



## **So You Want to Start a Restaurant?**

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Depending on your concept and build-out, you will need anywhere from \$500,000 to \$5,000,000 to get you off the ground. You have tapped out your family, and that SBA loan will only get you so far. Where are you going to find that kind of cash? Who would be willing to finance a business in an industry with a failure rate of around 60%? Fortunately for you, there are people out there – from glamour seeking angels to hard nosed venture capitalists – willing to invest in restaurants, hoping to grab a nano portion of the \$537 billion in sales projected by the National Restaurant Association for 2007, or maybe to get in at the ground floor of another Cheesecake Factory or McDonalds.

Because most outside start-up money for new restaurants comes from angels, this article will focus on what you need to do to get their attention. What are angels looking for other than a great concept? Here are some suggestions:

- **Roadmap to Success.** Yes, you will have to sit down and write a business plan. A good business plan will describe your restaurant concept in detail (white tablecloth, family dining, pub, etc.), identify the size of your restaurant and how it will be configured (dining space versus lounge or bar area), have a sample of the possible menu items and price points, identify a location and its demographic composition including recent trends, projected developments (redevelopment of factory buildings into trendy lofts, a new office complex or corporate campus) and current and foreseeable competition in the area (and why and how you are going to survive where others fail). Your business plan should also highlight your management team lauding its experience and depth. Finally, and perhaps most importantly, your business plan needs to contain credible financial information, projections and a feasible exit strategy, all of which need to be consistent with your concept. So you don't know where to start, you don't have an MBA from Harvard Business School and you got a B- in English. This, my friend, is why Al Gore created the Internet. Go on the Internet and

Google “business plans.” You will probably come up with about 10,000,000 hits. See what other people have done. If you find this method too random, there are dozens of books available on writing business plans and believe it or not you can probably take a course on writing a business plan at your local community college. There are also many qualified consultants and accountants who assist restaurant owners every day in writing and editing business plans. If you are paralyzed over the thought of writing a business plan, you might want to rethink the whole restaurant thing.

- Cash is King. Although there are a fair number of angels out there that invest in restaurants because they like to have the best seat in the house, most angels will tell you that they invest in restaurants because of the cash flow. Successful restaurants in big cities generate revenue from operations in the seven figures with EBITDAs over 10%. Your cash flow projections must be supported by your concept. If you have a low volume quick serve restaurant, a reasonably seasoned angel investor is not going to believe that you will generate an EBITDA of 19%. So use your expected average check size, average length of meal and number of seats to produce supportable cash flow projections.
- Show Me the Money. There are angels who will happily drink the house martinis and collect their monthly “dividends” without ever thinking about a big pay day, but even many of these folks will expect their 15-20% rates of return (rate of return means the amount of money lost or made on an investment expressed as a percentage). For investors looking for the big pay day, you will need to articulate how your restaurant concept will attract purchasers and generate enough cash so management can buy them out, or how you will grow the business enough to attract venture capitalists and investment bankers. In either scenario you will not only have to show potential investors how you are going to generate gross revenue but also how you are going to control costs and expenses, especially cost of goods sold and labor.
- A Proven Track Record. Investors invest in people. No matter how sexy the concept, a strong management team with a track record of success in the restaurant business is key. This means that you need to put in your time learning the business, most likely managing someone else’s restaurant or kitchen. Associate yourself with successful people. Not long ago I heard Jody Adams of Rialto speak and was reminded of the fact that she worked in Lydia Shire’s kitchen. After that she was the sous chef at the venerable Hamersley’s Bistro in Boston’s South End. Why was I not surprised? If you are a chef, find a partner with a strong business and financial background. If you are business person, hire the

hottest young chef you can find. Make reputations, your own and someone else's. I can think of far lamer things to put in your business plan than something like: "I gave Todd English his start in the restaurant business." What are you saying? You recognize talent.

- Location, Location, Location. Two things about location. One, negotiate the best lease you can –preferably a five or ten year lease with two additional options of five years each, and understand exactly how much in lease payments you can afford based on projected revenue, cash flow and expenses. If, for example your costs of goods sold and labor equal 65% of your projected gross sales and you have annual lease payments amounting to 10% (your goal in your negotiations should be no more than 100% of projected sales for base rent plus all "triple net" expenses) or more of your projected gross sales, once you also back out other expenses (marketing, equipment), taxes and any interest on loans from your gross projected sales, investors looking for even a modest return of 10% or less will have to look elsewhere. Second, a good location is not only appealing to investors, it is also appealing to purchasers. Remember Coffee Connection? All 23 of its stores in the northeast were purchased by Starbucks in 1994 for almost \$24 million. Why? Among other things, Starbucks determined that Coffee Connection had premium locations.
- Building it Right. As mentioned, some angels may be looking for a good drink and a nice annuity and other angels may be looking for the grand exit -- a sale or IPO. What about you, your business partners and the chef? Maybe you want to be in the position of buying out your investors. Your chef might have big plans, fame, fortune, the Food Network. You need to structure the potential risks and rewards of the business carefully, balancing the competing needs of investors, founders and management and setting expectations and goals that are reasonable and obtainable. For instance, you cannot add restaurant locations and pay out investors at the same time, not unless you are very lucky.

After getting the food concepts together, you will need to put together your team and your business plan so you are ready to reach out to investors in an organized and timely manner. As a general rule, give yourself six months to one year from concept to opening day to complete all arrangements for a successful capital raising experience.

There are almost 1 million restaurants in the US. Getting into the game requires planning, preparation and execution. Just like a good meal.