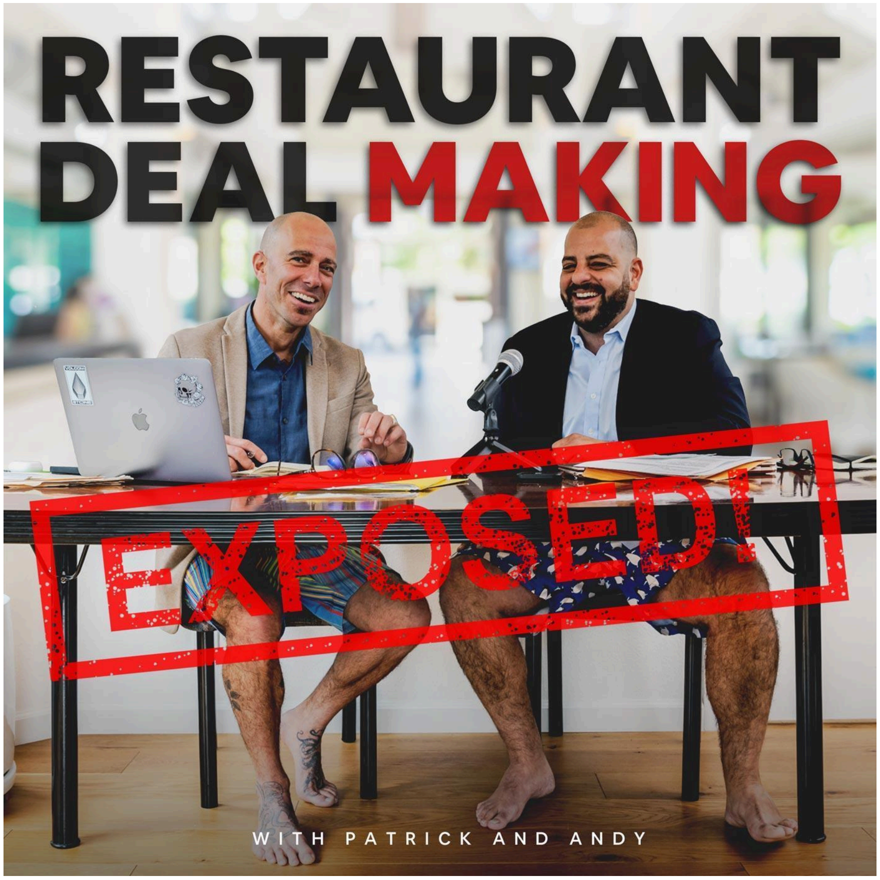
Ep #43: New Year, New Systems: How Smart Operators Build Value Before They Sell



Full Episode Transcript

With Your Hosts

Patrick Totah and Andy Mirabell

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Welcome to *Restaurant Deal Making EXPOSED!*, the only show that equips you with everything you need to know about restaurant transactions. In this show, we tell you all about how to make the sale or purchase of your restaurant not just possible, but successful. Now, here are your hosts, ex-restaurateurs, and seasoned brokers, Patrick Totah and Andy Mirabell.

Patrick Totah: All right, here we go, everyone. Welcome to *Restaurant Deal Making EXPOSED!* This is the beginning of 2026, and we thought we'd do an episode on new systems. New Year, New Systems: How Smart Operators Build Value Before They Sell.

It's January. Gym memberships are up, diets are in full swing. But how many owners make resolutions for their own business? This is a perfect time to take a broad look at your business and consider what you can do to improve it now. Pull up your P&Ls and ask yourself, where can I save? What can I cut? What's really driving profit?

Think about this: on a million dollars in revenue, every 1% of savings is ten thousand dollars straight to the bottom line. If you can shave that 1% in a few key areas like labor, COGS, and other stuff you don't need, there is real money you can make and help make your business healthier and more profitable. Take a hard look at what you're paying for but not using and make sure your menu pricing reflects today's cost. At the end of the day, your business should always be ready to sell, even if you're not ready to sell it.

Andy Mirabell: Well said. How did we get to 2026 already? Good Lord.

Patrick: I'm asking myself that as well. It's crazy.

Andy: All right. So, I really liked your analogy about the gym memberships and getting fit, right? And I think it's pretty keen to say, do we really take a look through that lens with our business? It's really important to be reflective, right? We do that for ourselves personally, physically, and so on, but with our business, it's really important.

And sometimes we're caught in this fast-paced life of running our own business. So we look at it in snippets of month to month and so on, and just keep trucking along. But I really think it's good to take a reflective approach to this and look back at your previous year through a different lens, essentially. What could we have done better? What could we improve on this year?

I think we talk about it pretty much ad nauseam on this show, but clean books. Having clean, accurate P&Ls and tax returns pays off handsomely. Okay? Clean books equal a higher valuation from our perspective as brokers. It also helps the buyers that are looking or considering your business want to see clean books too, because there's no mysteries there.

I think sometimes, especially after an owner runs a business for multiple years, you can get on autopilot. I was guilty of that with a decade-old restaurant. Yeah, I'd look at my P&L, and I felt like I could glance through it for 90 seconds and feel like, "Up, that all looks pretty much standard," right? Looks pretty good. And so I think diving in a little bit deeper and making more time for that monthly review and making that a habit is very vital for any business owner.

And likewise, if you're looking back at the year-end review, essentially, look at those monthly P&Ls with fresh eyes. When you were looking at it seven months ago just for that month and seeing what you need to do for the next month, that's one lens. But now, if you're looking back through a new lens about what this year is going to hold or changes coming, things like that, I think you might be able to catch things in these P&Ls that you didn't then, and that will pay off. Do you think that's a good synopsis of how to look at these?

Patrick: Yeah, absolutely. And I would also, one of the things that I would do on top of this 1%, that was my 1% rule, that I would look through and say, how can I save 1% here? How can I save 1% here? But also, look at your P&L year over year.

Look at it, 2025 compared to 2024, and go through the categories. Is anything sticking out at you? Is one category way higher in '25 than it was in '24? Find out more, why? And then also look at it on a month-to-month basis. Look at the entire 2025 and look at categories. Why is this category higher in this month versus that month? And just see if there's a story about that. And I think that all talks to you and could potentially help you with the year to come.

Andy: Totally. One thing, again, we've talked about this quite a bit too, but separating your personal expenses from your business expenses. It's very easy to run your personal expenses through your business to reflect less profit on your tax returns and hence pay less taxes. But if you choose that path and want to stick with it, then stick with it.

But if you want to sell your business, it is very hard to extrapolate or add back all personal expenses that will be acceptable by a bank lender, SBA lender, or even would be accepted by the buyer looking at it. A lot of the personal expenses are really hidden in the P&Ls, and they're not valid add-backs a lot of the time that would add value to your business.

It really comes down to if you have a profitable business, a going concern that you may choose to sell in the future, it's much easier if you have separated out your personal expenses from your business expenses and show a healthier bottom line.

We as brokers can do add-backs and recast these things, but if it's too in-depth or too mysterious, we too get lost in that, and we're not going to add back value for a lot of those things.

Oh my gosh, it's my favorite term of 2025, Patrick. Do you want to talk about tracking prime costs?

Patrick: Prime costs. I mean, I think it's one of the most important factors in a business, right? And when you're looking at your labor plus your cost of goods, we call that prime cost. And I think if you don't have a handle on those two things, I think your business is going to get away from you.

Andy: You pointed out to do that more regularly, too. Don't wait for the month-end. Right? We get our P&Ls oftentimes two weeks into the next month, right? You need to be looking at your prime costs on a weekly basis.

Patrick: Yeah, and there are systems that I would put in place that would manage it on a daily basis. Like what is being thrown away? How are you managing day-to-day labor? Like, hey, it's a little slower today. Did they cut someone? Because the things that you do every single day are going to add up to that number at the end of the month, which is you looking at your percentage of your prime cost. And so you can't wait for the month to be over to look at it, right? It has to be managed on a daily basis, on a monthly basis, and a yearly basis.

Andy: Also, some of the episodes we had last year, we really touched on technology. Okay, so just for our listeners, there are so many new systems out there that actually streamline all of this and communicate between your orders and your POS and your credit card processing, and it makes this sort of tracking much easier and much more modernized, right?

Patrick: Absolutely. And you don't want to get caught up on creating a bunch of systems that aren't going to be used. And sometimes the simplest of systems could like really help you, right? You want to make it as easy for your team members to manage this stuff, right? And you don't want to get it make it too complicated.

Andy: Yeah. All right, Patrick, let me ask you this then. We're talking about financial fitness of the business, right? So what are some of the things that we talked about just previously here about clean books, P&L reviews, separating personal and business expenses, tracking prime costs weekly and daily. What are some of the benefits of doing these things for operators and or future sellers?

Patrick: Yeah, I mean, first of all, you are ready to sell your business when you're ready to sell. When you're ready to sell, you want to be able to be pre-approved for an SBA loan. I think that's extremely important because if SBA is willing to lend on your business, that's going to give buyer confidence, the perception is that your business is healthy.

And so I think if you think about your business and what it's worth, if we're talking about, let's say a million-dollar business, how many people are going to come out of pocket on a million dollars right now, right? But if they can get an SBA loan and they have to come in with like 15 or 20% down, there are a lot more people that can come in with two hundred thousand dollars than they're going to have the cash for a million dollars, right?

Andy: Totally. There's plenty of asset sales out there that can be five hundred thousand dollars and up. And I think one of the first things out of my mouth to these sellers who said, say this is what this is worth. Okay? My revenue is great. We're losing money, but we need to offload this and so on. But I said, how many buyers are out there that have five hundred thousand, a million dollars in their bank account, ready to just to throw at a second-gen restaurant? I mean, it's kind of the unicorn, right?

Patrick: It happens, but you know, again, you're limiting your pool of buyers, right? You know, if we're talking fifty thousand, one hundred thousand, two hundred thousand, yes, an asset sale, people have the cash to do that. But when you start getting above five hundred thousand dollars, you kind of have to wonder when you're doing an asset sale, like, is someone going to spend this money on this? Because they're not going to be able to get a loan.

Andy: Yeah. And for all you listeners out there that don't have enough money, just call Patrick. He's got plenty to share with you guys, okay? Because of all of his high-level deals. All right. So let's talk about operational systems.

Patrick: I can tell you that when I go into businesses and start looking to, sell them and figure out what's going on, having procedures in place, having the recipes documented, whether it's in a binder or digital format, standard operating procedures, you know, how do we do this? How do we do that? Right? All this stuff is part of the intellectual property of a business and considered an asset.

And the more that you have all of that sorted out, I think is again, going to bring up your value or be able to hold the value of what we come up with, right?

Andy: Totally. You know, touch on recipes, right? I can't tell you how many times that, hey, the business may be running like a well-oiled machine, right? Or maybe it's a chef-owned and operated business, and people love the food. They love their signature dishes. They love, love, love all of it.

But when it comes time to sell, I'm really surprised at how many places don't have recipes. It kind of shocks me a little bit, or lack of recipes or the way that they've documented them. This is part of the intellectual property rights. This is part of the transaction. And you know, they're kind of a little bit more, oftentimes some folks are a little more fly by the seat of their pants. I'm not knocking it. I definitely had menu after menu that didn't have recipes and so on over the years, but it really is important. And I think the main point behind that is consistency.

Patrick: Absolutely. And I guess that leads into the next one, right? Like, how much is the owner doing in a business, right? Like, I mean, there's this word absentee owner, and I would argue you don't have to be an absentee owner, but it's really important that you do delegate and have managers and that you're not just 100% of the business, right? Like, how do you sell that? Like, if you were to walk away from your business for two weeks to go on vacation, does your business operate exactly the same? That's the question you should be asking yourself, right?

Andy: That's absolutely good way to word that.

Patrick: Right? Take a vacation for two weeks, come back. What's the business like? Is it still healthy? Is everything still operating? Yeah. That's a business that can be sold. If you're scared to leave for two weeks on vacation, that's going to be a hard business to sell.

Andy: Yeah. I love I'm going to coin a word, absenteeism. Okay? That attracts buyers. The second you have that in a listing title or description, people come out of the woodwork. It doesn't mean they're quality buyers, but it definitely attracts.

Patrick: Yeah, I mean, I personally believe that being an absentee owner takes time to get there, right? Like, you don't just buy a business, and I would tell my buyers, like, don't expect this to be absentee for you just because it was absentee for someone else. You need to get in there, show your face, make your team members respect you, you know, trust, ensure things are operating, roll your sleeves up a little bit, and get to a place where it can be absentee. I don't think this is something that you can just do overnight, and I would argue that like you got to put a little bit of effort to get to that point.

Andy: I agree with you. Most often, we see that kind of attitude, which doesn't work is from people entering this industry that previously weren't in this industry. You know, I think people that have been in this industry really know that you got to you got to show face, you got to gain respect with the team to get this thing running smoothly.

Patrick: Yeah, I mean, if you, let's say you bought a bar that was quote-unquote absentee, right? And then you're going to buy it, and you expect to just continue that absentee. Well, these bartenders and, you know, employees don't know who you are, right? They may not transfer the same goodwill that they had with that last owner to you. And I think that's fair. Like, you know, it's like they've the person before that, you know, gained their respect and trust and loyalty, and you need to have that as well. I that's my two cents.

Andy: Yep. So, can we move on to lease and licenses?

Patrick: Yeah, let's do it.

Andy: Yeah. This is an important one. Let's talk about your lease. You may be in a five-year term, and it's winding down. You got to always be aware of where you are within your lease term or your exercised option. Is it almost time to exercise an option? Is that the smartest thing for you to do at the time to posture to sell? Gosh, some of the timelines you have to exercise the option and inform your landlord are pretty different lease to lease. Sometimes it's a full year in advance, right? So you really need to remember, set reminders to, at different milestones in your lease.

You know, and I feel like since 2020, it's the first time in a long time I've had a lot of clients try to renegotiate terms, try to renegotiate a lease, and be more strong about it with their landlord, given the whole outlook for restaurants, marketplace for restaurants has really changed and shifted.

So, I've seen a lot of clients try to renegotiate a lower rent rate, maybe present that during their option period that they intend to exercise, that the fair market value is not what the landlord is saying the fair market value is. Maybe lease rates have dropped.

I've seen a lot of clients try to say, "Hey, the volume has been, we've been really damaged in a lot of areas of this industry, and volume is different now. Can we please renegotiate a percentage rent?" They're not always successful, but I've seen it happen. And I've seen a lot more renegotiations than I was used to in the past.

Patrick: Which is a good thing. I mean, thank goodness that landlords are willing to do that, right?

Andy: True. Health permits. Okay? Sometimes we just wait for that health inspector to come in the door, sign off, put some paper towels in the dispenser, and clean up that mess in the walk-in, right? And just kind of go about our day after that. We really want to know, especially when you're posturing to sell your business, and as Patrick pointed out earlier, it's best to always act as if you're have your business ready to sell, whether you're ready to sell it or not, right?

So, are you up to code? That's good to know. If you're not, are you deferring something that would bring you up to code? Are you deferring maintenance? These sort of things are a deterrent when it comes to buyers looking at your space. So if you're out of code, if you've deferred a lot of maintenance, that's a negative checkmark on their perception of your business.

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One thing that Patrick and I deal with a lot is the change of ownership with health department. It can vary county to county. It can be very strict. In a lot of the counties that we work in, it is very strict, almost prohibitive at times. And there's a lot of hurdles for that transition. So especially if a seller is selling a going concern, they're going to, buyer is going to carry on that brand and operations, kind of as is. It's really important that seller has their space up to code and that there's no big landmines or surprises during the change of ownership that could derail a transaction or cost them in the form of a credit back to the buyer because they have to repair something or fix something that's very expensive.

Vendor contracts? What are your thoughts on vendor contracts?

Patrick: Well, I think the, sometimes a buyer perception is that they're like transferring contracts, but as you probably know, most of the time with vendors, you don't have special pricing for like, a contract for a year, two years, three years, right? Like, it's the prices kind of fluctuate throughout the year, and you haven't locked anything in. I mean, sometimes I've come across where, you know, someone has buying power, and they've locked in prices, and of course, you want to the buyer would want to transfer that to them, but most of the time, it's not a transfer, it's a brand new agreement.

Andy: Yeah. And you need to advocate for yourself to get best pricing. But there are situations, I would say, how about a catering company? How about a event company for weddings and so on? You have preferred vendors. You also may have contracts as a catering company with, for example, I make lunch for this tech company down the street three days a week. And that adds value to the business. The buyer wants that to continue.

Patrick: Of course. Yep. Especially if it's a, you know, let's just say like one of those contracts accounts for more than 20% of your total business, right? Like, if you were to lose that contract, it would completely change the transaction.

Andy: Yeah. Totally. Totally. All right. Moving on.

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Patrick: All right. Let's see here. Brand and marketing health. You know, where are you with your Google and Yelp reviews? Everybody knows how I feel about Yelp.

Andy: Yeah, I got goosebumps right there when you said Yelp. So yes, I get you.

Patrick: It gives me a twitch every time I say that word. Take a look at your online presence, you know, how are your reviews? Are you a four-star plus on both Yelp and Google, and if TripAdvisor is important to your business? You know, what are your social platforms like, Facebook, Instagram? I don't know what the coolest stuff is now with restaurants and how important it is. But I obviously do see some of the more Michelin-rated restaurants sending nice pictures of their food and all this stuff. So you want to take a look at that. Is it, you know, and just see what where you are on all of that.

Andy: I think being active on that is key, though. Social media, you need to be active. If you're not and your last post was eight months ago, like, why do you even have it up?

Patrick: I think it depends on the business, right? Like, there's businesses out there that have no website, no social platform, and they're killing it, and they don't care, right? And then there's the other ones that it's part of who they are. And then if you're going to choose to do that, you have to stay active and relevant and current. And so that's a choice that you want to make.

Andy: But, you know, and again, a lot of the website stuff, you know, if your information on your website doesn't match how you're currently operating, come on. That's a big faux pas, right?

Patrick: Yeah. One of my biggest pet peeves, and I remember when I had my place and some of these, like delivery apps and stuff, they want to like take over your website, and it becomes like their platform is your website. I hate that. It's like, have your own website, control your own website, control your data, make sure it's relevant and accurate and current and all those things because I can tell you, like, I go on Google, search hours, and then you go down there and they're either closed, or it's not accurate and I hate that. You know, it's like.

Andy: Yeah, totally.

Patrick: This stuff is really important. Yeah.

Andy: So, in summary, I just think that having a fresh eye, looking back and being reflective on the year before is going to really help you moving forward. Don't just get in autopilot. Make sure that your business is ready to sell even if you're not ready to sell it. Okay? And there's a lot of steps and paths, you know, steps and things that you can do to have that have your business ready.

After talking about all these things, is there anything that gave you butterflies in your stomach, Patrick? I was going to ask you, like, what part of keeping your business, when you had your restaurants, what part of keeping your business current and relevant was the most challenging or scary to you year to year? Anything that kind of pops out in your mind that was a you're like, God, I got to do that or, you know.

Patrick: Yeah, I think every year it was inevitable that you had to kind of raise prices. And when you consider raising prices, that's going to affect some customers more than others. And it was always like a little scary, but it was also kind of one of those things where you kind of had to do it, or you were going to get priced out. And from the other side of me, the more strategic side, it's like, hey, if you raise your prices by 5% and you lose 1% of your customers, you're still up, right? And I would argue you have more capacity. And so I think that was always the one that just kind of gave me like a little trepidation. I would just be like, "I got to do this, but you know, is there going to be pushback from my customers?"

Andy: Gotcha. Good answer.

Patrick: What about you?

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Andy: Oh gosh, you knew it was coming back in my court. Social media always gave me a lot of trepidation. I was owning and operating restaurants in the 2009 to 2020 range there, and it was it was very fast-paced then. Everything was changing very quickly.

So, trying to stay relevant with social media, and how much do I pay someone to manage it? Do I not pay someone to manage this? Do I have my staff manage this? Do I need to learn these platforms? Because I'm old and don't want to? You know what I mean? Like, I think that gave me a lot of extra stress. And I also feel like my team, we used a lot of our time, and this is paid time for my team and labor every single day coming up with a post and creating a dish and being kitschy and doing that 365 days a year, it lost a lot of momentum and used a lot of time. That stressed me out.

Patrick: I agree. I would probably add that to my list as well. Not only did it stress me out, it gave me a lot of anxiety. So I would probably just like give that to somebody else to do. I would delegate that.

Andy: Yes, smart. All right. Well, we want to thank listeners for listening to our January first episode here, 2026. And there's going to be many more fun topics, guests, and so on to come. So tune in, please. Thank you.

Thank you all for listening to this week's episode of *Restaurant Deal Making EXPOSED!* If you're considering selling your business and would like a free consultation, reach out to patrickAndAndy@therestaurantsalesbroker.com or visit TheRestaurantSalesBroker.com to learn more.