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Restaurant

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STARTUP & GROWTH™

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Cut Out
For This?

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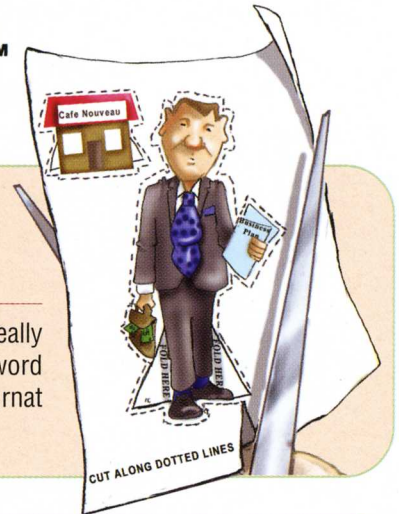
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Restaurant STARTUP & GROWTH™

20 Are You Cut Out for This?

Going Into the Restaurant Business With Eyes Wide Open
by Jim Laube and Gary S. Worden

It's true that with enough capital anyone can open a restaurant, but that's not really the point. Anyone can throw money down the drain. We assume you want the word "profitable" in the list of adjectives that describe your business. Here, two restaurant business veterans discuss the challenges you'll meet on the road to success.



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Spread the News

How to Make a Customer Newsletter an Effective Marketing Tool
With Jim Laube, Jenny Cook and Gina Hubert

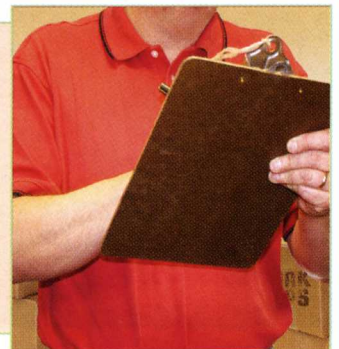
Newsletters can keep your business top-of-mind for your customers as no other form of advertising can, including Web sites and other types of mailers. Advocates say they build relationships with guests second only to face-to-face interaction. Two restaurateurs talk about why newsletters have become such a staple in their marketing mix, and share some tips and techniques to make them effective.

Give Me Some Credit!

A Startup Guide to Restaurant Vendor Credit Terms
by Lee Plotkin

Particularly for the new operator, obtaining extended credit terms from your vendors can be a frustrating process. The Catch-22 is that cash flow typically is tight for the startup. This is the time when you really need credit; however, it is also the time when creditors are least likely to extend it. This article tries to help give you a clue how restaurant suppliers evaluate credit risk and familiarize you with credit terms and conditions.

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According to National Restaurant Association statistics, 7 out of 10 restaurant operations are still independently owned and operated. Industry sources also point out that last year local governments issued 52,000 new restaurant business licenses. The statistics indicate there are a lot of entrepreneurs still out there opening their own places. The big question: Should you be one of them? (Cover illustration by Keith Ibsen)

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PUBLISHERS

Gary Worden
gary.worden@spc-mag.com

E. Mark Young
myoung@spc-mag.com

ASSOCIATE PUBLISHER

Todd Reese
todd@spc-mag.com

EDITOR

Barry K. Shuster
barry@spc-mag.com

WEB EDITOR

Jim Laube
jim@RestaurantOwner.com

ART DIRECTOR

Justin Kite

CONTRIBUTORS

Nathan Allen, Esq., Cameron Bailey,
Wayne Bunch, Dan Butler, Zoie Clift,
Doug Duerr, Esq., Emily Durham,
Joe Erickson, Doug Frost,
Gene Gentrup, Wendy Gillett,
Jay Goldstein, Larry S. Green, J.D.,
Monica Guico, Jeff B. Katz,
Kamron Karington, David Knopf,
Patricia Luebke, Jim Laube, Les Lent,
Bill Marvin, Jim McGovern,
Diana Lambdin Meyer,
Melanie Radzicki McManus, Rudy Miick,
Pat Morris, John Nessel,
Jay Ostrander, Karla Pavese,
Dave Pavesic, Ph.D., FMP,
William Pinto, Esq., Alisa Pittman, Esq.,
Lee Plotkin, Robert Plotkin,
Howard Riell, Robert N. Rossier,
Sam Silvio, Dan Slobodien,
Chris Tripoli, Mark Vasto

COPY EDITORS

Gene Gentrup, Janie Fopeano

PRODUCTION MANAGER

Leslie Mason

CIRCULATION

Doug Turner, Director

Assistants:

Char Roush, Ellen Willits-Smith
Stacey Atkison, Heidi Bische

FINANCE

Sherry Cannon, Ginny Young

Administrative and Editorial Offices
5215 Crooked Road, Parkville, Missouri 64152
Telephone: (816) 741-5151
Facsimile: (816) 741-6458
Electronic Mail: rsg@spc-mag.com


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EAT WELL
FOODS

Give Me Some
CREDIT!
A Startup Guide to

By Lee Plotkin



Most if not all restaurant startups are faced with the somewhat confusing task of wading through the vendor credit process so that they can operate with credit terms. The steps required for establishing credit with your suppliers and their decisions can be somewhat perplexing. Particularly for the new operator, obtaining extended credit terms from your vendors can be a frustrating process. The Catch-22 is that cash flow typically is tight for the startup. This is the time when you really need credit; however, it is also the time when creditors are least likely to extend it. If you have no clue how restaurant suppliers evaluate credit risk and are unfamiliar with credit terms and conditions, you can find yourself even more lost and confused.

This article is intended to provide the startup restaurateur with some understanding and insight into the challenges they and their suppliers may face in this process. The restaurateur can then be better prepared to approach their supply partner of choice, to negotiate from a position of knowledge and to work together to achieve the most favorable terms available.

A Popular Subject

Make no mistake; credit terms are a much-talked-about subject in your vendors' weekly sales meetings. Most broadline distributors estimated at the beginning of each fiscal year that they are going to write off somewhere in the neighborhood of \$250,000 in bad debt. Restaurant credit terms are an ongoing issue that they struggle with.

Restaurant Vendor Credit Terms

As with all creditors, restaurant suppliers predicate their credit decisions on limiting their exposure to default. A brand-new restaurant most likely will not be well-positioned to get extended terms due to the suppliers' perception of whether that restaurant will still be in business in a year. That's basic finance.

What you might not have considered is that a restaurant that initially purchases \$1,000 to \$2,000 per week in supplies may be in a better position to obtain more favorable credit terms than a restaurateur who initially plans on buying \$10,000 per week. For the vendor, the logic is if the restaurant goes out of business after one month, he may face uncollected debt of \$4,000 to \$8,000 as opposed to \$40,000. Thrown into the equation is pricing; that is, if a restaurant is willing to pay higher margins as a "street account," then the vendor might be willing to go a little farther out on the limb, since the account could reap higher profits.

Get a Sales Tax Certificate

When applying for credit with your distributor, don't forget to ask about a "Blanket Tax Resale Certificate" to sign during the application process. This signed form will ensure that your restaurant is not charged for sales tax on items deemed to be tax-exempt by your state. Check with your vendor or state controller or revenue department for a listing of tax-exempt items.

The good news is that distributors want you to understand your credit terms and conditions, and can do a good job explaining their policies to you, especially if you already understand the lingo. Most foodservice distribution companies train their sales representatives to guide the restaurateur through the process and be their company's advocate. Ask and understand their standard terms, and work with their criteria.

Key Terminology

As you are probably aware, "Net" terms identify how long a customer can wait to pay the invoice. What you may not know are the various permutations available to restaurants, depending on their time in

business. The most common terms listed on a vendor's credit applications are:

Standards for new restaurants:

- ✓ COD (Cash or check on delivery).
- ✓ Net 7 invoice.
- ✓ Net 14 invoice.

Standards for established restaurants, three to five years (as a rule of thumb):

- ✓ Net 21 invoice.
- ✓ Net 30 invoice.
- ✓ Net 10 proxy.
- ✓ Net 15 proxy.
- ✓ ACH (a form of electronic payment, i.e., direct debit).

All terms, except COD, Net 10 proxy and Net 15 proxy, require payment in the amount of time from the date of the invoice. A Net 7 invoice requires payment in seven days, for example. Payments on Net 10 proxy and Net 15 proxy credit terms (or "end of month 10 & 15" as they are also called) are due on the 10th or 15th of that following month. For example, pursuant to a Net 10 proxy, all invoices for January 2006 would be due to the vendor on February 10. On rare occasions, a vendor may set up a system with its account for invoices to be paid twice per month (whereas the restaurant pays on the 15th and 30th of the month). The terms will vary depending on the risk that vendor is willing to assume.

Customer 'Buckets'

Let's look at the credit world through the eyes of your vendors, for a minute. Most vendors want you to know that even if a restaurant obtains Net 21 invoice terms, that restaurant will still be writing checks every week to pay invoices (except for the initial 20-day startup period of the restaurant, during which time a vendor will extend a grace period of the 20 days for the restaurant to obtain cash flow to cover those payables). Common sense tells us that you will be buying every week, and regardless of your credit terms, a payment for a purchase will become due each week. That is why most companies consider their terms to be "rolling" or "ongoing."

In vendor weekly credit meetings, "customer buckets," i.e., the amount of outstanding debt being paid according to the established credit terms, as well as the

amount that is not, are reviewed closely. The "buckets" are generally broken down into the following categories: Current accounts are payments received within one to seven days of the invoice due date. Overdue accounts are broken down into the following "buckets": eight to 14 days, 15-21 days, 22-28 days, 29-60 days, 61-90 days, 91-180 days and 181-360 days. Once an account is late 360 days beyond the invoice due date, it is generally written off.

Every month, vendors make an account entry "write off" of a certain amount of past due customer invoices. This has the effect of increasing their cost of doing business and lowers their profit. Vendors do this because based on experience, they know that once invoices become past due a certain amount of them will eventually become uncollectable. Also, most perishable goods companies (produce, meat and seafood) are required to pay their suppliers within a seven-day time frame.

As you can imagine, vendors place a high importance on "on time" payments by their accounts. Paying your bills on time will have a significant effect on your business's ability to obtain credit, perhaps more significant than in any credit relationship.

In the long run, it will establish or re-establish a positive credit history within the industry, which will be quite helpful if you ever launch another unit. Moreover, it will ease obtaining extended credit terms and/or credit line as the restaurant company grows. In the short term, paying your bills on time may qualify you for early pay incentives or rebates, and you'll have greater ability to negotiate lower costs and margins with your "supply partners."

One broadline distributor representative told me that some larger and very successful types of restaurant companies establish credit very conservatively. In fact, one such company elected to opt for voluntary COD for their payment schedule with their first location. The rationale was based on the owner's desire to understand their true overhead and expenses and not rely on vendor credit for capital until they reached a certain point in their growth, where credit was applied for and received. This regional growth company has since evolved into a fundamentally strong restaurant corporation.

Most broadline distributors keep very close tabs on the buckets and typically will place a

restaurant on “stop ship,” in which the order will not ship if it is seven days past due on a payment. Stop-ship situations generally require cash payment on the past due amount and renegotiation with the supplier. Stop-ship grace periods can vary from vendor to vendor.

The process is very automated and only based on terms moving outside individual customer payment parameters preset on their systems. Penalties for late payments can also occur.

Credit Checklist

Foodservice vendors will want to know that all aspects of a restaurant’s business are set up before applying for the credit process. It may be viewed as a red flag if certain aspects are not available because the legal entity may not yet exist. The vendor will verify the legal entity and accuracy of information provided on the application, which could have a bearing on whether credit will be established. Before filling out the application:

- ✓ Make sure that the “DBA,” (i.e., “doing business as”) name is filed. It’s surprising how many businesses and their attorneys overlook this step, which is required by law in most states. Even though your company’s articles are filed with the secretary of state, in most jurisdictions, you need to file a “statement of fictitious name” in every county in which you conduct business, if the name of your restaurant is different from your company name. For example, if your business is XYZ, LLC, but you operate as Joe’s Diner, you need to complete and file this statement.
- ✓ Complete all legal filings, especially your articles of incorporation or operation.
- ✓ Establish a commercial bank account. It is often required and always viewed favorably.
- ✓ Have checks printed in the company name.
- ✓ Put together a list of business credit references (preferably within the industry). Provide company name, phone and address.

Before extending credit, the vendor will run a D&B (Dun and Bradstreet, a business information service) report on your corporation’s and/or individual credit history report (individual credit histories are especially important if the business is set up as a limited liability company or partnership). Creditors need this report to provide them with some objective basis for their analysis of your creditworthiness.

See the sample Credit Account Application on Page 42. Keep in mind that vendors view the application itself as the initial test, and not filling out the application in its entirety can be viewed as a red flag (unless terms are COD). The more forthcoming the restaurant is in the application, the easier it may be for that vendor to work with and possibly establish extended terms.

Credit References

You should know that suppliers will share credit information, if you list them as a credit reference. That said, you can rest easier knowing that by law they are typically allowed to only release what would be considered public information, such as how long in business, pay within terms,

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late payments and bankruptcies. Most, if not all, larger distribution companies handle this information by automation and privacy handling policy procedures come into play so that strict confidentiality is maintained. A great deal of security is placed on this system, as they do not want to be held liable for proprietary information being released.

Use references to your advantage. The more major suppliers and banks you can list as references, the better chances you may have for extended terms. The information can show that the restaurant owner has stability in the marketplace.

Personal guarantees will probably be required. Particularly if you are a new business, expect the vendor to require the individual personal guarantee of one or more owners. A personal guarantee makes the individual liable for payment, if the company cannot meet its obligations. One of the reasons people form limited liability companies and corporations is to shield their personal assets from creditor or tort liability. Creditors want to know that they can easily pursue the owner's assets if the business folds.

As noted, the guarantee is an important part of the process to most companies, as they do not have the business history of that restaurant. However, it would be also important to note that even if you do not sign the portion of the application that agrees you will be personally liable for the debt, often by signing the application as an officer or partner of the company, you will bind individual owners to liability for the financial obligations of the company, pursuant to other terms and conditions of the application.

Cross-corporate guarantees can be useful. Owners who may have an established business outside of the restaurant industry may be able to use that business as the guarantor for the debts of the restaurant. In this case, the vendor will request financial statements and other information about the business, to serve as the basis for credit.

Address personal credit problems head on. Be honest and as thorough as possible regarding past credit history issues. Openness in the process is viewed in

a positive light, despite what may have occurred in the past. In any event, this information would eventually come to light through the credit review process. There are so many different ways that the vendor of your choice can work with you and help through this process ... such as assisting with rehabilitating current credit and perhaps establishing favorable credit terms down the line.

How Much Does the Vendor Really Want Your Business?

In all, this is still a people business, and credit is still judged on an individual basis. With all of the references to credit checks above, there are still important intangibles considered in the process. Even if a new restaurant owner has had issues with their credit history, some of the decision making re-

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ACCOUNT APPLICATION

NEW ACCOUNT CHANGE OF OWNERSHIP UPDATE
 Salesman # _____ Account # _____

TERMS: C.O.D. NET 7 INV NET 14 INV NET 21 INV NET 30 INV NET 10 PROX NET 15 PROX ACH (DIRECT DEBIT)
 AVG. WEEKLY PURCHASE AMT. _____ (REQUIRED)

PLEASE TYPE OR PRINT (ALL BLANKS MUST BE FILLED OUT IN ORDER TO PROCESS APPLICATION)

- NAME OF BUSINESS _____
- TYPE OF BUSINESS _____ PHONE _____ FAX _____ E-MAIL _____
- GOVERNMENT ACCOUNT: FEDERAL _____ STATE _____ MUNICIPAL _____
- TYPE OF ORGANIZATION: PROFIT NOT FOR PROFIT
- DELIVERY ADDRESS _____ CITY _____ STATE _____ ZIP _____
- MAIL ADDRESS _____ CITY _____ STATE _____ ZIP _____
- IF PRIOR CUSTOMER, NAME OF BUSINESS AND LOCATION _____
- TAX STATUS RESALE EXEMPT END USER
 TAXPAYER OR FEDERAL ID # _____ (COMPLETE PAGE 3 OR 4)
- MANAGERS NAME _____ BOOKKEEPER OR ACCOUNTANT _____
- TYPE OF BUSINESS: SOLE PROPRIETORSHIP PARTNERSHIP LIMITED LIABILITY CORPORATION
- IF CORPORATION, LIST EXACT CORPORATE NAME _____
- OWNERS, OFFICERS OR PARTNERS AND HOME ADDRESSES:
 NAME - TITLE SS# ADDRESS CITY ZIP PHONE

- HEADQUARTERS ADDRESS _____ CITY & STATE _____
 PHONE () _____ (IF MULTI-UNIT, NUMBER OF UNITS) _____
 ACCOUNTS PAYABLE SUPERVISOR _____ FAX () _____
- DATE BUSINESS STARTED (UNDER CURRENT OWNERSHIP) _____
- DOES OPERATOR OWN PREMISES YES _____ NO _____
 NAME, ADDRESS & PHONE NUMBER OF MORTGAGER _____ IF LEASING, NAME, ADDRESS, PHONE NUMBER OF LESSOR _____
- EQUIPMENT AND FIXTURES: OWNED / LEASED (CIRCLE ONE) LESSOR _____
- BANK INFORMATION
 NAME OF BANK _____ STREET _____ CITY _____
 STATE _____ ZIP _____ PHONE () _____
 BANK ACCOUNT NUMBER _____ LOAN OFFICER _____
 TYPE OF ACCOUNTS: CHECKING _____ SAVINGS _____ LOAN _____ PAYROLL _____
 NAME OF PERSONS SIGNING CHECKS _____ DRIVERS LIC. # _____ D.O.B. _____
 _____ DRIVERS LIC. # _____ D.O.B. _____

THE APPLICANT'S SIGNATURE BELOW AUTHORIZES THE ABOVE NAMED BANK TO RELEASE INFORMATION CONCERNING THEIR ACCOUNT.
 ADDITIONALLY, THE SIGNATURE BELOW AUTHORIZES PFG TO VERIFY TRADE REFERENCES LISTED ON PAGE 2.

SIGNATURE _____ DATE _____

19. TRADE REFERENCES: (OTHER FOOD VENDORS)
 PLEASE GIVE ACCOUNT NUMBER WHERE POSSIBLE. NAME OF ACCOUNT IS NOT SAME AS LISTED ON PAGE 1.

1	2
(NAME) _____	(NAME) _____
(ADDRESS) _____	(ADDRESS) _____
(CITY, STATE, ZIP) _____ (PHONE) _____	(CITY, STATE, ZIP) _____ (PHONE) _____
(ACCOUNT NUMBER) _____	(ACCOUNT NUMBER) _____

20. INDIVIDUAL PERSONAL GUARANTY
 I, _____, Residing at _____, for and in consideration of your extending credit at my request to _____ (Applicant Name) (hereinafter referred to as the "Applicant", hereby personally guarantee to name of Company the payment, at Company's address, Company's County, State, Zip Code of any obligation of the Applicant and hereby agree to bind myself to pay the same. It is understood that this guaranty shall be a continuing and irrevocable guaranty and indemnity for all indebtedness of the Applicant, including attorneys fees and court costs. I do hereby waive notice of default, non-payment, and notice thereof and consent to any modification or renewal of the credit agreement hereby guaranteed.

Signature _____ Date _____

21. TERMS AND CONDITIONS
 By the signature below, Applicant represents and warrants that all statements made herein are true and correct and that Applicant is financially responsible and able to pay for the goods charged to this account. All parties hereby agree that all purchases made and extensions of credit are subject to the following terms and conditions:

- All invoices are due and payable without discount on or before expiration of the terms assigned to the Account, and the terms have been explained to me. Any claims that merchandise has not been received in whole or in part or has been received in a damaged or spoiled condition in whole or in part shall be made before the statement for such merchandise is due. Purchaser agrees that all such claims are waived and released if not made by that date.
- All accounts are due and payable at Company's County and State. It is agreed that the outstanding balance due on applicants account shall bear interest from the due unit paid at the rate of 1 - 1/2% per month (18% per annum). It is the intention of the parties to abide by "State" law governing the maximum rate of interest which can be charged. Therefore, if any interest or service charge made on Applicants account would result in a maximum rate of interest in excess of that allowed by law, then, ipso facto, the obligation shall be reduced to the limit of validity prescribed by law and any amounts received in excess of such limit shall be applied either to reduce the balance due on the account or shall be refund, but shall not be applied to the payment of interest or service charge.
- Applicant agrees to pay all amounts due on this account in strict accordance with all terms set forth herein and on any invoices for goods received without prior notice to the Applicant and that thereafter any such suspension or termination, all purchases shall be on a cash and carry or driver-collected basis. It is also agreed that payment of such goods will not be made in installments, but are payable in full as stated herein.
- As permitted by law, if any check given to "Company" as payment on account is returned unpaid by your bank, you will be charged a reasonable return check fee.
- The undersigned Applicant agrees to pay, in event the account becomes delinquent and is turned over to any attorney or agency for collection, a reasonable attorneys fee and court costs. Applicant agrees this account will be construed according to "State" law, and any action for enforcement or construction of this account will be brought in County, State.
- Should the Corporation be unable to fulfill its obligation to "Company", the undersigned owner, general partner or officer will personally fulfill said obligation and may be held liable for the same.
- The undersigned agrees to notify "Company" by certified mail of any change of ownership of the Applicant or of any change of financial status which renders or threatens to render the Applicant insolvent and further agrees to be liable for all purchases should the undersigned fail to comply with said notification.
- Applicant agrees to release of all information necessary from the listed references; and also agrees that "Company" may give information regarding the handling of your account to credit bureaus or others who may lawfully receive such information.
- "Company" may also obtain information from others when you have not paid on time. "Company" thinks there is a question of illegal or improper activity. "Company" receives a legitimate request from a governmental authority, or is required to do so by law.
- "Company" may require that a new credit application be filed at any time and may terminate credit if such application is not filed.
- Applicant hereby authorizes "Company" to check from time to time Applicant's business and Principal's personal credit history and trade, bank and personal references (whether or not listed in this Application) for customary credit information. A copy (xerox, carbon photograph, fax, etc.) of the authorization and signature(s) of the undersigned, shall be deemed to be the equivalent of the original and can be used as such to confirm the information contained on this Application, including, but not limited to, sending a copy hereof to the trade, bank and personal references, used to release information to other creditors regarding Applicant's credit experience with "Company". The undersigned is executing this application in his/her capacity as an officer of the Applicant, and individually for limited purpose of authorizing "Company" to obtain from time to time a non-business consumer credit report on the individual undersigned, in order to further avail creditworthiness of such individual as principal, proprietor and/or guarantor in connection with the extension of business credit. The undersigned, as an individual hereby knowingly consents to the use of such credit report consistent with the Federal Fair Credit reporting Act. Applicant understands that the terms and conditions contained herein are material hereto and specifically made a part hereof.

NOTICE: DO NOT SIGN THIS ACCOUNT APPLICATION BEFORE YOU READ IT.

Date _____ Applicant Name _____ (Printed)
 Signature _____ (Must be signed by Owner, General Partner or Officer)

garding terms may come down to how much that vendor wants the restaurant's business and what kind of a year the vendor projects. If both of those variables are deemed strong positives, the vendor may be willing to be a little more lenient and take a risk.

As suggested, most vendors whom I spoke with stated that it may make sense for new restaurant owners, who have never been in the restaurant business, to expect to start with shorter payment terms and to establish credit over a period of time, due to the perceived risk of the industry. Net 7 invoice terms are considered fairly standard for startups. Generally, after six months to one year in operation, a restaurant may be in a better position to negotiate more favorable extended terms if it has a good history.

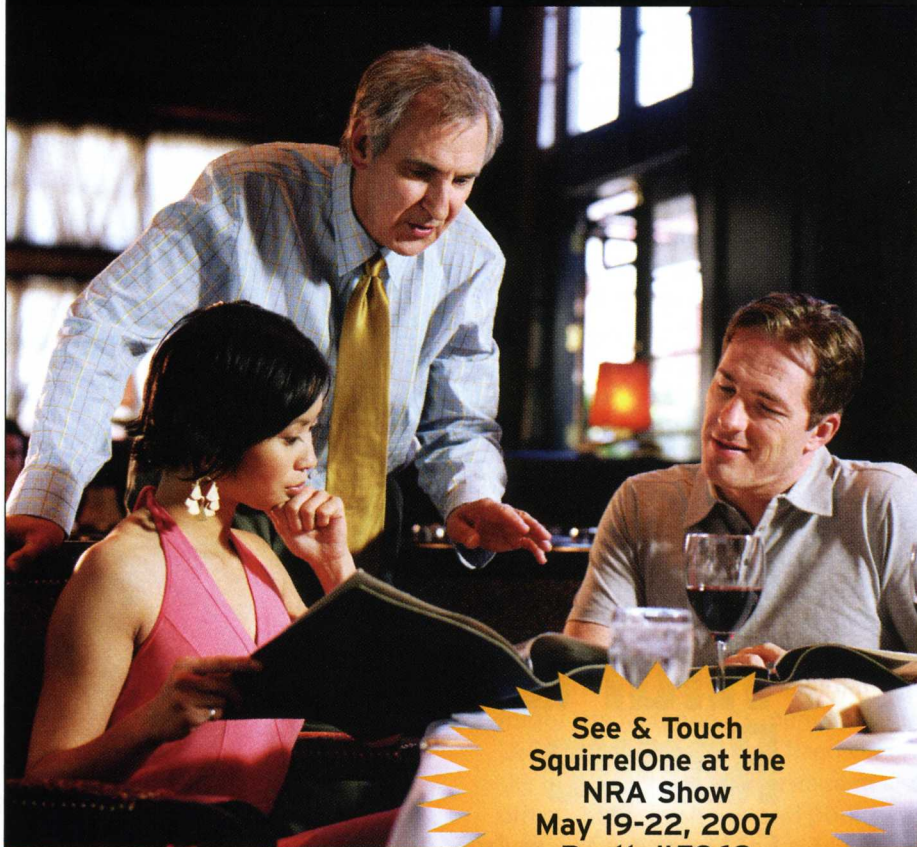
If a restaurant owner finds that it is in a position to negotiate more favorable terms than Net 7, it should know that the vendor might be open to establishing Net 10 and 15 proxy terms. These terms are advantageous for both parties. Under these terms, the "oldest" invoices for the restaurant will be either 40 or 45 days old, and the youngest will be 10 days or 15 days old, respectively. For the vendor it averages out that the group of invoices will be paid within 20 days and 25 days.

Honesty is the Best Policy

Honest communication with suppliers, especially during financial downturns, is usually counterintuitive to restaurant owners. When the wolves are at the door, so to speak, usually, they want to hide their distress, since they are afraid that the vendors will start putting additional pressure on them to pay. Also, during these times, the restaurant owner has many other pressing matters to address, such as marketing, staffing, and menu re-engineering. In short, frank discussions with vendors are not at the top of the list of priorities. That said, it is important to note that being upfront with vendors in these situations can yield big benefits. Most suppliers are willing to offer some type of relief and work out a mutually beneficial resolution and payment program when approached. It's in their best interest to work with you so that the doors stay open and they can continue to be paid. They can then record payments as profit as they come in, and may ultimately gain a long-term customer.

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