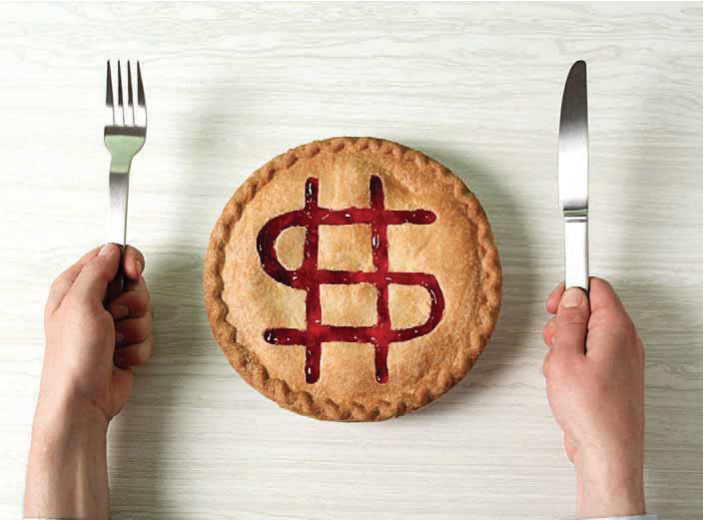
Money on the menu

Choosing the most effective finance option is a complex task but, reports Howard Riell, it's one job worth making an extra effort to get right



The leasing and asset finance of commercial kitchen equipment is one of the most important issues for any restaurant to get right. But doing so means collecting information, having the patience to sift through myriad offers, options and considerations, and working with an experienced, knowledgeable guide.

Details about the restaurant's track record and economic viability, about the equipment, even about the lender itself, all come to bear on a decision that will have major and lasting implications.

Lenders and consultants alike agree that getting good advice, doing the maths and weighing the options carefully gives restaurants the best shot at locking in financing that will help them thrive over the long term.

Arlene Spiegel, President of Arlene Spiegel & Associates in New York City, sees restaurant owners being credit-worthy, as well as the often hidden costs and UCC (Uniform Commercial Code) requirements, as major challenges.

The right partner.

"An important factor is finding the right leasing company," TW MacDermott FCSI, president of the Clarion Group in Kingston, NH, points out. "An independent lessor may be an alternative to the manufacturer, dealer or supplier. As always, read the fine print: what is the pre-payment or end-of-lease payment? Does the lease include maintenance and repair? What are the other terms and conditions? Can you extend the lease after its initial term, and at what rate? If the manufacturer or dealer leases the equipment, what are the terms for upgrading to the next model during or at the end of the lease term? Finally, how long should the lease be? Three years? Five years? The useful life of the equipment? The longer the lease, the lower the monthly payments, but lower payments may be offset by higher repair costs as the equipment ages."

Life cycle.

A restaurant's point in its life cycle is key. "Commercial kitchen equipment, because of its heavy use, probably loses its value quicker than anything else," suggests Clifford A Metcalfe Jr, president of Kingswood Leasing, Inc in Dover, NH, which does business as Fast Source Leasing. Add to that the failure rate of restaurants, estimated at 20% to 25%, and "most restaurant equipment, when it's repossessed, is 10c on the dollar. If it's an existing chain there are no issues. But if it's a ma and pa, like 90% of the restaurants in America, it's the value of the equipment doesn't stay."

Services.

"Typically, ice machines, warewashers and coffee equipment leases come with guaranteed service," Spiegel points out, "which is a big plus." Besides cash outlay, she adds, "there are lease-to-purchase options at a later date when the owner has better cashflow."

Leasing eliminates large cash outlays required for outright purchases and allows these funds to be used for other investment purposes. "And it can often be a make-or-break situation when deciding to open a small business."

Besides technical and mechanical service, Spiegel notes, "the ice machine company will actually bring ice to the premises, and the coffee equipment companies will provide equipment while the servicing the original units."

The owner is responsible for maintenance and cleaning unless there is a problem.

With all the factors to be weighed and balanced, restaurateurs do themselves a disservice if they base financing decisions solely on the lowest price.

After all, what if their customers did the same? ■