



Guide to Buying a Restaurant



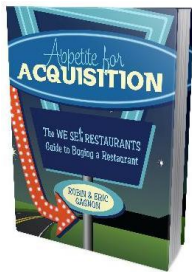
About We Sell Restaurants

We Sell Restaurants is the industry leader in restaurants for sale and restaurants for lease. Our name says it all! We specialize in selling restaurants, franchise restaurant sales and restaurants for rent.

The We Sell Restaurants brand is known nationwide for professionalism, industry knowledge and unmatched service in the restaurant sale. The We Sell Restaurant website is an invaluable resource. More than just another "restaurantforsale" portal, we focus on sharing knowledge, information and of course, restaurant for sale listings.

We Sell Restaurants is now franchising nationwide! The restaurant industry has overwhelmingly told us they want and need a national brand with systems and methods to close these specialized transactions. We Sell Restaurants is perfectly positioned to meet the growth needs of the industry in the transfer and sale of restaurants. For more information on owning a We Sell Restaurants Franchise, please contact us at 1-888-814-8226 or [complete an inquiry online](#).

The We Sell Restaurants leadership team is headed by Eric and Robin Gagnon, industry experts and authors of the national book release, [*Appetite for Acquisition*](#). This book was a 2012 nominee for the Small Business Book Award.



"This is the definitive guide for anyone looking to enter the restaurant industry! Full of hands-on practical advice and real-life examples, Robin and Eric provide you with the expertise necessary to avoid common pitfalls and navigate your way to owning the restaurant of your dreams!"

—Herb Mesa, Finalist, The Next Food Network Star

[We Sell Restaurants](#) hosts the nation's most sophisticated website for restaurant buyers and restaurant sellers. We deliver an online confidentiality agreement, 24 hour access to restaurant listing information, photographs, the address, and even videos via our state of the art platform. Register as a buyer today for access to the latest restaurant listings first.



Executive Summary

Buying a Restaurant can be a journey filled with hope and ending in success provided you begin with knowledge of the industry, important tools and rely on valuable guidance and advice.

The restaurant industry is a \$604 billion dollar industry according to National Restaurant Association research. The Association's 2011 *Restaurant Industry Forecast* projected an industry sales increase of 3.6 percent in 2011 over 2010 sales, which equals 1.1 percent in real (inflation-adjusted) terms.



There are nearly one million locations, or one restaurant for every 320 Americans. Sales represent 4 percent of the U.S. gross domestic product. Restaurant industry employees make up nearly 10 percent of the U.S. workforce. Its total economic impact exceeds \$1.7 trillion, as every dollar spent in restaurants generates \$2.05 spent in the overall economy. Restaurants are the nation's second-largest private sector employer with 12.8 million employees.

On any given day 20 percent of the nearly one million United States restaurants, bars, and nightclubs are on the market. New restaurants, old restaurants, successful restaurants, and restaurant failures end up for sale in the hands of a restaurant broker.

This ***Guide to Buying a Restaurant*** is designed to help you, the restaurant buyer, make a smarter, more informed decision among the many restaurants on the market.

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Restaurants & Today's Society

Restaurants are the fabric of our culture. The neighborhood restaurant is where we go on our first date, celebrate a promotion, and gather the family to announce our engagement. In today's society, the neighborhood restaurant or pub has taken over the corner for the place to gossip, hang out, and meet your neighbor. In a high-tech world, the restaurant is a high touch environment where we still interact with one another. It is no wonder that buying a restaurant is such a personal journey.¹



Restaurants are big business. Restaurant industry sales in 2010 are estimated at \$580 billion and forecast to equal 4% of the United States gross domestic product². On a typical day in America in 2010, more than 130 million people will be foodservice patrons.³

Restaurants will provide more than 70 billion meal and snack occasions in 2010.⁴ Eating-and-drinking places are mostly small businesses. Ninety-one percent have fewer than 50 employees⁵.

Restaurant Industry Snapshot⁶

Sales	➡	\$580 Billion
Locations	➡	945,000
Employees	➡	12.7 Million

This didn't happen overnight. Changing habits and fewer meals prepared at home along with the mobile nature of our society has shifted spending into restaurants. In 1955 only 25% of an American consumer's food dollar went to the restaurant industry while today, restaurants get 49% of every food dollar spent by the American consumer.⁷

These trends are supported by ongoing research that statistically measures consumer demand for the restaurant industry. In the latest research by the National Restaurant Association these were the most noticeable trends.⁸

- 65% of adults say their favorite restaurant foods provide flavor and taste sensations they can't easily duplicate in their home kitchens.
- 44% of adults say restaurants are an essential part of their lifestyle.
- 40% of consumers say buying restaurant, take-out and delivery meals make them more productive.
- 35% of adults say they don't eat on-premises at restaurants as often as they would like on a weekly basis.
- 29% of consumers say take-out food is essential to the way they live.

The business case for buying a restaurant couldn't be stronger as these national trends demonstrate. There is continued strong demand for restaurants by consumers. The growth of sales is positive year over year. Lastly, they fit the American ideal of a small business.

Now that you understand the national picture on the restaurant industry, this report will guide you in your search for a restaurant.



The Perfect Storm

“Record numbers of Americans searching for a small business combined with a hunger for all things “foodie” are creating a perfect storm of demand for buying a restaurant.”⁹

Before beginning your restaurant search, you should first define what you want.

There are three main categories of

restaurants on the market. The first is a

cash flow positive business which will have books and records to substantiate the earnings. If you need an income, this is the restaurant type to focus on and delivers significant advantages over starting from scratch. You are gaining:

- Control over costs
- Immediate Time to Market
- Proven Sales Volume
- Existing Cash Flow
- Decreased Risk

The second type of restaurant for sale is often called an **asset sale** which means it is being sold for the equipment only. The third type is empty restaurant space that may or may not have some basic equipment. If it was formerly a restaurant, it is often called **second generation space**.

For an asset sale or second generation space, you are taking over a previously failed concept at a greatly reduced (or no) cost. You will need to formulate your own menu and marketing to generate the first dollar of sales.

An existing restaurant with cash flow delivers historical sales, a defined and customer-tested menu, existing operation methods, and most importantly, cash flow. Before buying, ask yourself the following questions.

What’s My Restaurant Lifestyle? Are you into late nights or do you have small children? Will your significant other join you in the business or keep a “day” job? Do you need cash flow or do you have resources to build your success over time? Take a few minutes to understand your



restaurant lifestyle before beginning your search. Request the *We Sell Restaurants Restaurant Assessment Tool*®. This ten-question survey helps you answer three critical questions.

- What type of restaurant am I looking for?
- What type of restaurant delivers what I need for myself and my family?
- What am I willing to sacrifice to obtain this restaurant

Who Is Going to Be On My Team? Surrounding yourself with a first class team is critical to your success. That should include first and foremost, an expert restaurant broker and could also include your CPA, attorney, your family, an equipment inspector, banker, business coach and many more.

Am I Ready for the Search? Begin your search by preparing your financial package. You will need a current personal financial statement, a resume or statement of your background and experience and a restaurant menu for the broker and the landlord. If you are shy about producing these now, reconsider the restaurant industry. Your financials will be put forward as frequently as your menu if you move forward in your search as vendors, utility companies, landlords and more want a clear financial picture of who they are dealing with.

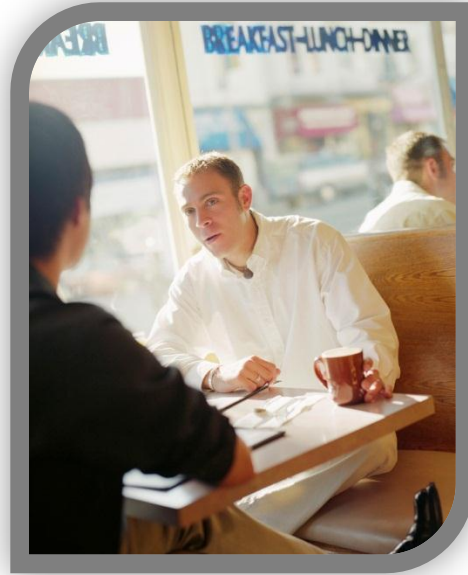
Now let's learn the financial metrics you need to understand before buying a restaurant.



Understanding the Numbers

“The value of a restaurant is not a subjective matter. It’s a math problem and there is a right and wrong answer. Qualified restaurant brokers with experience and financial skills know this.”

Cash flow positive businesses are typically valued using the **Income Valuation Method**. This is the most favorable and trusted method used to value a restaurant for nearly all buyers. In the days of restaurant lending that existed prior to the economic collapse it was the method used to secure financing on a business. If the restaurant had solid profits, and under normal economic conditions, it was likely a buyer could purchase the restaurant with 20% down and obtain an SBA secured or other type business loan. At some point those lending scenarios will return. Until then, the income valuation method still provides the most acceptable method of valuation for banks, lenders, and individuals in assessing the business. In a situation where a buyer is paying cash, this helps to reduce fear of the transaction, as the business has a proven track record.



Net Income

Plus Add Backs

= Owner Benefit

The Income Valuation formula adds bottom line earnings to add backs to calculate owner benefit. This is then applied to a multiple to determine the value of the restaurant.

Add Backs

Add-backs occur “below the line” and are added back to net profit to get a figure commonly known as total owner benefit. This is sometimes referred to as the seller’s discretionary earnings (SDE) or simply owner benefit. This is the equivalent of all cash and expenses paid to or on behalf of the current owner that will transfer to a new owner assuming the same business performance.

An easy way to think of add-backs is this. These are expenses that go away when the current owner leaves the business. Examples include: an owner's car payment, an owner's salary, an owner's depreciation or interest (as your debt and depreciation would be different) or an owner's donations.

Ultimately, what any buyer wants to know is what the total cash benefit to him will be from the business. Usual and customary add-backs are accepted commonly by banks under SBA (Small Business Administration) lending criteria. These can include anything that is fully documented on the profit and loss statement and tax return that are personal expenses paid for by the business.

There are two classifications that are not "added back." This includes **under the table earnings** and **potential**. Only provable cash flow on the books should be used in calculating the restaurant valuation and thus any "cash" or under the table earnings can't be used. Likewise, potential belongs to the buyer who recognizes and purchases a good deal. It does not go to the seller who has not capitalized on an opportunity. An expert restaurant broker should be able to provide you with a full valuation report on any restaurant you are considering. We Sell **Restaurants** provides our buyers with the *Business Analysis Report*®



Restaurant Financial Analysis

“The analysis of a restaurant should include a comparison to key industry variables like food costs, labor costs and occupancy costs. An expert restaurant broker presents financial data on this basis.”



There are a number of areas a buyer should assess when reviewing the financial statements of a business offered for sale. These questions are based on common U.S. accounting practices and methods. Focus areas include: Sales, Food Costs, Labor Costs and Occupancy Costs (rent).

Sales

Sales changes in themselves are typically not vital analytical points. Profitability trends are more important. Still the clear goal is to increase sales since the cost of doing business almost always goes up over the long run. In the tough economic climate of the past few years, it is not unusual to see decreases in the sales line while maintaining profitability.

Food Costs

Food Cost = Cost of Goods Sold/Total Gross Sales

A profitable restaurant typically generates a 25%-35% food cost. Because of the impact food costs make on an operation's profitability, this is one of the first things to examine. Low meat concepts (taco or salad concepts) generate lower food costs by nature while high end restaurants (or steak houses) typically have higher food costs. Beyond the bottom line, food costs also reflect an operation's food quality, value to the customer and management skill level. High food costs in a restaurant available for sale signals an opportunity for correction and greater profit dollars delivered to a strong operator.

Occupancy

$$\text{Occupancy} = \text{Total Annual Rent/Sales}$$

Physical location is important to the restaurant owner. The length and value of the lease as a percent to total sales is a key indicator. Evaluation of a property should include some subjective consideration. As a general rule of thumb, rent plus CAMS and all occupancy expense combined should be 8% to 10%.

Labor Costs

$$\text{Labor Costs} = \text{Cost of Labor/Sales}$$

A profitable restaurant typically generates 25% or lower labor costs. High labor costs in a restaurant available for sale indicate a failure to manage scheduling and could signal an opportunity for greater profit dollars for a new operator.



Steps in the Process

This report should have given you enough information to begin your search. Wondering about the next steps? Here they are.



Step 1 Begin inquiring on restaurants that fit your needs.

Step 2 Pre-qualify with the broker and submit a confidentiality agreement. This prohibits you from discussing the opportunity with anyone else and allows you to visit CONFIDENTIALLY without asking questions of the owner or staff.

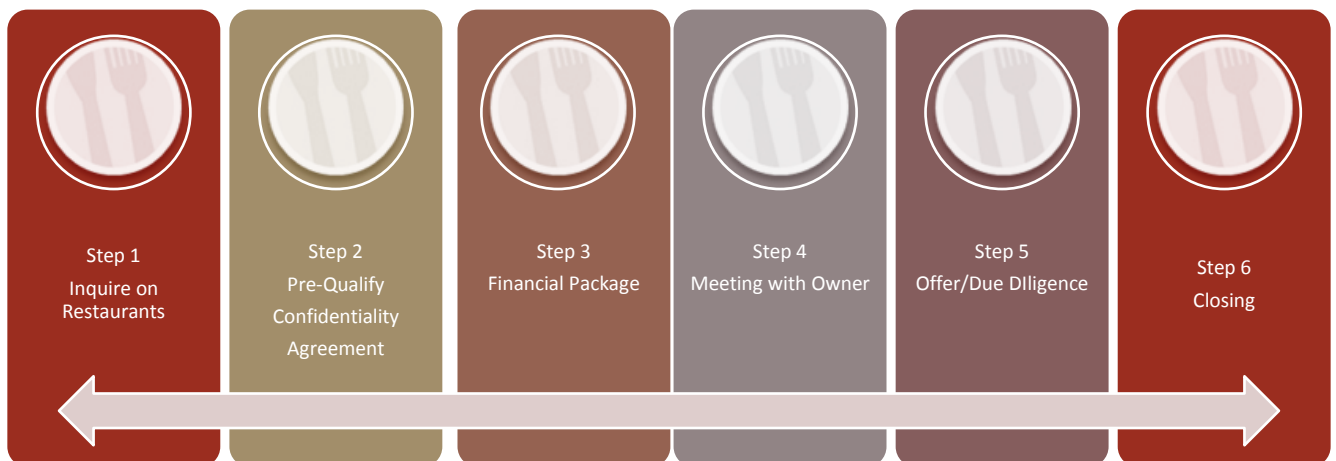
Step 3 If you like what you see, request a financial package like the We Sell Restaurants Business Analysis Tool©.

Step 4 Meet with the owner and view the back of the house and ask initial questions.

Step 5 Submit a contingent offer to purchase and enter into due diligence to confirm what you have been provided with backup documentation.

Step 6 Congratulations-Close on the business.

The tasks may seem overwhelming but with expert advice from a qualified and professional restaurant broker, you're well on your way to success.



Learn More about Buying a Restaurant

Visit www.wesellrestaurants.com

For dozens of articles and the latest information on how to buy a restaurant, visit our website. You'll find articles, news, videos, listings and more.

Register as a Restaurant Buyer on www.wesellrestaurants.com

WeSellRestaurants.com is the nation's most sophisticated website for restaurant buyers and restaurant sellers. We deliver an online confidentiality agreement, 24 hour access to restaurant listing information, photographs, the address, and even videos via our state of the art platform. Register as a buyer today for access to the latest restaurant listings first.



Buy our Book

[Appetite for Acquisition](#) has been described in the business as the “definitive guide for anyone looking to enter the restaurant industry.” Nominated for the 2012 Small Business Book Awards, it is full of tips, ideas, worksheets and more on how acquire a restaurant in a way that is less painful, more profitable and delivers a better return on your investment.

Read our Blog – Advice for Buying a Restaurant and Selling a Restaurant

Our blog is updated every few days with more articles and information on the process of buying a restaurant. For the latest information on line, visit www.blog.wesellrestaurants.com

Call Us Toll Free: 1-888-814-8226

Our agents are available to assist you in your search to find a restaurant and answer your questions.

Email Us

info@wesellrestaurants.com

Follow Us



Endnotes

¹ Eric and Robin Gagnon, *Appetite for Acquisition, The We Sell Restaurants Guide to Buying a Business* (Oklahoma: Tate Publishing 2011)

² Managing editor in consultation with research firm Makolm M. Knapp, Inc, *The 2010 Restaurant Industry Forecast*. (Washington: National Restaurant Association, 2010), page 4.

³ Managing editor in consultation with research firm Makolm M. Knapp, Inc, *The 2010 Restaurant Industry Forecast*. (Washington: National Restaurant Association, 2010), page 4.

⁴ Managing editor in consultation with research firm Makolm M. Knapp, Inc, *The 2010 Restaurant Industry Forecast*. (Washington: National Restaurant Association, 2010), page 4.

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