The Prince of Business

In the business world, cash is King. Restaurant operators the world over do everything they can to generate cash – and keep more of it.

To "create" cash, some operators consider revenue-generating changes such as adding seats, increasing prices, suggestive selling or purchasing advertising. Others consider cost-cutting changes such as eliminating meal periods (i.e. stop serving lunch), reducing staff, lowering food costs, or adjusting portion sizes. It may be safe to conclude that there are nearly as many ideas to generate cash as there as restaurants in need of cash.

So what works? The answer lies somewhere in between "all of the above" and "none of the above". Depending upon the operator, the restaurant, the location and a multitude of other factors, some of the above ideas may work. Consider the following three operators debating whether to create additional seats in their restaurant:

> An extremely busy restaurant may not have the ability to serve the additional guests occupying new restaurant seats. A different restaurant, perhaps rarely operating at full capacity, would likely not have a compelling need to create more empty seats. A third restaurant, perhaps with a larger kitchen, may be able to operate at its current full capacity as well as serve guests in the new seats. It is this restaurant that may be able to benefit most from additional seats, provided that the additional income from the new seats provides a great enough return on the investment required to create the new seats.

Clearly, there is no single solution that will increase cash for all restaurants…or is there?

If cash is King, then barter must be the Prince. But what is barter? Barter is simply an exchange of goods or services between interested parties, with the absence of cash. Each party performs their duties diligently and at an agreed-upon value. The difference between a cash transaction and a barter transaction lies in the settlement of the transaction. A cash transaction is concluded when the cash is received by the party performing services. A barter transaction is concluded when the party receiving services provides services in return. Alternately, the transaction could be concluded by a promise to perform services in the future.

To see why a restaurant would undertake such a venture, consider two separate transactions, one involving cash and the second involving barter:

> Café Sunrise needs a new window cleaning company. The owner negotiates with Joe and agrees to pay $200 per month in cash, for a total of $2,400 per year. Café Sunset also needs a window cleaning company. The owner negotiates with Joe and agrees to pay $200 per month in Café Sunset gift certificates, for a total of $2,400 in gift certificates per year.
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> Who got the better deal?
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> Café Sunset. It should be extremely obvious to restaurant owners that Café Sunset scored the better deal. The primary reason the deal is better is purely in the numbers. By paying in gift certificates instead of cash, Café Sunset has effectively reduced the cost of the window cleaning service to the cost of the meals provided when the $200 in gift certificates are redeemed. Using a meal percentage of 30%, Café Sunset's true cost per month for window cleaning is $60, as opposed to the $200 Café Sunrise paid. But that's not all. It is quite possible that Joe never gets

around to using the gift certificates at all, further reducing the cost of the window cleaning. If Joe uses the gift certificates, he will likely bring guests, thereby creating more customers with whom Café Sunset may create relationships. Maybe Joe will give the gift certificates to other clients as gifts or rewards. This could create yet more customer relationships as well as provide an implied endorsement of Café Sunset by Joe's Window Cleaning Co.

Restaurants are especially well-suited to bartering because of the fact that most restaurants already print their own currency: gift certificates. By issuing gift certificates in lieu of cash payments, the restaurant has an inherent tracking system to ensure that the restaurant's barter transactions are being properly accounted for. This is especially useful for the restaurant's bean counters, who would promptly learn that the IRS treats barter transactions exactly the same as cash transactions. In other words, the redemption of the gift certificates in a restaurant triggers the recording of income for tax purposes. After all, the restaurant did get more business into your restaurant and, even after considering taxes, saved a bunch of cash in the barter transaction. Restaurants that currently handle gift certificates already have the accounting in place to handle the taxes related to barter income.

So…what can be bartered? Here are some real-world examples:

- Dry Cleaning (for the occasional spilled soup….or your manager's suits)
- Advertising (many advertisers LOVE barter)
- Legal Services (lawyers have to eat, too)
- Repairs and Maintenance (many will do some combination of cash and trade)
- Inflatable Bounce Houses (for Junior's birthday parties)
- Manager Rewards (trade gift certificates with other restaurants)

Perhaps the more pertinent question would be "what can't be bartered?" In my experience, the most successful barter-friendly restaurants ask, as a standard practice, if a vendor will accept trade in lieu of cash to secure a transaction. Doesn't matter what the vendor is selling – they just ask. After all, if a restaurant never asks, it may never know of the power and reach of barter.

Not entirely coincidental to this article, the Nevada Restaurant Association is currently researching a way to acknowledge barter-friendly companies – whether by engaging an actual barter exchange service (a company that facilitates barter transactions) or by simply identifying barter-friendly companies in Association member lists. If you or your company would like to be included on such a list or exchange, please contact Rick DiMartino at the Nevada Restaurant Association at (702) 878-2313, Extension 104.