

WHEN YOU OPEN YOUR FIRST BAR, GETTING THE FINANCIALS RIGHT IS CRUCIAL

**"IF YOU WANT TO KNOW THE VALUE OF MONEY, TRY TO BORROW SOME"**

If Benjamin Franklin thought that, and his face is on the \$100 bill, then chances are it goes double for the rest of us... The truth is that money is the absolute be all and end all of bars and restaurants. Without it you can't open one and you can't carry on having one unless it starts making more pretty quickly.

And if you're trying to open your first place then you're at the absolute bottom of the pile when it comes to getting your grubby mitts on someone else's. As we found when we started, as a first timer almost everyone views you as a potential liability, a potential bad debt.

To avoid joining the list of tried and failed, getting your financial management straight right from the very start is crucial. Of everything we will discuss in this series, it's probably the key thing you should consider getting proper help with.

First off, you need to answer three key questions:

1. How much money do you need?
2. How do you get your hands on it?
3. How much money will your bar make?

#### HOW MUCH?

Think of absolutely everything you need to get your bar open and find out in advance what it will cost, or work out realistic budgets you can work to.

This applies to everything from obvious visible things (furniture, glassware, fridges etc) to the less obvious (stamp duty on leaseholds, rent deposits, legal fees etc).

Make sure you add a substantial contingency for any surprises of at least 10 per cent.

#### HOW DO YOU GET YOUR HANDS ON IT?

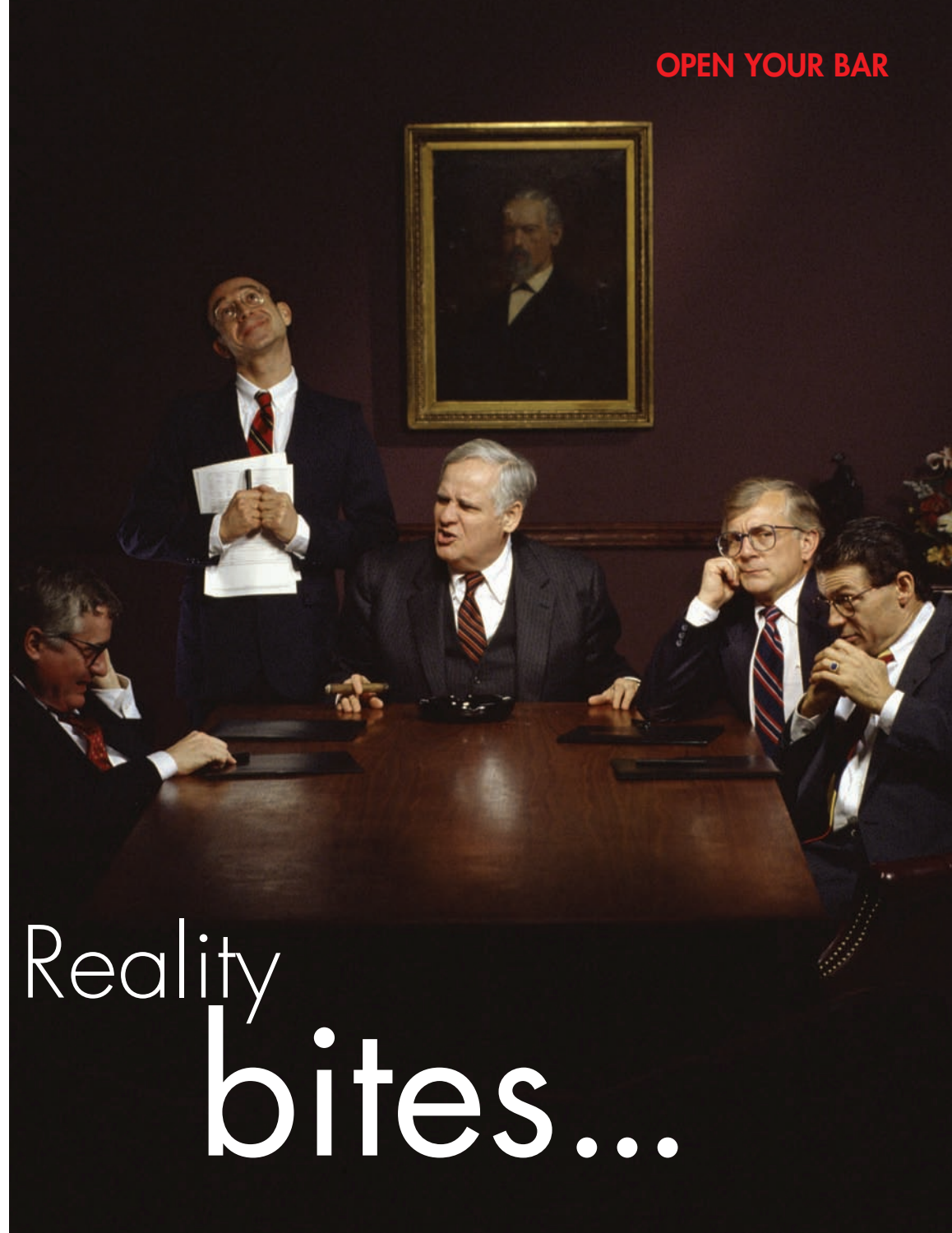
You'll probably need to have at least 50 per cent of the total set-up costs before knocking on the bank manager's door. You need to get your savings together, talk to family, wealthy friends and anyone else well-meaning you can think of. There's no substitute for the friendly investor, and most people we know in the industry started up that way, us included. Also investigate possible loans from breweries and the government's Small Firms Loan

Guarantee Scheme. If you can only raise a small amount, consider going into partnership with someone else, but be careful who you approach. Like marriages, business partnerships can end in tears.

Whether you're approaching a bank or a private investor there are a few crucial rules:

- **Be realistic.** If you think your new 1000 sq ft venue is going to take £20,000 a week in year one you're wrong, and the bank will know you are. And don't try exaggerating or telling half truths.
- **Know your figures.** The bank will ask you about them, and will want to know how you arrived at them. If you don't

OPEN YOUR BAR



# Reality bites...

have the answers at your fingertips you're not the kind of person they want to lend to.

- **Know your history.** The bank wants to know that you have the right experience and that you're aware of the history of the venue you're taking on.
- **Think about security.** Security is the ultimate watchword for lending. You have to borrow money against something. "You'll get it back, I promise," just isn't going to work. Not all banks recognise any security in taking a charge over the lease, and all will make you give a personal guarantee.
- **A word of warning.** Beware of anyone who tells you that they can sort ►

## MY FIRST TIME...

### UNDERDOG

"We budgeted £100,000 for doing our first venue, the Redchurch. In the end it cost £130,000 and we had to go cap in hand to an investor at the 11th hour. If they'd (quite reasonably) said no, we'd have failed before we got the thing open. Knowing what we know now we could have just about done it to budget and saved ourselves a whole lot of stress and worry."

### FAT CAT

*Matt Saunders (Fat Cat Group)*

"We acquired a closed down greasy spoon café in Bangor, North Wales, in 1992. We spent £40,000 which got us a simple bar area, a trade kitchen (all reconditioned kit) plus two bedrooms, a shower room and a lounge/office/changing area. We managed to get 12 months rent-free, we lived in and paid ourselves £3,500 per year, rising to £5,000 in year two. The bank's total contribution was a £2,500 overdraft facility; the remainder was borrowed from family plus a £5,000 Marston's loan."

**Matt now owns 11 venues, recently sold a further 10 to Marston's and no longer lives above the bar in Bangor.**

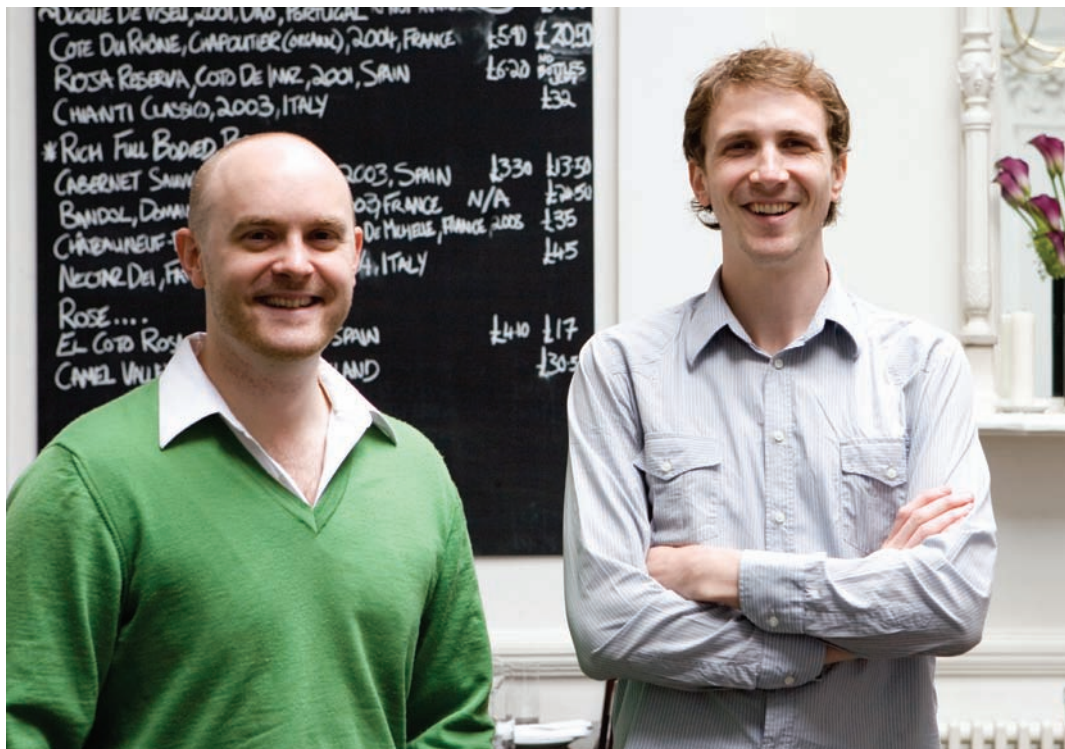
### GOING POSH

*Steve Hawkins (Hub Leeds Ltd)*

"We bought an existing venue called Marcel's. Originally it was a really cool little café doing amazing food in the day and a £12 three-course set menu at night.

"I was convinced bigger, better and smarter was best. We sunk £125,000 into it which was a combination of loan from my parents, my girlfriend's parents, some credit cards, and lots of favours. Everybody rebelled that we had gone posh and lost our soul. We tried to go back to the bring-your-own bistro attitude, but it was too late. I sold it for £30k and was glad to get out. What I lost on that first venture was worth it for everything I learnt because of it."

**Steve will be opening his fifth venue, OK Karaoke, this November in Leeds.**



Will Beckett and Huw Gott

➤ out finance deals with no security whatsoever. The prices they charge can be very high, and you risk losing a significant amount of time and money with no end result. Get a lawyer to read over any contract before you sign.

### HOW MUCH MONEY WILL YOU MAKE?

The bank manager and any investors (except, possibly, your overly trusting grandma) are going to want to look at financials. It's important to get these as accurate as possible. You, and everyone else involved, need to understand the risks.

You need to produce profit and loss and cashflow forecasts. If you've been a general manager you'll probably be familiar with the profit and loss, but the cashflow is also crucial. Lots of profitable small businesses come unstuck by not being on top of their cash situation. You'll have big lump sum payments you need to

make, such as VAT and loan repayments, and you have to be prepared for them.

To forecast sales think about spends per head, numbers you'll get through the door and talk to nearby operators about seasonal trends. Then list absolutely every cost your business is going to incur once it's up and running, the obvious and the less so. A really key one to get right, and to keep on top of once you're open is staffing. Do a few rotas (for peak, normal and quiet times) and cost them, remembering to add National Insurance contributions.

Once you have all this together, compare it with a few industry guidelines. Rent shouldn't be more than 10 per cent of net sales, staff costs for a drinks venue should be around 20 per cent, rising to 30 per cent if there's significant food involved and 30 per cent cost of sale (70 per cent gross profit) is a realistic target, although it will be higher (and gross profit will be lower) if you have a tie. ■



THE UNDERDOG GROUP HAS FOUR OF ITS OWN BARS IN LONDON, AND OFFERS CONSULTANCY SERVICES TO OTHER BUSINESSES

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