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Financial Re-Opening Guide: Recovering and Preparing for the Future

Economies are opening back up, dine-in service is resuming, and consumers have started to return to restaurants and bars. At the same time, business isn't as usual and many industry and economic unknowns present restaurant owners with new challenges. However, there are things that you can do to help maintain profitability and ensure future viability.

Here are several key areas of focus to consider (spend time and energy where you feel you need it most):

Focus 1: Assessing the Current State

Focus 2: Developing a Business Plan for the New Normal

Focus 3: Getting Serious About Managing Expenses

Focus 4: Dealing with Debt

Focus 5: Planning for the Future

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Focus 1: Assessing the Current State

Many restaurant owners went through a number of different steps to deal with shutdowns, from closing down completely, to pivoting to new models of service and experimentation, to taking out loans and grants and cutting costs.

Whatever you did, assess your restaurants current situation by asking several questions to get an understanding of the current financial situation:

- What parts of your business are making the most money? (dine-in vs. carry-out)
- What dayparts are most profitable?
- What are the fixed costs in your business? What are your variable costs?
- How are your business margins?
- What channels generate the most revenue? (online orders vs. third-party delivery)
- What debt should be accounted for?
- Where are the gaps in your operation that should be budgeted and planned for? (staff, equipment, product, technology)

Use technology to help assess the current state

Data dashboards from your technology platforms and integrations can provide insights into what is happening in your business and why, which can help drive actions quickly. With data, you can learn how customers are ordering, what items are top sellers, which items offer the most margin, and get clearer insights into your labor. Use these insights to make decisions about your menu, pricing, staffing, and inventory, in order to control costs and drive more money to your bottom line.

For First-Time Users:

There are a lot of solutions out there that can help you analyze your business. Your restaurant's POS system is a good place to start, especially for first time data users. While levels of information collected will vary by the system, you can at least pull valuable data about revenue. Here are a few other ways to use POS data.

For Costs and Margins:

There are a number of restaurant technology platforms that offer more granular insights into costs, which can help you better understand your restaurant's margins. These include companies such as Galley Solutions, and PlateIQ, which help operators understand real-time food and beverage costs coupled with inventory management dashboards. MarginEdge helps with real-time costs, and also assists in automating back office invoice processing and bookkeeping activities.

Other larger platforms, such as Restaurant365, offer a broader view of all parts of your restaurant operations for forecasting and analysis, in addition to POS data.

For Channel Data:
Ingest AI and Bikky are examples of tech companies that help operators understand what off-premise channels are generating the most revenue. These insights can help you decide where to focus your energy and promotional marketing dollars.

Focus 2: Develop a Revised Business Plan for the New Normal

Use the high-level assessment of the current state of your business to inform a revised business plan that mirrors the new normal and a better way of running your business. Treat this as a helpful canvas for your restaurant to use in order to better define the new normal, following along with the information below:

- **Value proposition.** In the new normal, has the way in which your restaurant provides value changed? What differentiates your brand from others? Is it your menu, the prices, service, or experience?

- **Activities.** What are the essential things your business needs to do to accomplish the value proposition? This could include things like driving down costs in parts of the business by using data, integrating exclusive partnerships to add value, digital experiences to reduce staff and help with social distancing, etc.

- **Resources.** What are the necessary resources you need to accomplish your value proposition and activities? This could be people, money, space/equipment, and technology. For example, if your service model has changed and is focusing more on off-premise, staff needs may change, and it may change the type of space you need.

- **Partnerships.** Who are the key partners you need in your business today? This will likely continue to include your food distributor and other suppliers, as well as new partners, like new technology vendors or perhaps industry players in the community, like a bakery or brewery that will enhance your value proposition.

- **Customers.** Who is buying from you today, and has this changed since COVID? What is the impact to your business model and impact on the value proposition?

- **Channels.** Are customers coming back to dine-in? Or are they ordering online, or through third-party delivery services? Services like Bikky will tell you which channels generate the most revenue. Will it be dine-in, curbside, delivery, a combination of some or all of these?

- **Customer relationships.** How will you acquire new customers? Will you use third-party services to help reach new customers, as an example of a method to do this? How will you create loyalty and grow business with current customers - a loyalty program, perhaps?

- **Cost structure** of the business? Is your business cost-driven (you want to focus on reducing costs and frills) or is it value-driven (you're more focused on the experience), or is it a mix? Next, list out the costs that are associated and non-negotiable:

  Fixed costs are those things that never change, like rent, insurance, property taxes, and some tech fees and utility costs can be fixed.

  Variable costs are things that are flexible and can fluctuate with sales, so some utilities can fall in here, like water, electricity, etc., and this will also include things such as labor and food costs, credit card and some tech fees.

  This article may be helpful for evaluating costs associated with off-premise service.

Pro Tip: Given the unpredictable nature of the economy and consumer behavior, be conservative when forecasting sales and plan low, to account for different ways the government and consumers will react to the pandemic.

Know Your Break-Even Point!

There are several reopening calculators on the web that help owners and operators determine when it makes financial sense to reopen. This one can help you get pretty close to a break-even point, but be sure to also account for any debt that may not be figured into average business costs and that is associated with the pandemic or other extenuating circumstances.

Focus 3: Getting Serious About Managing Expenses

In unpredictable times, consider carefully managing expenses week-to-week. Ensure that you closely monitor fixed and variable costs and know when and how to pull levers. Here are a few tips and tools to help with areas that can carry some of the biggest costs for a restaurant:

- **Manage inventory and food costs.** Food and supplies are one of the largest costs to an operation. When dialing a business up or down, be sure to start small and consider a limited menu in order to control costs and reduce waste. Start with an affordable invoice. This article explains why managing food costs is so important and how to do it right.

- **Rethink your staff and payroll.** Many operators have been rethinking what staffing looks like and how team members are paid. From scaling back team sizes to paying differently, everything is on the table. Consider what new roles may be needed, from security to cleaning, what training will be required, and what responsibilities team members now bear, from not only running tables, but managing marketing, delivery, and curbside experiences. How will and should these things impact compensation for team members in the new normal?

  Pro tip: This article is great for understanding how to staff and what types of things to look for in staffing tools.

- **Evaluate one-time vs. usage fees vs DIY Services**, like technology and delivery, can provide a lot of value to an operation in terms of efficiency, revenue generation, and value-add. However, pricing models can vary, and it can be difficult to assess what is right for each operation. It's worth taking the time to evaluate what will be the most cost-effective by using sales projections to determine if a one-time fee model and service is better or worse than a variable usage fee, or even bringing the work in-house.

- **What things are necessities versus nice-to-haves?** List out what costs are essential vs. nice-to-haves in order to decide what stays, what can be paused until later, and what can be cancelled if or when hard decisions need to be made.

- **Overhead/fixed costs.** While many of these costs are what they are, be sure to assess the impact to the bottom line and look for ways to be efficient in the future, from possible equipment upgrades that will cost less to run in the future, to new locations that may cost less. Services like 86 Repairs can help assess your current equipment costs and make proactive recommendations.

- **Loan paybacks**. Many operators took out loans during the pandemic, and may still be doing so in order to keep the lights on through these difficult times. Understand the terms of the loans, build these into your costs, and have a payback process in place. See below for different approaches to consider around this topic.

Focus 4: Dealing with debt.

For some, debt may have been paused, deferred and/or further accrued during shutdowns. As operators work to stay open, recover business, save for future crises and avoid collectors, it can be overwhelming to think of where to start. While there isn't a one-size-fits-all approach, there are some things operators can use to put a plan into place. As soon as you can reduce your debt, you can increase your cash flow.

- **Evaluate debt:**
  - How much debt is there and what is the status of the debt?
  - What types of debt do you have? Bank loans, credit cards, family loans, etc.?
  - Identify interest rates of each loan to determine where you're paying more over time and where you're paying less.
  - What are the minimum payments for each debt?
  - What are the terms of each debt? This will help prioritize what should be paid first and by when.
  - Find out if there are protections are in place to help your businesses, or what promotional offers may exist that can be leveraged? For example, some protections were put into place around evictions and some credit cards will defer interest for up to a year for balance transfers.

- **Prioritize at-risk debt** first and then consider how to work through other debt, taking into consideration how much cash flow is available:
  - At-risk debt is debt with essential partners. This can include things like back-dated rent, back-dated payroll costs, credit extended by vendors - anything that is required to reopen and run your business now and in the future. Some of these vendors may be more flexible, some may not, so it is important to have conversations and review your terms on these credits.
  - Next, consider paying off your debts with the highest interest rates. This option will save you more money over time, and can be put towards other debt. However, if the highest debt is also the largest debt, this may feel like a big hill to climb.
  - Another option after at-risk debt is paid, is to pay off a small loan first, then work on the next, while still making minimum payments on others. This works well for others who like to see immediate progress to help build momentum.
  - Finally, a third option would be to pay as much as possible on each debt, if cash flow allows for this.

- Whatever the approach, **formalize and solidify a payment plan** and stick to it!

When are debt consolidators valuable?

Debt consolidators can be valuable if you understand all of your variable interest rates and understand that debt consolidators can provide a lower interest rate than what you're currently paying out in total across your debts.

Pros: Debt consolidators can help keep the lights on, provide cash flow, streamline bill payments, and offer a better view of cash flow.

Cons: Consolidators often have a higher blended interest rate in total, and if defaulted upon, could result with a lean on the business.

Managing credit after a crisis

Focusing on paying off debt and freeing up cash flow will help manage your credit rating. Here are a few things to help get there:

- Pay with cash and avoid taking out more loans
- Pay bills on time
- Avoid or reduce credit terms when possible
- Discuss payment plans AND aim for a short timeframe
- Dispute inaccuracies on a credit report

Focus 5: Future Planning

While the present must be dealt with, it's also important to take care of the future and even worst case scenarios, like a second wave of mandated closures or new capacity restrictions. Operators that are surviving right now are focused on improving current operations while protecting their future viability. This mindset is valuable.

Here are a few considerations operators can use to rebuild:

- **Build up an emergency fund** and a savings account, and start with small goals. Aim for 3 months worth of savings first, then 6 months, then 9 months.

- **Develop a contingency plan for unknowns.** This means both financial contingency plans, as well as business model plans that can be used as a playbook during crises. For example, if off-premise isn't a big focus now, it may need to be if capacity is restricted again or if closures are mandated.

- **Reopen with focus** and improve upon the parts of the business that are revenue-generating before taking on too many other projects.

- **Consistently review your P&L** Look at your P&L at least every month and be consistent with the day-to-day in order to establish great behaviors. Have targets for P&L line items, starting with sales projections and margins - these are the easiest to benchmark. Food, labor and rent should be the next focus, as these are generally the highest costs to an operation. Over time, build out targets and benchmarks for other costs such as marketing, utilities, repairs, insurance, service fees, technology, etc.

- **Consider bonus programs for management** to incentivize behavior and accountability.

Times are hard going, but tough times don't last. Tough people do. For operators out there, busy working "in" the business, don't forget about your vision and purpose—take the time to also work "on the business" that you built and love.