours and Payroll

In this section, discuss any labor laws that were not covered in the previous section, and to outline the expectations and procedures for employees while on the job. Include the following concepts, tailored to your restaurant:

- Labor laws
- Payroll
- Scheduling
- Breaks
- Tip reporting
- Workers' compensation

4) Benefits

Employees want to know what benefits they are entitled to while employed at your restaurant. Make sure they are aware of any of the following benefits your restaurant offers:

- Employee meals
- Time off
- Holidays
- Sick Days
- Vacation Time
- Overtime
- Bereavement
- Maternity Leave
- Jury Duty
- Insurance and 401K

5) Appearance Standards

Be sure to identify the proper uniform and appearance standards for every job position in your restaurant. This includes the following:

- Shoes
- Uniforms
- Hair
- Facial hair

Restaurant Tip #6: Employee Manual (continued)

- Nails
- Jewelry
- Tattoos
- Piercings

6) Behavior Expectations and Policies
It is essential that a restaurant handbook define acceptable and inappropriate behaviors in the restaurant. When employees know their expectations and their limits, there will be fewer problems in the workplace. » More on Employee Discipline and Reward Systems

- Teamwork
- Customer service
- Evaluations
- Rewards and discipline
- Conflict resolution

7) Cash Handling Policies and Procedures
Many restaurant employees will be handling cash while at work, either as a server, bartender or cashier.

Having cash handling policies in place will help instruct employees on the proper way to handle money to minimize loss and maximize security and accuracy. » More on Cash Handling Practices for Restaurants

8) Operating Procedures
This section of the employee handbook includes any operational procedures that you feel are necessary to communicate to your employees. This can include opening and closing procedures, proper ways of operating equipment or supplies, special safety procedures and service guidelines. Generally, the more details you provide in this section, the better.

9) Harassment Policy
Have a stringent policy on workplace harassment. Provide information about sexual harassment and other forms of workplace harassment, as well as instruction for how to avoid it, how to identify it and how to report it. You may even want to include a statement of acknowledgement for every employee to sign, stating that they have read and understand the no-harassment policy. These can be kept in employee files.

10) Drug and Alcohol Policy
Drug and alcohol abuse can occur in any restaurant. Not only is it harmful to the employee, but it can be dangerous to those around him or her. Be sure your policies are clearly defined.

Restaurant Tip #6: Employee Manual (continued)

This especially applies to restaurants that serve alcohol and allow employees to drink after their shifts have ended.

11) Health and Safety
Keeping your restaurant staff safe on the job should your highest priority. Be sure to provide consistent, thorough training to all employees through regular staff safety meetings and on-the-job coaching. Have proper labels and posters in place to remind employees of hazardous chemicals or potentially dangerous procedures.

12) Emergency Procedures
In the event of an extreme weather emergency, power outage or burglary, your restaurant staff needs to be prepared with the proper precautions and procedures. Educate your staff about the importance of awareness and security when it comes to crisis situations. » More on Restaurant Emergency Procedures

13) Company Property and Equipment
Some restaurant employees have access to computers, vehicles or other equipment belonging to the restaurant.

Make sure employees are aware that they need to respect restaurant property of all types.

(Source: all foodbusiness.com)

Restaurant Tip #7: Restaurant Equipment

Commercial kitchen equipment can cost tens of thousands of dollars, depending on what you are buying and how many pieces. When you're investing that much money, you'll want to make the best decision possible for your establishment. Even though there are more specific tips within each equipment category, there are a few things to keep in mind whenever shopping for restaurant equipment.

1) Buy only commercial-grade equipment. Local health departments are adamant that only commercial-grade equipment is used in commercial kitchens. This is because commercial-grade food service equipment is easier to clean and is infinitely more durable than its residential counterparts and better able to withstand the rigors of a commercial kitchen.

2) Purchase new equipment. Price is the big temptation for buying used restaurant equipment, but used restaurant equipment is less reliable because components are starting to wear out and can be costly to repair. New restaurant equipment, on the other hand, is in tip-top shape and comes with a factory warranty.

3) Balance cost with quality. Cost should not be the only determining factor when shopping for new restaurant equipment. Different manufacturers use different materials and technology that affect reliability, performance and longevity. Each restaurant owner needs to determine for him- or herself the best quality of restaurant equipment that will fit within their budget and suit their particular needs.

4) Stay within a budget. For any purchases you make, it is important to set and stay within a budget, otherwise you'll end up over-spending which will hurt your bottom line.

5) Do your research. Researching restaurant equipment involves making sure you have large enough capacities (cooking, storage, ice-making, etc.) to suit your needs.

Restaurant Tip #7: Restaurant Equipment (continued)

Also, look into units that can perform multiple functions to maximize your kitchen's versatility while minimizing cost. For example, combination ovens can cook several different menu items at the same time in a single oven cavity.

6) Check utility specs. While you are learning about the different types of restaurant equipment, pay special attention to the utility specs. This includes water, gas and electrical hookups. Match those to what is available in your kitchen. It would be a tragedy to purchase a gas-powered fryer only to find out that your building only runs on electricity.

7) Measure the available space. Any time you shop for new restaurant equipment, it is important to make accurate measurements before buying. This includes measuring the doorway. If it will not fit through the doorway or into the intended space, select a smaller unit. For refrigeration equipment and ice machines, be sure to add a two to four inches on the back and sides for air flow. Also, for new or renovated commercial kitchens, it helps to do a mock layout of the kitchen before you go shopping so you know how everything will fit in the space.

8) Consider going green. Even though ENERGY STAR® qualified restaurant equipment is a little more expensive than conventional models, the additional cost can quickly be recouped through energy savings and rebates available for eco-minded purchases. For example, a full-service restaurant that has a complete line of green restaurant equipment can save around $13,000 a year when compared to establishments with conventional equipment.

9) Check the warranty. It is always wise to check the warranty information for any new pieces of commercial kitchen equipment that you intend to purchase, so you know what is and is not covered. If you're stuck on two different brands, the warranties might be different enough to tip the scales one way or the other. Also, after you do make a purchase, be sure to fill out and return the warranty card so you can take full advantage of the warranty benefits.

10) Inspect the equipment before signing for it. If you do make a purchase and have the equipment shipped to you, uncrate and fully inspect it before you sign for the delivery. Any dents or structural damage are usually the fault of the shipping company. Signing for the delivery means that you accept any damages that are present. This makes it more difficult to return a piece of damaged equipment.

(Source: foodservice warehouse.com)

Restaurant Tip #7: Restaurant Equipment (continued)

You may wish to consider leasing as an alternative to the outright purchaser of commercial kitchen equipment. There are some definite advantages to leasing your equipment instead of purchasing.

- Cash flow; you may only need a security deposit and the first month's payment.
- Financing is easier to obtain; only six to twelve months of credit history is needed.
- Upgrading is easier; equipment starts breaking down, needing expensive repairs and leasing allows you to keep all equipment up to date.
- You can afford more expensive equipment.
- You may have the option to buy at the end of the lease for fair market value.
- Off balance sheet; an operating lease is not capitalized on the balance sheet as a liability, and therefore, does not affect the company's debt ratios. Lease payments are expensed through the income statement. This means capital budget funds are left available for other important uses.

Restaurant equipment is expensive and if it breaks down can it can hamper your business. Making sure it is well maintained will save you lots of money in utility costs and replacement costs.

Create a calendar with the recommended maintenance dates for all parts and equipment, including monthly, quarterly, semi-annual and annual checks. The schedule should note when air-conditioning-equipment air filters should be changed (at least quarterly), exhaust- and supply-fan bearings should be lubricated, and when thermostats on cooking and air-conditioning equipment should be calibrated.

Restaurant Tip #8: Reviewing & Maintaining Your Business Plan

<u>Reviewing Your Plan</u>

So how do you maintain your business plan?

We have to first establish that without regular review, monthly or at least quarterly review of your planned vs. actual results, with practical analysis of the reasons for variance, planning is likely to be a waste of time.

Real planning requires regular reviews just as much as navigation requires knowing where you are as well as where you were and where you wanted to go. Every real plan needs to be full of specific dates, budgets, forecasts, and management responsibilities. People involved have to know there will be tracking and following up on specifics. Then that plan must be reviewed against results, and those reviews should produce course corrections and fine tuning.

Generally a business hopes for a consistent long-term strategy built on short-step incremental changes, not major revisions. Consistency is important to strategy, and the business should avoid the temptation to jump around from one strategy to another so quickly that no strategy is ever really implemented. Remember that even a mediocre strategy well and consistently implemented is much better than a brilliant strategy that wasn't implemented.

However, businesses do come to crossroads demanding major revisions in their business plan. These are some signs that indicate it’s time to review your plan:

Restaurant Tip #8: Reviewing & Maintaining Your Business Plan (continued)

- Major changes in market situation. Look especially for changing market factors and changing market behavior.
  - ⇒ Have your underlying business assumptions changed? As an example, the Internet has changed the business landscape so enormously that in some industries almost any plan that was developed without a view of the Internet may need revisions. That may not be true for a landscape architect or restaurant, but for a travel agent, graphic artist, or market researcher it's obvious.
  - ⇒ Do you have new competition? Have new competitors emerged, or existing competitors changed the business landscape so much that you need to review and revise?
  - ⇒ Has the product or service picture changed? For example a new technology may have emerged, changing the market perception of what you sell. There may be new products or services offering related solutions to the same user needs you satisfy.
- Major changes in internal situation.
  - ⇒ The most obvious major changes are changes in ownership, which are frequently the result of changing partnerships, divorces, deaths, and investment. The company takes on new partners, or sells out to a larger company.

⇒ On a more ominous note, the company suffers significant declines in sales, profits, and financial health.

Always keep the revision in perspective. While you do want to review and correct constantly, you don't want to change a strategy unless you are sure it isn't working or you see real changes in the underlying assumptions that formed the foundations of strategy.

Maintaining Your Plan

The purpose of maintaining your plan is to use business results to guide your future decisions. The plan itself has no value if it doesn't help you improve business. That's regardless of how good or bad, how brilliant the ideas, writing, or how elaborate the tables and charts. Its value is the decisions it leads to.

That means, of course, that to make a plan worth the effort of developing it, you'll want to follow it up. Whether that's every month or every quarter, you need to track results, analyze the difference between plan and actual results, and manage. Change things that need to be changed. Compare what you planned to what happened in reality. Ask yourself the following questions:

•What went wrong, and how can we fix it?

•What went right, and how can we take advantage of it?

•What changes took place in the competitive landscape that could be updated in the plan?

Restaurant Tip #8: Reviewing & Maintaining Your Business Plan (continued)

- What changes took place affecting our market that could be updated in the plan?
- What changes took place internally in our organization that could be updated in the plan?

After you've answered these questions, update your plan accordingly, set new budgets and milestones, adjust your financials, and repeat the process with another review of your plan again next month or next quarter. Update your plan accordingly again, and keep repeating. You'll find that maintaining your business plan gives you a better grasp on your business, your market, and everything else that happens with your company.

(Source: foodservice warehouse.com)

Restaurant Tip #9: Managing Working Capital

But, obviously, this is far easier said than done, and way too many operators impatiently open the doors to start the revenue stream before building enough capital. This double-edged sword finds operators stuck between the need to open and the need to build capital, and too often finds the restaurant swimming to stay afloat when unforeseen expenses pop up.

Expect the Unexpected

Managing working capital means being prepared when the unexpected pops up. For example, many operators fall into the trap of assuming maintenance won't be an issue after buying a store full of new equipment. But some essential piece of equipment always breaks, or a natural disaster occurs, or an architectural oversight requires a redesign. These things always happen late at night or right before a busy weekend.

A typical business plan requires that operators know what their break-even point is. This is a product of a mathematical formula based on total operating expenses, the number of seats in the building, and the anticipated number of turns in a typical day. Far less quantifiable is the point at which a restaurant will take off, and the operator will be able to look around and see each seat filled every day.

Working capital helps ensure that an operator will be able to pay the bills until the restaurant reaches the break-even point. It's a good idea to work toward having enough working capital to pay the bills for the first three years after opening the doors. This is an essential part of any long-term growth plan in this industry.

Working Capital

There are a few ways to raise working capital, but private investments are often the best place to start. This is a ground-up business, which makes it hard for the outsider to break into unless they have outside success. But the operator with a track record of success, or who is well-networked and easy to back, has the inside track when it comes to enticing investors to the world of hospitality.

Restaurant Tip #9: Managing Working Capital (continued)

Many operators disdain private investment out of fears of ceding partial control to an outsider. But most operators have assets that are valuable to potential investors, such as:

- The romance of being a part owner of a restaurant
- A private expense account that can be defrayed by ownership equity
- VIP service for investors to impress guests and clients
- Networking possibilities with other investors

Operators too often underestimate the leverage they have when attracting investors and this is often because they lack the business experience of potential investors. For this reason, spreading the word about investment opportunities is a critical – and over-looked –step for the success of many independent restaurants.

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Generating More Capital

In an ideal world, all the working capital a business needs is created prior to opening the doors. But restaurants don't usually operate in an ideal world. Some combination of business loans and investment offerings may be necessary in a restaurant's infancy. This is a major reason that new businesses need to create buzz and fill seats, even if it means increasing operating expenses during the first two years.

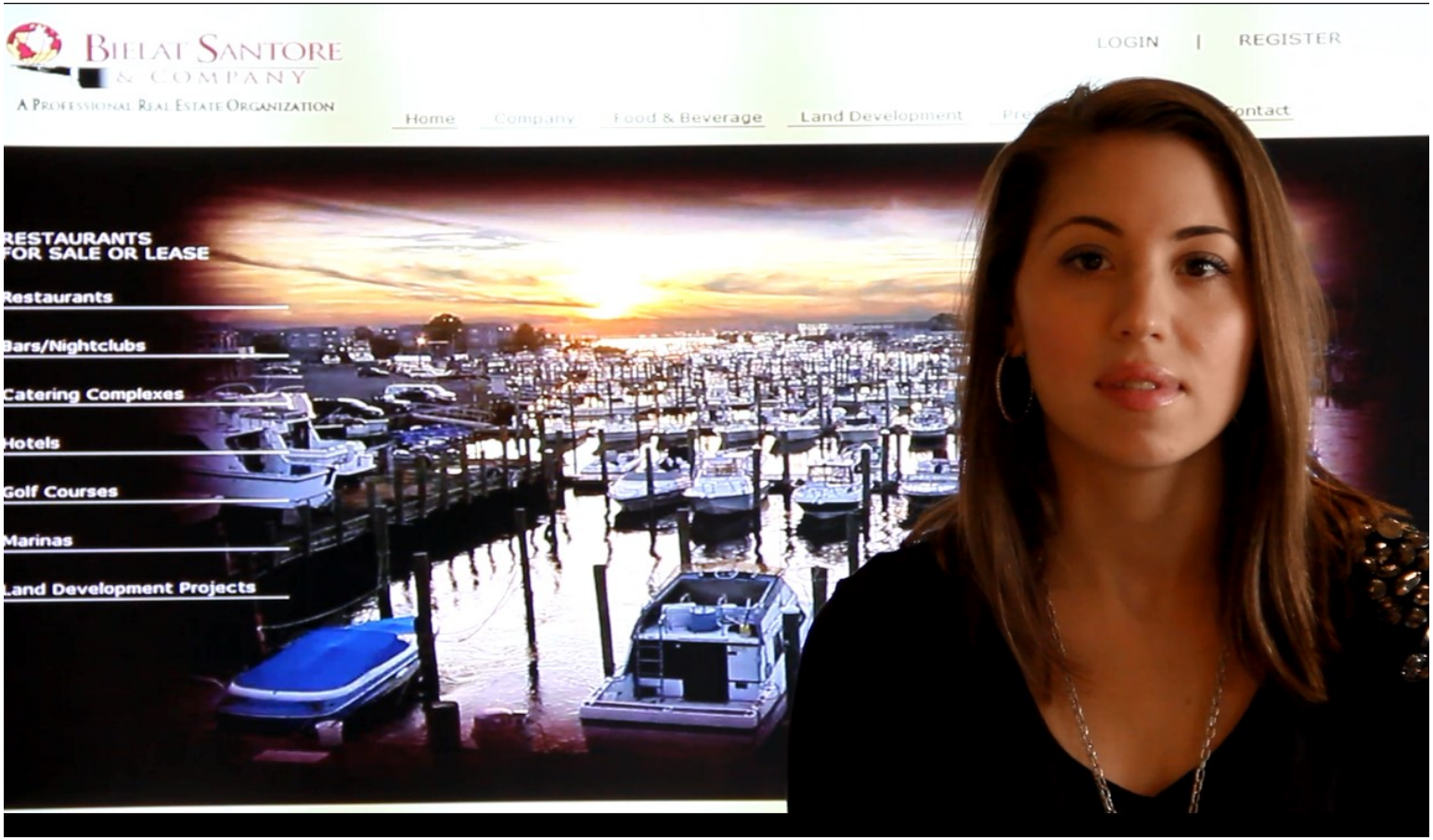
Private investors and lending institutions are more likely to sense opportunity in a full building. This is one reason that many restaurants choose to err on the side of ramping up expenses like advertising, promotion, and facility operation in order to build revenues, even at the cost of establishing a positive margin.

Developing a sound business plan (Tip #2 of this series) and seeking the right financing (Tip #3 of this series) helps ensure a correct working capital account from day one. In addition, a business model that sacrifices short-term growth for sustained success is often the best way to keep working capital at comfortable levels.

(Partial Source: allfoodbusiness.com)

Make sure to look for Tip #10 next month, the last in this series…"How to Value Your Business and Prepare it for Sale"

Restaurant Tip #10: Preparing to Sell Your Restaurant



Can Your Business Be Sold

Many elements of a business make it attractive to buyers. For example, does it have a solid history of profitability, a large and loyal base of customers, a competitive advantage, opportunities for growth, a desirable location and a skilled work force.

Are You Ready to Sell

Make sure you are ready, both financially and emotionally. Think about what life will be like after the sale. What will you do, not just for money but also with your time? Many business owners suffer real remorse after handing over their business to a new owner.

Here are a few indicators that it may be time to move on:

- It's not fun anymore. Burnout is a very real issue for business owners, and an entirely legitimate reason to sell.
- You're not inclined to invest in growth. You may be comfortable with the current size and profitability of your business and have no desire to make the capital expenditures necessary to take it to the next level.
- You feel your management skills are overmatched. It is not uncommon for business owners to build their business to a certain point and then realize they lack the skill set required to go further.

What's Your Business Worth

Many owners have no idea. Over the years, we have found that a restaurateur's three most popular methods of valuing a restaurant business are:

1. Gross sales (X) some overstated multiplier;
2. The business assets (real estate, furniture, equipment, liquor license, etc.) added to the business value obtained in step one above; and/or

Restaurant Tip #10: Preparing to Sell Your Restaurant (continued)

1. The amount I need to retire!

Unfortunately, none of the above methods is the correct way to value a restaurant business. The value of a restaurant should be based upon;

- a multiple of "owner's cash flow" (OCF); or
- the value of the assets at liquidation, whichever is higher.

For the purposes of this article we will explore the value of an ongoing business based upon a multiple of owner's cash flow.

Steps for Valuation

1. Review your last three (3) years tax returns and formulate a Profit and Loss Statement for the past 12 months;

2. Determine earnings before interest, depreciation, taxes and amortization - (EBIDTA);

3. Add to EBIDTA any personal expenses of ownership, such as health insurance, benefits, etc. to derive OCF, "owner's cash flow;"

4. If the business owner owns the real estate, factor in an occupancy cost equal to between six and ten (6-10%) percent of gross sales and deduct it as rent from EBIDTA;

5. Assign a multiplier of between two and fixe. Two for high cost of goods sales (i.e. fine dining, BYOB, etc.) and increase it up as high as four for higher profit sales (majority of sales are liquor, etc.);

6. The value of the business is the OCF times the assigned multiplier.

Check you Valuation

To check your calculations, a simple question to ask is: "If someone bought my business and ran it exactly as I do, what can he/she expect to earn annually." Multiply that number by your assigned multiplier and it should conform.

Seek Professional Advice

On rare occasions, the restaurant use is not the highest and best use for a particular restaurant property. It could be that a building on a highway has a rental potential which would be more valuable if sold, than if operating the restaurant. The best way to determine value is to have an industry professional analyze your business, location and assets and determine its highest and best use and value.

Restaurant Tip #10: Preparing to Sell Your Restaurant (continued)

Preparing your Business for Sale

There is no way to overstate the intensity with which buyers will scrutinize your business. But here are things you can do to put your best foot forward.

First, get your books in order. Not being able to provide accurate financial statements in a timely manner can cause a deal to unravel in short order. Be sure to have the following on hand before you go to market:

- Last three years' profit-and-loss statements;
- Last three years' balance sheets;
- Year-to-date profit-and-loss statement;
- Current balance sheet;
- Last three years' full tax returns;
- List of furniture, fixtures and equipment; and
- Commercial property appraisal or lease agreement.

Be ready to furnish other documentation, particularly during the due diligence phase, such as insurance policies, employment agreements, customer contracts, lists of patents issued, equipment leases and bank statements.

You will also want to spruce up your business to make it attractive to buyers. Make any needed cosmetic improvements to the premises.

- Is the premise clean?
- Are the chairs, tables and décor in good shape?
- Does the facility need paint (exterior/interior), new carpet/flooring, etc.?
- Is the kitchen spotless and free of clutter?
- Is all the equipment operational?
- Are the bathrooms spotless?

Confidentiality

The last thing you want to happen after following all of the preparation steps above is to randomly announce the sale of your business to the public. When customers learn you are selling, they don't come back. When your help finds out, they look for new jobs. Maintaining the strictest confidentiality through the marketing and sales process is paramount to a successful sale. Once again, seek the services of an industry professional.

Restaurant Tip #10: Preparing to Sell Your Restaurant (continued)

Bielat Santore & Company is an established commercial real estate firm. The company's expertise lies chiefly within the restaurant and hospitality industry, specializing in the valuation and confidential sale of restaurants and other food and beverage real estate and businesses. Since 1978, the principals of Bielat Santore & Company, Barry Bielat and Richard Santore, have sold more restaurants and similar type properties in New Jersey than any other real estate company. Furthermore, the firm has secured in excess of $500,000,000 in financing to facilitate these transactions.

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