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Startup Basics course highlights challenges

By JERRY CHAUTIN
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If it were easy to start a small business, almost everyone would be their own boss.

But it is not easy and in order to dispel some of the myths about becoming your own boss, Manasota SCORE offers a free local workshop called, "Business Startup Basics."

Dozens of prospective entrepreneurs attend, ask questions and get answers from volunteer business mentors who have hands-on experience in small business and corporate management.

The workshop is the first of five in the "Simple Steps for Starting Your Business" series. People who attend are invited to take the other four, for a modest fee. But many decide against continuing because they realize that starting a small business requires an unwavering commitment, substantial capital and a willing banker to lend the rest.

The fifth workshop is called "Funding Sources." But don't let the name mislead you. Most small-business lenders will not finance startups. Even existing businesses are rejected because of inadequate cash flow, lack of collateral or being in industries known to have high failure rates.

Restaurants are among the industries with high failure rates. Even so, it is the type of business most often chosen by aspiring small-business owners.

"There are more than 980,000 restaurants in the United States," said Charles Green, who presented a restaurant financing webinar hosted by Bob Coleman, publisher of the Coleman Report. Green is an entrepreneur, author and former community bank founder and chief executive. "Collectively, the industry is about 4 percent of the gross domestic product."

Even though he often hears an unsubstantiated claim that 90 percent of all restaurants fail, he points to a trade association study that says 23 percent fail the first year and 44 percent fail within four years.

Looking through a banker's eyes, however, those failure rates are still too high, and many will not make restaurant loans to individuals without a strong franchise brand relationship.

That's because franchises have a proven system for the franchisee to follow, including training and long-term help.

Some franchisors want their franchisees to have some experience in restaurant management and an understanding of how to read financial statements. Restaurants are management-intensive, and too many things can go wrong when owners lack hands-on management and financial competence.

Some novices get into the restaurant business thinking it is an opportunity to invite their friends and party with them over cocktails. But it rarely works out that way.

"It's a very demanding, 15-hour-a-day job. It goes on seven days a week," Green says. "A restaurant owner must adapt to tasks, everything from cooking to serving to washing dishes to repairing equipment because if someone doesn't show up."

Managing employees is also a full-time job, and owners must stay on top of who is hired and fired. Imagine how hiring an offensive host who greets customers at the door can hurt your business, for example.

"The turnover in the industry by some estimates can be up to 75 percent annually," Green says. "Training consistent quality service staff and scheduling are top challenges to anyone who owns a restaurant."

Jon Taffer, a bar and restaurant turnaround expert who hosts the popular reality show "Bar Rescue," says, "Teach, don't train your team." He contends that training is "behavior modification" and it takes too long.

"Teaching is showing someone how to carry out specific tasks and then encouraging them to add their personalities to make their role come alive."

Restaurants with bars that sell a high ratio of liquor to food have a greater risk of failing. That's because drinkers are more fickle than foodies and they will shift their loyalty to a newer watering hole with more ambience and a lower-priced happy hour.

For that reason, savvy restaurant chains keep bar revenues from increasing disproportionately to food sales.

As with most businesses, restaurants fail when they run out of cash. But their burn rate can be much higher and therefore lenders want more cash invested by the owner -- 30 to 50 percent of the total start-up cost is typical.

For more reasons why restaurants fail, Green suggests going to grumpygourmetusa.com/close.html.

Jerry Chautin is a volunteer with Manasota.SCORE.org, a local nonprofit SBA resource partner offering free business advice and mentoring. He is SBA's 2006 national "Journalist of the Year" and a former entrepreneur, commercial mortgage banker and business lender. He writes and blogs about business and commercial real estate strategies for several publications and financial organizations nationwide. Contact him with your questions and stories at jkchautin@aol.com and follow him on Twitter, www.twitter.com/JerryChautin.

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