

# RESTAURANT INSIDER

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NEWSLETTER...SUMMER 2011

## HOT PROPERTIES



**#6 SPORTS BAR** Located in north Scottsdale. This is a fully equipped facility with an inviting indoor/outdoor bar, large private patio, numerous TVs, an efficient full kitchen and great rooms for promo parties and/or live entertainment. It has good visibility, easy access and plenty of parking.

Currently run absentee due to operating partnership split. Priced to sell NOW! \$150,000. #1750

**#12 NEIGHBORHOOD RESTAURANT** This cozy and classy neighborhood Tavern has the look and feel of a high end corporate style restaurant/bar. No expense was spared in creating this comfortable and inviting business located in a busy affluent Tempe area. Features include two patios, a full bar, beautiful dining room and efficient kitchen. A great opportunity for an owner/operator to take advantage of this first class facility. \$225,000. #1752



**#6 BAR & RESTAURANT** A very popular, #6 bar, freestanding building with its own parking, located just minutes away from Mill Avenue and just walking distance from the ASU campus. This facility has a huge multi-level courtyard/patio, 4 bars, 4 big screen TV's along with 24 other TV's located all around the bar creating a casual and friendly atmosphere. They serve delicious Mexican food and fun libations at affordable prices. A unique opportunity to own a college campus business that is the envy of operators across the country. \$245,000. #1735



**RESTAURANT/ULTRA LOUNGE**  
A very rare opportunity... cool and casual Ultra Lounge restaurant on a hard corner in Old Town with outstanding visibility, a huge patio and great parking access. This facility has a full bar, sharp dining room, a fully-equipped and well-designed kitchen, and an exclusive VIP area. All of this and a smokin' rent deal too! This one will not last long at only \$195,000. #1734



**#6 OLD TOWN SCOTTSDALE CLUB**  
A rare opportunity to instantly become a player in the Scottsdale nightlife scene. This well-

established business has a history of high volume and strong profitability that comes from being one of the top performers in their niche. A solid business with an outstanding image, great following, excellent location and very favorable operating hours create an excellent opportunity to meet people, have fun and make money... hard to beat! Annual Revenue consistently exceeds \$1.1M with a cash flow of \$250K plus. Extremely confidential! Interested parties must pre-qualify to receive information. \$595,000. #1744

**FORMER #12 MEXICAN RESTAURANT**  
Location, location, location...Here it is!!!! Great Tempe location with excellent Rural Rd and University visibility with inviting curb appeal. Covered outdoor patio complements a comfortable and casual dining room and fully equipped kitchen. Currently set up as a fast casual Mexican, restaurant/bar, is a perfect situation for catering to the ASU population and locals as a neighborhood pub. Available at only \$89,000, this is a must see!! #1739



**#6 SCOTTSDALE BAR & RESTAURANT**  
Personal circumstances force the sale of this newly remodeled #6 bar and restaurant in Scottsdale. Lots of parking for this freestanding building with great visibility and heavy traffic. Two large bars, a great kitchen and a flowing floor plan make this an ideal spot for a live music venue with food. Great lease with \$12/ft. rent means this turnkey opportunity will not last. Must see! \$195,000. #1754



## Capitalization

As a business the restaurant industry seems to stay focused on service standards, product quality and to a slightly lesser extent, cost controls, at least from a rhetorical perspective. The same cannot be said for the hugely important topic of capital requirements and the management of those resources.

We've all heard the term "undercapitalized" thrown around and understand the thought to some degree – basically, it means that there's not enough money. Some of us could argue that there is never enough money, period. While I suppose we could agree with that concept from an ideological premise, it is not what we are referring to here. The fact is that for independent restaurant operators, being undercapitalized appears to be almost as prevalent as having hamburgers or French fries on the menu.

For our discussion purposes here, being undercapitalized as it pertains to the restaurant industry takes on one of three forms: having insufficient capital resources available to open the business, to operate it, or to close it. Yes, it actually requires capital to close a business! As counterintuitive as this may sound, it is one of the most common errors restaurant owners make, but more about that to follow. For now, let's begin with opening, since not having access to sufficient funds to open the business many times results in never getting out of that position.

*Continued inside*

# RESTAURANT INSIDER



## Capitalization Continued

First and foremost, opening a restaurant must begin with a budget. Included in that budget, capital allowances need to be made for acquisition, construction/remodeling, pre-opening and ongoing operations. Most operators do have a budget in place for the acquisition and construction dollars required; the most notable shortfall in this area is inclusion of a contingency factor for construction overruns. This is especially important in the instance of a remodel. In those situations, there will almost always be an unplanned construction related surprise that needs to be dealt with.

In the pre-opening phase many operators do not plan for sufficient capital to be allotted. Things like recruiting, hiring, training, rent/security and utility deposits, smallwares, collateral materials, launch advertising and purchasing the initial food and beverage inventory often get overlooked.

We could not speak about capital shortfalls in opening restaurants without addressing the number one area of deficiency, working capital. To some folks working capital means a petty cash box and money for change in the safe. If you count yourself among those that downplay or ignore this item, you are venturing into very dangerous territory. Experts recommend that in addition to dollars for the safe, at minimum you should have the following set aside as working capital: a) your first food and beverage reorder, b) two payrolls, and c) six months of rent. It is not necessarily the case that you will use those dollars for these items specifically, but it is the amount necessary to cover these costs that you need to have on hand to ensure that the resources are in place to give the business an opportunity to grow and develop into a viable entity. Not to do so means that one misstep or unforeseen occurrence can jeopardize the entire investment. It happens all too often.

Once the business is open, operating and profitable, there is still a certain level of capital required to be on hand so that the business can survive unexpected occurrences like short-term business downturns, major equipment failures, significant building repairs, margin pressures or key employee turnover. In this instance the capital requirement is significantly less than start-up, but at minimum should still be between twenty-five and fifty percent of that amount.

The decision to close a business can be very difficult and often quite emotional. In many instances the operator runs the business until every last dollar is gone and then it closes. This is absolutely and positively the wrong approach to take. No one wants to give up. There are many reasons to keep trying and not surrender until there are no other options remaining, but the fact is, bringing the restaurant back from the brink is an all but impossible achievement. The practices that are put into place in an attempt to cope with the downward spiral negatively impact the business to the point of severe damage to the brand; the outcome is then inevitable.

A far better course of action would be to identify the fact that the business is failing, set goals, timelines and milestones for improvement. If those goals are not met, implement a plan of action to sell the business and remove whatever possible contingent liabilities. Remember that if you run the business until every last dollar is gone, there are many expenses that are in arrears and you will still be responsible for them even though the business is now closed and there are no dollars coming in. For example, payroll, payroll taxes, sales tax, gas, electric, water and trash, along with any other product or services for which you have credit terms and/or are billed and therefore remain due and payable. Not to mention that if you have a personal guaranty on the facility lease you will owe the landlord for the balance of the term remaining. These can be huge numbers. It is far better to create an exit strategy where you can get the lease assigned to a new tenant and receive some capital to clear some (hopefully most or all) of the outstanding expenses.

Without capital reserves on hand you can find yourself in a situation where these types of decisions get made for you, instead of you making them. Don't let it happen to you! ~ The Restaurant Brokers

## THE RESTAURANT BROKERS RECENT SALES

- **Iguana Macks** at 1371 N. Alma School in Chandler was purchased by 3ECHO, LLC. The name and concept will remain the same.
- **Brennan's** at 13601 N. Scottsdale Rd. in Scottsdale was purchased by Richard Weed, LLC and converted into BT's Pub.
- **McDuffy's** at 15814 N. 83rd Ave. in Peoria was purchased by Salt and Light Community Church.
- **Cherry Lounge** at 411 S. Mill Ave. in Tempe was purchased by School of Rock Mill Ave, LLC and converted into School of Rock.
- **Wolfley's** at 21001 N. Tatum Blvd. in Phoenix was leased by Wolf24, LLC.
- **Tiggos Ahwatukee** at 1334 E. Chandler Blvd in Phoenix was purchased by Robison Restaurants, LLC and converted into Le Regazze.
- **Zaytoon Kabob Bistro** at 4757 E. Greenway #104 in Phoenix was leased by DeeZee Corp.
- **Former Garcia's** at 17037 N. 59th Ave. in Glendale was leased by Popo's Mexican Food, LLC and converted into Popo's Fiesta Del Sol.
- **Howl at the Moon** at 7419 E. Indian Plaza in Scottsdale was purchased by All in Entertainment, LLC and converted into Smashboxx.
- **Former KFC** at 1030 W. Broadway in Tempe was leased by Salsita's Express, LLC and converted into Salsitas.
- **The Groves** at 323 S. Gilbert Rd. in Gilbert was sold to G Double D Investments, LLC. The name and concept will remain the same.
- **Tio Oso's** at 7205 S. Power Rd. in Queen Creek was purchased by Cactus Restaurants, LLC and converted into Thirsty Cactus Cantina.
- **Gyros Hut** at 705 S. Forest Ave. in Tempe was sold to Eun Yan Lee and will be converted into Teriyaki Avenue.



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**Concept** STUDIO K, ARCHITECTURE, ART & INTERIORS

**Things are tight.** Funds are limited. There is a need to be more creative with less. Customer expectations are higher. Competition for the customer dollar is tougher. Current economic conditions make it more important the restaurateur define their experience clearly. Ask yourself, "What sets me apart from others restaurants?" There is a need to define your unique qualities and create a customer experience that showcases these unique offerings and guest experiences. It is time to define what you are and express yourself in your own authentic and unique way.

**Concept is important.** The concept should be clear and understandable; it should showcase the uniqueness of the restaurant and should address your target market. The concept is not only about a clear food direction, but also about the experience in which that food is delivered. Good design is about creating that successful multi-sensory experience- how food is prepared, presented, the lighting, furniture, the fixtures and the quality of the spatial design, in short, how a cohesive design vocabulary is carried through the project. It is about the customer's experience from the time he/she enters until leaving. It is critical to define the customer experience you are trying to create with your client. The design is about developing a visual vocabulary of design elements that support the food concept and the desired customer experience. Prioritizing these design elements with your client is essential.

**Some clients want to be everything to everybody.** Sometimes this is the goal and it has been successfully accomplished, like Applebee's. On the other hand you can be successful celebrating your unique qualities. Many of you are food artists. Celebrate what you do best! Present your food in a way that clearly represents you. Provide a guest experience that supports your product and is clearly unique to the restaurant.

**Consider the possibility of working with a team** that incorporates artisans and craftspeople to fabricate that unique environment. I believe there are ways to set budgets and fabricate custom design features without spending much more money than selecting the same old products from catalogs. Selecting products from catalogs is useful, necessary and appropriate, but sometimes you can create design elements that are specific to reinforcing your design concept for a surprisingly insignificant impact on the project budget.

Therefore, I am spending my free time developing creative skills. I am back in school experimenting with fabrication of unique custom ceramic tiles and creating mosaics. I am learning welding fabrication techniques and practicing the art of welding working in a local metal fabrication shop. My hope is to learn about concrete fabrication and woodworking in a hands-on application. I enjoy learning in the trenches. I think the hands-on fabrication and experimentation make me a better designer.

**As an artist and architect** I am hopeful that I will be able to incorporate these learning experiences into future projects. I am actively seeking opportunities to bring my artistic abilities along with an ever expanding team of artisans and crafts persons to help clients express their truly unique visions for exceptional and profitable restaurants. I believe that I will create value for my clients when we really showcase what is unique about their food, their vision and their guests' experiences.

~ Kimberly Harris, Studio K, Inc.

**STUDIO K, ARCHITECTURE, ART & INTERIORS**

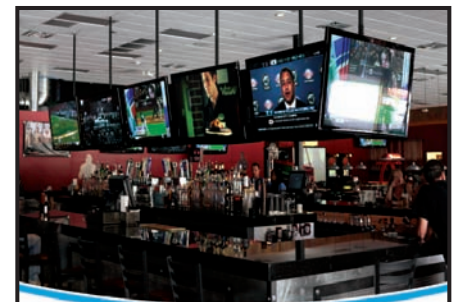
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Check out our blog!  
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**Cook #1** Didn't I tell you to notice when the soup boiled over?  
**Cook #2:** I did. It was ten-thirty.  
~ Two Prep Cooks

Cut my pizza into 6 slices, I don't think I can eat 8. ~ Yogi Berra

Avoid all restaurants and bars with a sign that says, "Four tooth minimum." ~ Jim Buelt

We are the only business whose assets walk out the door every day. ~ Sam Goldwyn

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## By the numbers



Celebrating 30 years



**16**

The legal drinking age in Europe. It differs throughout the world with Canada 18, most of Asia 20, and 21 in the US.  
~ Alcohol Contents

**10,246**

Number of blocks in London Bridge which was shipped to Arizona and reassembled in 1971.  
~ Arizona Legends

**#1**

Where Arizona ranks in the nation for copper production.  
~ Wall Street Journal

**13**

The number of years Prohibition lasted, beginning in 1920 and ending in 1933.  
~ Library of Congress

**27 Million**

The number of Coca-Colas that will be consumed worldwide during the next hour; that's over 600 million per day!  
~ Food Trivia

**177**

The average number of days a business was on the market until it is sold in 2010, up dramatically from 94 in 2007.  
~ BizStats

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## How's Your Restaurant Performing?

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The scope of services offered can be completely customized to the specific requirements of your business. From a complete redo of your entire restaurant or bar to the minor tweaks needed to breathe new life into a dated food and/or beverage concept and everything in between, RRG can design a program to meet your needs.

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