

SO...YOU WANT TO OPEN A RESTAURANT

Practical guides to writing a good business plan

FINDING THE MONEY

<https://www.montyaccounting.co.uk/hospitality>

this is the second guide in the series on writing a business plan for your restaurant (there are 10 in all). Make sure to go back and read the introduction and previous guides if you have missed them.

Finding the reddies

Opening a restaurant is going to take a lot of money - so where can you drum up the cash from?

In this guide we will:

- look at where you think the money will come from (but won't)
- look at the likely sources of funds for your opening
- look at how this all fits into your cash flow (which we started on in the last guide)

About the author

I am a bit obsessed with restaurants. I got bitten by the bug when I joined the Gordon Ramsay finance team 8 years ago. After leaving GR, I went on to become Finance Director for an AIM listed restaurant group.

I now run Monty. We work with restaurants of all shapes and sizes, sorting out all their financial needs.

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Banks

We'll assume this is your first venue. Possibly your first business venture.

The bank will not lend your business the money to open a restaurant.

Even if you have the most sparkly business plan money can buy, they will not lend you the money - unless you can give them a 'personal guarantee' - and often not even then.

That's enough about banks

Crowdfunding

You are not going to get crowdfunding if all you have is a business plan.

If this is your first venture and all you have is words on paper to back you up - forget it.

Crowdfunding does work for food trucks / stalls who have been successfully doing street food for a while and are now looking at finding their first permanent site.

Personal Guarantee - also referred to as 'PGs' by the cool accounting / banking kids - essentially you personally agree to pay back loans if the restaurant goes bust - the bank will look at how much you are worth (house, savings, investments) and if this is way higher than the amount you want to borrow, the bank may offer a PG.

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It's also been successful for people with a very strong track record in hospitality who already have some big industry investors behind them.

But it's not a common source of financing for first sites.

And it's not an easy route to go down - you need to find a lot of investment yourself (some platforms will not list you without you having some investors on board), you need to prepare proper business plans and do a whole heap of self-promotion.

You'll also need to raise more money than you actually 'need' as the fees on crowdfunding are pretty high.

On the plus side, the crowd has deep pockets, so if you do have something that people like, you'll have plenty of money to launch your venue in the way you want. And normally, they are buying a stake in your business, so there is nothing to pay back.

A quick word on street food

- you will save yourself a lot of heartache (and probably money) if you test your concept before you jump in and get a site.

So try a slimmed down / altered version of your menu at markets / events for a while. Build up a social media following and then run some pop-ups / supper clubs with a more complete menu (see websites like www.appearhere.co.uk for venues for pop-up hire).

It'll be hard work, but opening a restaurant will be harder. And this gives you the chance to mess about with your concept and get live feedback before you are signed up to a whole host of overheads.

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Hire purchase loans

These are loans taken out against specific bits of equipment you are buying. What can be funded through HP is pretty broad, so you can get funding for most chunky bits of equipment you need - you'll just need to pay an initial deposit on any assets you finance in this way.

On the plus side, this is easy money to get your hands on.

But it is expensive money, with rates typically in excess of 13% and a monthly payment of capital required over short-ish periods. Essentially, it may help you get open, but it will hit your on-going cash quite hard.

Alternative Lenders

Not one for when you start up, but once you are going there are alternative lenders out there who will loan you funds on a short term, high-interest basis.

These should be looked at in the same way as an overdraft - you should only use it in emergencies and not for very long. The interest on these loans is very high and margins are thin in this business, too thin to be paying horribly high finance costs.



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Your money

This is your best source of finance. You won't be leaving much for yourself - almost all of it will be going into the business. I really do not recommend building up personal debt to put into the business but it is not uncommon to see.

One thing to be aware of - your new business is unlikely to be able to pay you anything for the first six months. You need to get your personal affairs in order so you can weather zero income for a while.

Your mate's money (or parent / sister / aunt / etc)

Family and friends are a common source of cash. They can either lend you money or buy equity in your company.

Depending on a number of factors, you may be able to issue SEIS shares and this makes it a lot easier to raise money from people you know as they get a big discount on their tax bill which effectively pays for a big chunk of the shares.

SEIS shares (Seed Enterprise Investment Scheme)

When someone buys SEIS shares in your company, 50% of the value of the shares they bought comes off their income tax bill for the year. And when your investors sell SEIS shares for a profit in the future they do not pay any tax on the profits.

SEIS can be quite complicated, so if you think you can raise money using them, get in contact with an accountant who can take you through the ins-and-outs.



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If you are issuing equity in the company, there are a few other things you need to think about (like who gets dividends when and whether you need consent for certain decisions). A quick google will give you the outline on the kinds of thing you need to cover, but if you get this far speak to a professional before signing anything.

Remember: restaurants are a tricky business and any money going into them may get lost, so think carefully before you decide to take money from your nearest and dearest.



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Lets look at the cash flow

If you have not already, go and download the spread sheet from the hospitality page.

If you take a look at the 'funding' tab you will see a money in and a money out section. Money in is for you to fill in what you think you'll be able to get. We have given you a number of loan lines to account to various small loans from friends and family, add more lines if you need them.

In the money out section, put in any amounts you need to pay back to family within the first 12 months (all figures should be positive in both sections)

| | HP1 | HP2 | HP3 |
|----------------------------|--------|--------|--------|
| 1 HP CALCULATOR | | | |
| 2 Asset value | 10,000 | 10,000 | 10,000 |
| 3 Deposit paid | 1,000 | 2,000 | 1,000 |
| 4 Amount finance | 9,000 | 8,000 | 9,000 |
| 5 Annual interest | 13% | 14% | 14% |
| 6 No of monthly repayments | 36 | 48 | 36 |
| 7 Week of first repayment | - | 1 | 2 |
| 8 Monthly payments | 303.2 | 218.6 | 307.6 |
| 9 | | | |
| 0 Total interest | 1,917 | 2,493 | 2,074 |
| 1 | | | |

There is also a Hire Purchase calculator in the sheet, so if you are planning on using HP, tap in your figures here and your estimated repayments will appear in the cash flow.

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In summary

It's easier to get money from yourself and your family than it is any other form of lender. If you do not think you can fund your restaurant without lenders, definitely look at the street food route for a couple of years as this will open up lenders to you to a much greater extent.

So that's the run down on where the money is coming from.

In the next guide we'll start working out how much money you are actually going to need!

Keep up to date

Our next guide will be posted on linkedIn in a few days so make sure you follow me or send me a connection request to keep up to date

And if you know someone this will help - let them know!

If you want more info - please head over to our website and check out our hospitality page and blogs

Questions?

If you have any questions, stick it in the comments, DM Tim or head to our website to book in a call

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