



nerej

Why it makes sense to buy an operating restaurant with an established customer base

June 28, 2012 - Spotlights

In 2005, 25% of the food dollar was spent in restaurants.

In 2011, 49% of that same food dollar was spent in restaurants.

Eating out has become a way of life... no longer just dining out for an occasion. Dining out has become a staple. However, sadly learning to cook from a parent has been replaced with "where shall we eat tonight?"

Buying a restaurant, as opposed to starting one from scratch, provides a level of safety in that you can evaluate the success, or shortcomings, of the target business. More importantly, you have a customer base that can be both quantified and qualified.

In buying an existing restaurant, whether a small fast food or a full-service, and anything in between, the ease of getting bank financing or investor cooperation is significantly enhanced. Obviously the impetus is to take the present sales volume and profitability to the next level. Without a customer base, it could take years to build a profitable business. Just the savings on not having to advertise to generate the initial influx of customers is significant.

With business systems in place, vendor relationships established, recipes, and experienced employees the odds of success is greatly increased. Even though 60% of restaurants fail in their first five years, those that succeed can reap the rewards of hard work and a personal commitment to the business.

Now that the recession is finally abating, the parking lots are full, restaurants of most descriptions are experiencing the recovery of sales lost over the last few years. The time is ripe for owning a food service business.

Buying an existing restaurant is fairly simple. First, one must decide what size and type of business is appropriate for your work experience. Second, the engagement of a restaurant specialist is crucial to your long term success. A first time buyer is best served by the advice and guidance of a restaurant professional who can evaluate your abilities, scrutinize the availability of available properties, and help you decide what is most appropriate. Being able to determine the real reason an owner is selling is essential. Is it sickness, retirement, frustration, diminished financial resources, partnership problems, or diluted profitability... or lack thereof?

There's a saying that 'sellers lie, buyers lie, and brokers lie'. Filtering through all the lies is an important aspect of creating a win-win purchase and sale. After more than thirty years of New England Restaurant Brokers representing both buyers and sellers, it has become almost intuitive as to who is stretching the truth or bending the facts.

In the same way, a restaurant specialist can be extremely valuable in helping you determine which is a better road to follow... finding a suitable vanilla box and building out a concept as opposed to finding a viable profitable restaurant for you. The players that will take a hand in your initial success

are the landlord, your lawyer, your accountant, your insurance professional, and your restaurant broker. Of the hundreds and hundreds of completed sales and the buyers who heeded my advice not to buy, very few have opted to start from scratch; of those that did, it was primarily the chains that weathered the highs and lows of the hospitality business and endured.

In buying a business, being able to justify the seller's asking price, as it relates to an ever-changing market value, first to the buyer, then to his lawyer and accountant is always a challenge. Typically, the positive forces of the buyer and seller are on one side of the table and the negative and somewhat negative forces of attorneys and accountants are on the other side. The job of the restaurant broker is to bring both sides to agree on a fair and acceptable price for the business, explain how the 'cash' aspects of a business affects tax returns, walk the buyer through the Offer and Purchase & Sales phases, and ultimately move to a successful close.

If you were starting a business from a vanilla box, in general, the only one praying for your success is you. In the case where you buy an existing food service business, the seller typically finances 1/3 to 1/2 of the total purchase price... the seller literally becomes the bank and joins you in praying for your success. With seller-financing, not having to be put under the scrutiny of a bank officer trying to determine if you deserve a loan to buy your dream is a Godsend. More importantly, when a seller becomes your financier, the seller becomes invested in your success. Obviously if you're not successful, the seller risks getting the balance of monies owed.

In conclusion, if you're a buyer, find a restaurant specialist to help you find the right fit for you. If you're a seller, let the broker help you determine the appropriate market value of your business.

Whether you're a buyer or a seller, the time has never been better to make a change.

When it comes to selling, or buying, it pays to seek out a specialist.

Dennis Serpone is president of New England Restaurant Brokers and The National Restaurant Exchange and a member of the Mass. Restaurant Association of Waltham, Mass.

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