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The best 7 out of 30 best business practices

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THE LIST OF WHAT WE'VE LEARNED over the last six months in terms of best practices for restaurant operators could be 20 to 30 items, but here are a few key ones:

1. Landlord Relationships: The landlord relationship may be the most difficult part of moving a restaurant concept ahead. Hopefully, you've received some sort of interim relief from yours. Landlords are looking to get back to what they believe are reasonable rents, so approach your landlord and come up with a structure that has three parts: continued flexibility and possibly abatement and percentage rent for the next six months. That six-month period gets us to what amounts to a new normal, although that's not a given (if you can get a year, so much the better). Have a provision at the end of the six months that you will go to a base rent which will be equal to the average percentage rent for the previous three months. This will set a base, which is what landlords want. You can then tack on what we call a natural breakpoint: You take your percentage rent, which ideally will be 6 percent (though it could go as high as 8), and divide it by your base rent. That becomes the point at which you start paying percentage rent.

Be reluctant to extend leases, because there are too many unknowns. Also, work through any issues of personal guarantees. Have those burn off, or if you can get out of them, do it. The fact that you are still open and moving ahead should be a benefit to a landlord. If your landlord is not local, make sure they understand the severity of the situation in this marketplace. The number of closed restaurants, the issues of vacant properties, lower revenues, the fact that patios are going to be closing—all this information needs to be shared with the landlord if they are not familiar with local conditions. And even if they are, use such updates to reinforce that you're still open. This also holds true with your banks and vendors.

2. Suppliers: Through all this, we have learned that suppliers are some of your best friends, so strike up a long-term relationship now. That relationship will need to be flexible and such that you can move things forward. If possible, set up a payment plan for your old payables. See if you can pay them off at a discount. If you are confident things are going to move forward, you may be able to get some money up front or some food and supplies at a lower price. If your suppliers have been helpful and treated you well during this pandemic, treat them fairly. In many cases, they are facing the same, if not graver, issues as individual restaurant owners.

If they have been unreasonable and put the screws to you, find other suppliers.

3. Employees: Employees are even more uncertain about the future now. The essential ones who have stayed with you should be rewarded through some sort of profit sharing, even though there may not be profits for a while. Or offer some kind of actual ownership or phantom ownership. Make sure you are sharing information and resources with those key employees. Additionally, we have learned that in order to attract employees back, restaurant owners need to create some kind of certainty for them, which means clarifying how many hours they will work and when. While it is important to keep your labor costs as low as possible, bringing back key people and guaranteeing them hours might cost you a little more, but in the long run those key employees are the reason for the success of your restaurant.

4. Service Charge vs. Tip: A lot has been written about restaurants adopting service charges and finding creative ways to explain the rationale for having service charges either instead of or along with tips to guests. The going rate of service charges is anywhere between 16 to 22 percent. I am of the belief that you should sit down with all of your employees and have an open discussion as to what they want to do. Give them the pros and cons, have everyone hear each other out, and let them make the decision on how to proceed. You have to create the parameters as to who gets what portion of any service charge or combination of service charge and tip. Make sure consumers understand what is happening. I have seen large service charges (22 percent, with a tip line), and while the accompanying statement that explains the service charge is not a gratuity may be necessary for legal reasons, it is confusing for the guest.

5. Banks: We have learned that banks can be cooperative; but banks are not investors, even though I wish they were. What banks can do is give you a payment moratorium—i.e. interest and sometimes no payments—for a short period of time, but they will want a long-term plan. This plan can take three different forms: One is to go back to your old approach—if it offered favorable payments—and see if the bank will lower the interest rate since rates have come down. Second: Continue with interest-only for a period of time, tying it to sales or to profitability; then you start triggering payments. Or you can do what we call a cash scoop, where the bank takes a percentage of your earnings before interest, taxes, depreciation and amortization. In that case, it's a principal pay down. Make sure it is reasonable, but gives you flexibility to not make principal payments unless there is cash flow.

The third way is a payoff or refinance. I have seen cases where bankers say, "We've written off a part of this loan; we will take a discount if you take us out." And, yes, there are banks out there still lending to restaurants. Obtaining such loans would require personal guarantees, but it is something you should consider, particularly if the discount is significant, somewhere in the 20 to 40 percent range.

6. Government Programs: Government programs are helpful. The PPP loan saved many restaurant businesses. As it was originally configured, it probably would have been an extreme burden, but there have been some changes. Start working on your loan forgiveness early and make sure you learn the rules from an accountant, a lawyer or some other specialist and start moving on those items. Keep abreast of the other government programs. The EIDL loan is still, from what I understand, available and is a good tool for longer-term investment. While banks have been reluctant to embrace the Main Street loans, I still believe they are a good option. Beware, however, of the banks that are interpreting the rules narrowly. Keep up with grants on the state and local level. We have learned that those are key. Any source of funding that you can have, particularly that is forgiven or deferred substantially, is something that should be considered.

7. Investors: Investors are still the lifeblood of this industry, and there are investors out there looking at lower values and possibly putting money in. It is not going to be the same values as pre-COVID, but they are available, particularly if you have a business that has made it through and has reasonable cash flow. Investors always want to see cash flow as well as exit strategies, so if you have a multi-unit concept, they are more likely to invest in that, particularly one that has good unit economics. They are out there and they are coming back. Also, your existing investors have had to stand still, so go in and restructure their investment, don't just let it sit there. Possibly create a new class of ownership where they get their money out first. We have learned that you cannot take people for granted in this space and particularly investors, so help them out. FSN

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