

Case Study HOSPITALITY BUSINESS STRUCTURES

“THANKS FOR MEETING WITH ME,” said Chris Joseph. “ When Professor Laskee suggested I call you,

I wasn’t sure if you would find time for me. You sure have a nice - looking hotel! ” “Thank you,” said Trisha Sangus, general manager of the property. “ I always liked Professor Laskee. He was one of my favorites. I learned a lot from him. Anything I can do for him is truly my pleasure. How can I help you? ”

“Well,” Chris replied earnestly, “I want to start my own restaurant!” “Great!” replied Trisha. “ How can I help? ”

“I have some questions,” Chris replied. “Do you think it is better to do this all on my own or to have partners? And can you give me any tips on securing funds? I don’t have enough money to do it all by myself. I have some capital but probably not enough to do the entire project. I do have some friends and family who can help. Also, I have been thinking about an independent place, but maybe a franchise makes more sense for my first restaurant. What do you think? ”

“Time out,” said Trisha with a smile. “ First things first. I think it’s wonderful that you want your own place. Owning a restaurant can be one of the most rewarding things you will ever do. I admire your enthusiasm. If you truly love serving people, and enjoy hard work, you’ll make it! ”

“I know I will,” replied Chris.

“ That’s great. Confidence is important,” said Trisha. “But let me ask you, have you considered the possibilities for structuring your business?”

“ What do you mean, ‘structuring ’ ?” asked Chris.

“Well, let’s look at your first question: to have a partner or go it alone. Your decision will be affected by how you like to work and the amount of control you want to retain, but it will also affect how much freedom you have if you decide to sell the business. An accountant can advise you there, but you should know your options. ”

“Okay,” said Chris. “ I’ll look into that. What about incorporating? Is that a good idea? For liability, I mean.” “Incorporating can reduce your personal liability if things don’t work out, but there are other ways to do that, and some of them are less expensive. But they do have limitations. An attorney can help you there; but again, you should understand your options. ”

“How about taxes?” asked Chris. “ Are there differences there? I’d want to put most of the restaurant’s earnings back in the business, at least for the first few years. ”

“Reinvesting in your business is smart,” said Trisha, “and you are right to consider taxation. The type of organizational structure you select will definitely affect your tax rates. ” “Wow,” said Chris. “ Selling, liability, taxes . . . what else is affected by the structure I choose? ” “Capital,” replied Trisha. “ Most people have to raise or borrow money to start their businesses. ” “That would be me!” said Chris with a laugh.

“ That’s okay,” said Trisha. “I don’t know of a successful businessperson who has zero debt. It isn’t what you owe; it’s your ability to repay it. And creditors will look at your business and operating structures to determine, in part, how likely you will be able to repay them.”

“Will franchisors look at that, too?” asked Chris. “Absolutely,” replied Trisha. “ Look, Chris, you want to make your own place happen. You can do it. But let me give you some reading material, and then let’s get together again next week. Sound good? ”

“Sounds great,” replied Chris. “ I want to do this right, and I really appreciate your experience, and your willingness to help. ”

“Just remember,” said Trisha with a smile, “free advisors always get a good table!”

“You got it,” said Chris. “The best in the house.”

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