

How Do I Come Up With the Money to Reopen My Restaurant?

This seems to be one of those constant questions out there, even though many multi-unit operators and independents have received funding from the Paycheck Protection Program (PPP). These programs were just a way to get employees back to work, and will not provide sufficient funds to reopen restaurants. So what are the funding sources you should be looking at? As you can see, there is no silver bullet, but here are my 12 best ideas:

The first and most important step in the process is to determine what the true cost of opening the restaurant will be, including the cost of new safety requirements. What is the necessary level of working capital to get sales back to a break-even level? These items may seem unknown right now, but they have to be estimated. Once you have these numbers, you are ready to move forward.

Here are some ideas:

1. Landlords: This is as good as any place to start. Your landlord may have deferred your rent and helped you in other ways, but certainly the landlord has a great interest in seeing you succeed. This is so true because new prospective tenants are in short supply. Add to that the inability in many states of the landlord to take legal action if you default on rent. So ask the landlord for help to get open and become viable. Can they provide a loan that can then be paid off over a reasonable period under the lease? Are they willing to look at making certain improvements in your restaurant space, particularly if you have to create new configurations of seating and other items to comply with the new consumer needs such as takeout and delivery? Will they go to a straight percentage rent for several years?

2. Existing investors: If you have existing investors, are they willing to make a loan, or increase their investment? Maybe you could create a preferred class of stock for them, so they get their money back first, with a return. There are many ways to put a structure together that will work for inducing investors. Just ask them what they need.

3. Your existing bank: Banks have been so swamped with PPP loan applications, they haven't been able to consider other credit needs. It is still a potential source of funding that should be pursued, particularly if they have made a PPP loan to you.

4. Mezzanine or subdebt lenders: This is high-priced, but these second-position or unsecured loans are something to consider. Sometimes these funds are provided through small business investment companies (SBICs). Other times they are family office individuals that want a higher return. Nonetheless, it's something worth considering.

5. Friends and family: Friends and family are always an immediate option. You should certainly look at doing this in as much of an arms-length manner as possible, with a formal security offering. It may be friendly unless things don't work out, but they are always a great source if the family has resources.

6. Suppliers: Suppliers have had difficult times, but there are still some who are perhaps willing to sell you goods and services on credit to get you back on your feet.

7. Insurance: Many insurance companies are providing refunds because payrolls have been down and a number of insurance components are tagged to payroll cost. Additionally, if you serve liquor, your dram shop coverage may deserve a refund, since there may have been limited liquor sales.

8. Taxing authorities: As we have said in previous articles, there are always a number of tax items, including the deferral of certain payroll tax and carrybacks for losses, that in the past probably were not available for refunds. There are also certain new tax credits.

9. Crowdfunding: I think this may be one that many restaurants are going to try to use. There are two types of crowdfunding. The first is equity, where you raise money through equity or a simple debt offering. The second, probably more appropriate for reopening, is the Kickstarter or what we call a reward program. It could involve offering special discounts, gift cards or special clubs. In most cases, it requires using a platform and may or may not be effective, but it is something that certainly should be considered.

10. Selling memberships: If you have several restaurants, there is a group of people, particularly one in the Twin Cities who, prior to the pandemic, were able to sell a membership program through which, for a monthly fee, members could dine in the restaurants under certain circumstances and for a certain amount, thus providing upfront funding. This

may fit the new price-conscious consumer who wants safety and certainty in their experience.

11. Gift cards: As I stated before, look at gift cards and try to provide some significant discounts, probably more than the normal 20% to 25%. Possibly a higher amount will get consumers back in, which is great, but it will also give you upfront cash.

12. Sale of unique events and private dining: I have seen restaurants where most of their private dining was cancelled, but they've gone out and tried to sell prepaid events and private dining, bringing chefs into people's homes to make meals for a hefty price. It might be a little tricky in light of what we've gone through with our social distancing, but it is something worth a look.

Those are just a few ideas, and while none of them will offer the full solution, all are important to consider. It is going to take a lot of hard work and creativity to get back on our feet.

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