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How do we prepare the restaurant owner for the sales process? - by Dennis Serpone

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Getting the owner to agree to our terms of engagement is only the first step in the consummation of a sale. Explaining the various steps and the mutual commitment to a successful closing is crucial. Unless the seller understands, and believes, that we're working in his best interest will the process work smoothly. The ultimate success of a sale is in this beginning stage...determining the 'real' reason he is selling.

Is he selling 'now' because he is afraid to open with minimum sales and serving capacity?

Is he selling because he says he wants to retire or is it that he's losing money?

Is he selling because he's having partnership problems or is it because competition is increasing?

Is he selling because his health is deteriorating or is it also a fear, with all this stimulus money being thrown at workers he's afraid that he won't be able to find good help?

More importantly, is he selling 'now' because he thinks the broker will get him 'his number' versus what the diluted value is? This is where the general business, or commercial broker, who needs a listing, gets into trouble. If the broker doesn't know what the 'market value' is for his type of business, the business won't sell.

1) Establish market value.

As restaurant specialists, we intuitively know what the market value is. Why? Because we work with it every day. It's not just about the numbers...or lack thereof. It's not just about the volume of sales you were doing three months ago, the cost of goods, occupancy cost, and payroll, it's about the supply and demand for places like his, it's about the terms of the offering...all cash, some seller financing, or amortization with a balloon. There is a range of valuation that is a product of the various variances that come into play and the degree to which they may or may not be controlled. Providing specific examples of the valuations of similar businesses, closed or operating just on

take-out — and explaining the factors which lead to these figures — will solidify the fact that the restaurant broker is the expert.

If, after providing the owner with a best-case-scenario value, ask again how this lines up with his worst-case-scenario figure. This is the time to draw on your industry and market expertise in order to provide the owner credibility for your numbers. The business today is only worth what a buyer is willing to pay.

2) Explaining the steps.

Take the business owner through the sale process. You've been hired for your expertise and guidance; it's your job to make sure that you're both on the same page. Throughout your presentation and early discussions, you've likely given the restaurateur a glimpse of what the sale process will look like.

The various marketing methods will generate significant interested buyers. The difficulty comes in filtering out non-qualified buyers...but finding those who not only want your business but who have both the experience to carry on your success or expand it, and who also have the financial resources to buy, but also have enough reserve capital to carry the business's obligations through a slow period.

3) The right buyer.

The 'right' buyer is typically one who is well seasoned in that particular business type...whether as an owner, manager, or worker. You probably wouldn't sell your full service restaurant, and provide some level of financing, to a buyer whose only experience has been as a bartender two years ago.

The broker's job, once he finds an apparently qualified buyer, is to help that person to focus not on the closed business but on the estimated annual net income that he will generate when the new buyer operates it and not be so concerned with the selling price. The right buyer will understand that the real cost of buying a restaurant is the cash-out-of-pocket for the down payment. The business over time pays the balance of the purchase price.

The right broker will find the right buyer.

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