Restaurant Operations Weekly™

Newsletter #29   Tuesday, October 2, 2018

Welcome to this week's issue of Restaurant Operations Weekly™

Insightful tools and information for over 28,000 monthly subscribers and hospitality leaders

Dear Friend,

In his book, The Effective Executive, Peter Drucker said, "Knowledge work is not defined by quantity. Neither is knowledge work defined by its costs. Knowledge work is defined by its results." So my question to you this week is, what results are you producing that bring value to yourself and your company? Another way to say this might be, "What value are your bringing to yourself and the shareholders you are responsible to?

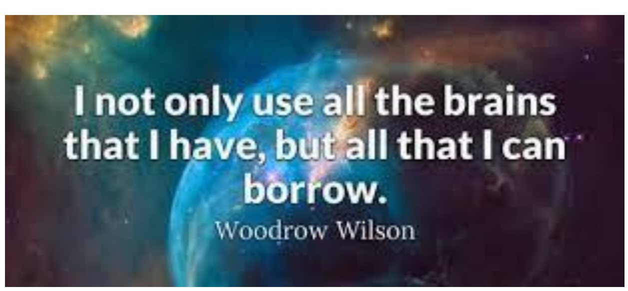
Effective executives differ widely in their personalities, strengths, weaknesses, values, and beliefs. In common is the belief that they must get the right things done at the right time. Some people are born effective, yet, effectiveness is also a discipline. And, like every discipline, effectiveness (the ability to produce results) can be learned.

If knowledge work is defined by results, how is your investment into your own company working out? Have you been paid back yet? Yes, has your company paid back your original investment you risked when you opened your place(s)?

In just a few minutes, you're going to understand the basics of a shareholder loan and how this knowledge can be worth potentially hundreds of thousands of dollars to you!

Restaurant Operations Weekly™ is here to help our friends run better, more successful and profitable hospitality operations.

Let's get to it....



"Have You Been Paid Back Yet?"

We're talking about money, so let's use all of our brains!

The caller on the phone said to me, "Kevin, we can't make any money, can you come to Georgia and help us out?" A few days later, I was sitting with our new client and her husband. They had purchased a large, family style restaurant that was under-performing financially and they had hired me to conduct an Operations Analysis to find out exactly what the problems and the solutions were.

After having done hundreds of these projects before, I had a pretty good idea of where the problems were, but it was during our initial talk that I discovered a problem that had a tremendous solution in store for them.

They had spent $350,000 to purchase the restaurant personally. After minor renovations, decorating and new menus, they opened their doors and immediately, both husband and wife put themselves on payroll. I asked them, "when do you plan to recoup your investment into the restaurant - what is your plan to get your initial capital back?" and they said, "We didn't think we could...can you show us how?"

In our consulting work, we frequently see the original investor(s) getting hurt because of situations like this where the original loan never gets paid back, with the money being incorrectly treated as a grant or a gift instead.

Before they purchased the business, here's what they should have done:

1. Husband and wife should have formed a corporation. *This would have provided them additional protection while operating under a corporate structure as well.*

2. They loan their personal funds to the new corporation via a Shareholder Loan Agreement, detailing the loan payback details and interest rate. In this case, their $350,000, at 10% interest over three years grew to $465,850. Their business owed them $115,850 just in interest! This could be converted to a monthly loan payback from their corporation to them personally in the amount of $7,764 a month for five years.

3. Their original business loan of $350,000 with interest of $115,850 should have been placed on the balance sheet as a "Shareholder loan payable" in the amount of $465,850 and as the loan payments were made, the payable amount shrinks.

By coming off from payroll and taking their loan payback first, their worker's compensation cost was also reduced significantly - and their own health insurance protected them anyway, so they still had coverage.

If you have invested money into your business but don't have a shareholder loan agreement in place, ***it's likely that your business owes you the money back***. Check with your accountant to see if going off payroll makes sense while you begin to enjoy the return of your original investment, with interest.

If you are going into business, ask your accountant if getting your loan (with interest) paid back before putting yourself on taxed payroll makes sense for your situation. ***This initial capital belongs to you - it's certainly not a gift to your business.*** If you own a restaurant already, it may not be too late to get this structured properly now.

Working with clients, we commonly see hundreds of thousands of dollars or more in original funding that never gets paid back to the shareholder(s) because they did not ask or were not told about a Shareholder Loan Agreement. Now you know about it and hopefully it's not too late to get one in place now. Following up on this advice could be the best thing that will happen to you in the few remaining months of this year!

Thanks for reading and feel free to call us anytime. Have a great week!

Kevin Moll, President

Restaurant Consulting Services, Inc.

2833 S. Colorado Blvd. Denver, Colorado 80222

(720) 363-0164

Development

Ready to open your own restaurant? Learn how here

How to be a competent & capable manager

Resources

To Subscribe or Catch up on back issues of Restaurant Operations Weekly

Ten Things That Genuinely Confident People Do Differently

[The Manager's Daily Checklist Sample Format](#)

[How to find meaning at work even when your job feels miserable](#)

[Think practice makes perfect? Think again. This article will change how you train everyone from now on](#)

[Year 2038 - How We'll Eat 20 Years From Now](#)

[Purchase the last 10 or 20 issues](#)

[50 Great Ideas for Your Restaurant](#)

[World's Best Restaurants Announced](#)

[How to make a great employee schedule](#)

[How to Design Your Beverage Menu for Profit](#)

[50 Restaurant Industry Statistics (by Toast)](#)

[Food holidays in October - Great Promotional Calendar](#)

PLAN . START . IMPROVE . GROW
RESTAURANT CONSULTING SERVICES®
WWW.RESTAURANTCONSULTINGSERVICES.COM