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55 YEARS

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How does a restaurant specialist survive for 37 years in the hospitality business? - by Dennis Serpone

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In 1970, after five years working as an engineer with a MBA degree, an opportunity presented itself to open a restaurant pub on Cape Cod. With that unit profitable from day one, a second unit materialized the next year, and a third unit the following year.

Riding the wave of an adjustment to the drinking age from 21 down to 18, profitability was guaranteed. In 1980, after exiting the pub business, I recognized an opportunity to create the first restaurant brokerage and consulting company in the country. Now most states have copied my format and restaurant specialists are represented in most states.

If asked what the secret to the success of the National Restaurant Exchange and New England Restaurant Brokers, it is the result of finding associates who have previous restaurant experience and the level of training they receive in-house. In addition, after 37 years, my companies are recognized both regionally and nationally. Our biggest individual restaurant sale was Frank Giuffrida's Hilltop Restaurant complex in 1989. At that time, the Hilltop was the single highest grossing, independently-owned restaurant in the country, grossing \$43 million per year. The Hilltop sold for \$15 million to a buyer who needed a 1031 exchange...a win-win for both seller and buyer. Interestingly the listing was the result of a newer broker cold-calling the owner. The buyer was the result of a nationwide search for a financially qualified buyer. Fortunately, for the buyer, who had no restaurant experience, the staff and management remained in place. The buyer then bought Valle's in Braintree and created Hilltop South, followed by the purchase of John Martin's Manor in Nashua which became Hilltop North.

As most in our industry know, the Hilltop is razed and gone forever, but rising from the ashes will be luxury housing with 25,000 s/f of retail space...a great location for a mini-Hilltop steak house.

Inherent to the longevity of the National Restaurant Exchange is the hands-on operation and training of its brokers. I have eschewed retirement to continue to personally guide the training of my agents. Often you'll see me cold-calling with new brokers. Cold-calling gives me a chance to reconnect with owners, new and old; owners that I've interacted with over the years.

After 37 years, I have become a recognized authority in the hospitality industry. Whether as an authority in evaluating trends in the industry for trade journals, or testifying as an expert witness in adversarial court cases, my 37 years of experience weighs heavily.

The food and beverage industry is going through a metamorphosis. Those facets of the industry that are good tend to be very good. Those that are bad are having a hard time surviving.

Competition has never been so severe and the availability of competent help is daunting. The successful operators are enjoying the fruits of their labor; the marginal are facing tough times ahead.

The collective hope of existing operators is that Trump will reverse a lot of the onerous rules and regulations imposed on restaurant operators. On a larger scale, we all hope that our politicians will support reducing the tax liabilities imposed on small businesses.

If competition wasn't enough, restaurateurs have a host of other issues affecting their profitability. Ideally, if you're a hands-on operator you should be able to keep your food cost and payroll cost at approximately 60% of sales. Another important component of a restaurant's success has nothing to do with you as the operator, it has to do with your landlord and your lease. Like everything else in life, there's good and there's bad. Hopefully an owner, whether he bought an existing operation, or he rented vacant space, used an experienced attorney.

As restaurant specialists, we're usually dealing with the effects of basic, reasonable leases, but sometimes we see leases that are so one-sided to a landlord's benefit, that you scratch your head in amazement that anyone would have signed it. If that wasn't enough, the financial strength of a landlord can adversely affect your business. If a landlord is not stable, he could let the property go back to a lender or cut back on proper maintenance of the property. It could be a direct reflection of you.

Assignability of the lease when you sell is critical, (landlord): "whose consent will not be unreasonably withheld." I had a case where we were closing on a big restaurant, with a long, reasonable, assignable lease. The landlord found out that the seller, his tenant, was netting a profit of over \$200,000 on the sale. He waited till the closing and then demanded a \$25,000 'assignment fee'...even though the lease was assignable. Unfair, maybe illegal. His attitude was, "too bad. Sue me. But you'll lose this deal and I'll bleed you dry in legal fees."

He got his split of the profits.

Before anyone buys or sells a food or liquor business, they should consult with a lawyer, an accountant, and a restaurant professional.

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