

DEEP DIVE 1.5

How to estimate the break-even point

TEMPLATE AVAILABLE FOR DOWNLOAD: T1.4 — BREAK-EVEN CALCULATOR

When to read this. After the P&L projection, to check that the concept can work at all. This estimate is accurate enough to test whether the concept can work, but not to run the business with. The final figure is calculated later, when the real costs are known.

Step 1. Calculate the maximum weekly capacity

Maximum weekly sales = covers × table turns per service × services per week × average spend. Use the number of covers in the concept, without inflating it. A casual restaurant with a meal of about an hour typically turns 1.5 to 2.0 times a service; fine dining with a meal of two hours, 1.0 to 1.25. If unsure, use 1.0. Take the average spend from similar restaurants, excluding sales tax, not from the prices we plan to charge. A restaurant open six evenings runs six services a week; one open for lunch and dinner every day runs fourteen.

Step 2. Separate fixed from variable costs

Using the cost ratios from Deep Dive 1.3, divide every cost into one of two groups. Variable costs go up and down with sales: food, beverage, and the part of staff cost that changes with the number of covers. Fixed costs stay the same however many covers are served: rent, core management salaries, insurance, professional fees, and the fixed cost base. Other running costs — utilities, marketing, maintenance, cleaning, linen, software — typically add 8–12% of revenue at this stage.

Step 3. Calculate the break-even

Break-even revenue = fixed costs ÷ (1 – variable cost ratio). With weekly fixed costs of 6,000 and variable costs at 65% of revenue, 35% of every sale is left to pay the fixed costs, and the break-even is $6,000 \div 0.35 = 17,143$ a week. Divide this figure by the average spend to express it in covers: at 45 a head, 381 covers a week. The team thinks in covers, not in sales totals, so this is the figure that matters day to day.

Step 4. Read it against capacity

Express the break-even as a share of maximum weekly capacity, then run it at three levels of utilisation: 65% for the realistic case, 50% for the conservative case, 80% for the optimistic case. A business that covers its costs at 50% is strong enough to survive a slow start. One that loses a lot of money at 50% needs a larger reserve to get through the ramp-up.

Reference Range

A break-even at 55–65% of capacity leaves room for the restaurant to grow into its sales and still cover its costs. Above 80%, there is almost no margin for error: the concept, the cost structure, or the pricing has to change before going further.

Step 5. Test the working capital reserve

Using the conservative scenario and the ramp-up from Deep Dive 1.3, add up the weekly losses from opening day until the restaurant reaches break-even, then add 20%. If the result is larger than the ninety-day reserve in the budget, either the reserve must grow or the plan must change: lower fixed costs — rent, fewer staff at opening, postponed expenses — a higher average spend, or more capital. All three levers are available now. None of them is available once the lease is signed and the fit-out has started.

The break-even point is the figure that closes the work of this phase. It brings together the budget, the projection, and the reserve, and answers the question the whole phase was built to answer: can this restaurant, at this size and this price, pay for itself in a time we can afford? If the answer is yes, the business plan can be written with confidence. If it is no, this is the cheapest moment to change the concept, because nothing has yet been signed.

DEEP DIVE 2.3

How to negotiate a commercial lease

When to read this. Steps 1 to 4 before shortlisting any site; Steps 5 to 7 once a leading site has been identified. The lease is the one commitment that cannot be renegotiated if the business underperforms, and our negotiating power starts to weaken as soon as we fall in love with a space.

Step 1. Set the rent ceiling before viewing anything

Total occupancy cost is everything we pay to occupy the premises: rent, service charge, and local property taxes. The financial model tells us what share of sales the restaurant can spend on it; multiplied by the annual sales of the conservative scenario, that share gives the most we can pay. If the model allows 11% and the conservative scenario projects sales of 2,000,000 a year, we can pay up to 220,000 a year in total. Calculate this figure before the first visit, and reject any site that costs more, however reasonable its rent looks on its own.

Occupancy is the one cost that cannot be reduced without the landlord's agreement. If it is too high, the difference comes out of food, staff, or profit, every month for the length of the lease.

Step 2. Compare total cost, not rent

Identify the three components for every candidate. Base rent is the figure in the advertisement, usually quoted per square metre or square foot, and the asking figure is a starting position, not the market price. The service charge covers shared building costs and can be substantial in multi-tenant buildings: ask for the current figure and whether it is capped. Local property taxes are a fixed cost from the first day. A lower rent with a high service charge can cost more than a higher rent with none.

Step 3. Write down the minimum acceptable terms

Before any negotiation, define in writing the terms below which we will not proceed: the minimum lease length that justifies the fit-out, the break clauses we need, the maximum personal guarantee, the reinstatement position, and the rent-free period that covers the fit-out. This document stays internal. Its purpose is to give us a fixed reference when the negotiation creates pressure to accept terms we would refuse on a calmer day.

Step 4. Brief the attorney before heads of terms

Heads of terms summarise the commercial agreement before the lease is drafted. Once they are signed, the main points are treated as settled, and negotiating power passes to the landlord. The attorney — ideally with commercial property experience in hospitality, or supported by a specialist who has it — must be briefed before substantive discussions begin. Their value lies less in reviewing the final lease than in advising what

to ask for before it is written.

Step 5. Negotiate the financial terms

Rent-free period. Negotiate it first, before any other concession. It must cover the fit-out: if the build takes four months, we need at least four months rent-free, or we pay rent on a space that cannot trade. The rent-free period should start when the works can actually begin — when the landlord gives consent or the building permit arrives — not on the day we sign. In markets with high vacancy, more is achievable; in strong markets the answer may be no, but asking costs nothing.

Rent review. Open-market reviews reset the rent to the market at each review point and carry the most risk. Index-linked reviews with a cap, or fixed stepped increases, make future rent predictable, which the cash flow needs.

▲ *Upward-only rent reviews let the rent rise at review but never fall. A drop in market rents then gives us no relief. This clause is worth significant effort to remove or cap.*

Personal guarantee. Landlords often ask the owner to guarantee personally what the company owes, which means paying years of rent ourselves if the company fails. Cap the period, typically at three years, or cap the total amount. An unlimited guarantee on a fifteen-year lease is not an acceptable term for a first-time operator.

Holding deposit. If the landlord asks for a deposit or a letter of intent to take the property off the market, make it refundable in writing and conditional on the inspections and the architect's assessment.

Landlord's contribution. Treat any contribution to the construction costs as a loan: compare the total cost of the lease with it and without it.

Step 6. Negotiate the structural terms

Length and breaks. Five years is generally the minimum to justify a full fit-out; most operators aim for ten to fifteen with breaks. In a ten-year lease, push for tenant-only breaks at years three and five, and limit the conditions for using them to two: the rent is paid up to date, and we hand back the empty premises. A break clause that requires us to have complied with every obligation in the lease can be blocked by the landlord over a minor detail.

Permitted use. "Use as a restaurant" is enough. A clause that names a cuisine or a format restricts how the concept can evolve. If late trading, private events, or takeaway are part of the model, they must be written in.

Alterations and reinstatement. The lease defines what we may alter, what needs consent, and whether we must strip the fit-out and restore the original condition when we leave. Full reinstatement can be very expensive. Negotiate a partial or full waiver at the start: a working kitchen often makes the unit easier to re-let. The waiver belongs in the lease, not in a side letter.

Assignment. The right to transfer the lease, with consent that cannot be unreasonably

withheld, is what makes the business saleable. A lease that forbids assignment, or leaves it to the landlord's discretion, reduces the value of everything we build.

Step 7. Know what we will not accept

However well a site performs on every other measure, these terms are removed or substantially amended before signing: upward-only reviews without a cap; an uncapped service charge; an unlimited personal guarantee; a break clause conditional on full compliance; and a clause that removes our legal right to renew the lease at the end, unless the lease is long enough or the landlord gives a real concession in return. Confirm that last point with the attorney before agreeing to it.

The lease is the longest commitment of the whole opening, and very often the one that outlives the restaurant's first concept. Each term negotiated now — a cap on the rent review, a rent-free period long enough for the works, a break clause without traps, the right to assign — is worth more over the life of the lease than almost any saving made during construction. It is the one negotiation in which time spent, and the attorney's fee, pay back the most.