Industry Insights and Tips

By Toby Tatum, MBA, CBA, CVA, MAFF

In the BIZCOMPS database, approximately seventeen percent of the records are in SIC code 5812: Eating and Drinking Places. This SIC code contains, by far, the greatest number of records in the database, which leads me to conclude that ownership turn is very high in the restaurant industry and I am assuming that most business appraisers and business brokers probably hold the same view. Indeed, it is altogether likely that the restaurant industry is probably the nation's leader in retail sales business ownership turnover and probably closures as well. But why?

Probably not the only reason, but certainly a leading reason, is over-saturation of eating and drinking places across the country. I say this based on a discovery I made a couple of years ago when appraising a company that owned seven local full-service restaurants with bars. One of these establishments was near where I lived. I was aware that this particular operation faced a lot of competition within its primary trade area but I had no clear idea of how much. For this reason, I accessed *Nielson SiteReports.*[1] This website offers over forty report options, providing detailed information about demographics, businesses, Consumer Buying Power, and lifestyle segmentation. I purchased the *Opportunity Gap-Retail Sales Report*, entered the street address for this restaurant, and obtained the following report (Figures 1 and 2).

In this case, consumer demand for foodservice and drinking places within one mile of this location

Figure 1[2]

RMP Opportunity Gap - Retail Stores

Radius 1: [redacted], 0.00 - 1.00 Miles, Total

	2014 Demand (Consumer Expenditures)	2014 Supply (Retail Sales)	Opportunity Gap/Surplus
Foodservice and Drinking Places-722	$5,866,371	$28,140,242	-$22,273,871
Full-Service Restaurants-7221	$2,655,649	$15,911,823	-$13,256,174

Radius 2: [redacted], 0.00 - 3.00 Miles, Total

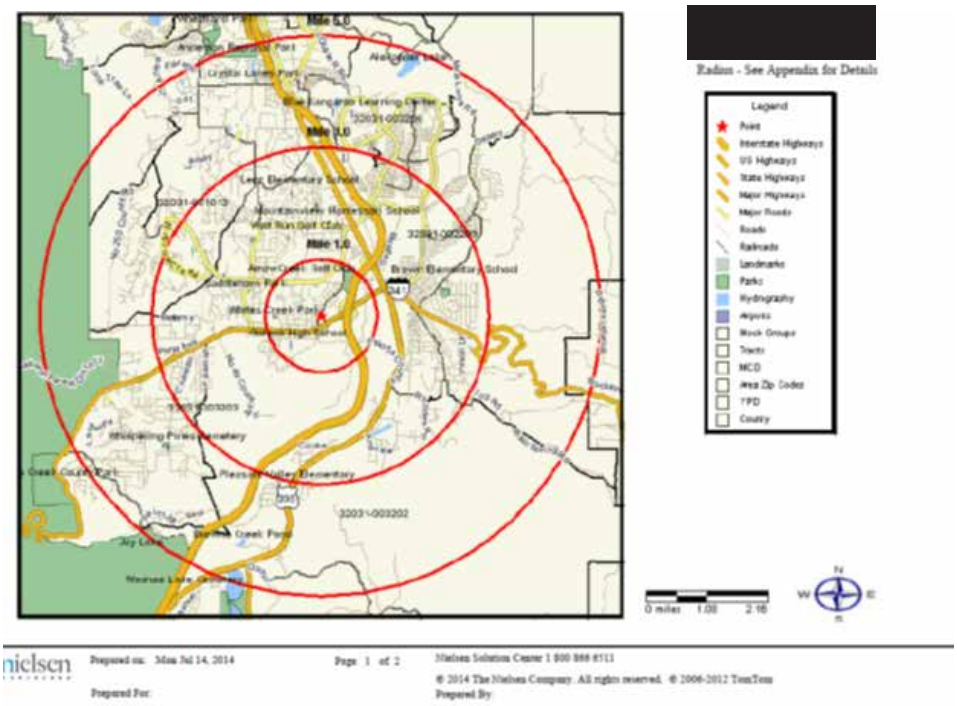
	2014 Demand (Consumer Expenditures)	2014 Supply (Retail Sales)	Opportunity Gap/Surplus
Foodservice and Drinking Places-722	$49,697,053	$83,040,075	-$33,343,022
Full-Service Restaurants-7221	$22,469,994	$40,200,091	-$17,730,097

Radius 3: [redacted], 0.00 - 5.00 Miles, Total

	2014 Demand (Consumer Expenditures)	2014 Supply (Retail Sales)	Opportunity Gap/Surplus
Foodservice and Drinking Places-722	$95,536,520	$161,703,526	-$66,167,006
Full-Service Restaurants-7221	$43,155,205	$73,003,825	-$29,848,620

1. http://www.claritas.com/sitereports/demographic-reports.jsp#10bf-retail
2. The locations are blacked out to protect confidentiality.

Figure 2



was $5,866,371 and supply was $28,140,242. The *Opportunity Gap* at this location was a negative $22,273,871 and supply was 4.80 times greater than demand.

From this starting point, I proceeded to obtain this same report for the remaining six locations. Figure 3 presents the factor by which supply exceeds demand for all seven locations.

Here we see that in only one case did demand exceed supply. Given this data, I began to believe I was on to something and that this phenomenon was not an isolated or unique characteristic of the relationship between supply and demand for foodservice and drinking places in Reno, Nevada.

This website allows one to download a sample report, in fact two sample reports, one for 2014 and one for 2015. The sample report for 2014 depicted the supply and demand for foodservice and drinking places within a one-mile radius of 9276 Scranton Road, San Diego, California. At this location, demand was $5,898,216 and supply was $25,918,519. In this case, supply is 4.39 times greater than demand. The center point for the 2015 sample report was 9444 Wapless Street, San Diego, California. At this location, demand for foodservice and drinking places was $5,239,937 and supply was $16,799,150. Here, supply is 3.20 times greater than demand.

Given a sample of nine locations, in only one case did demand exceed supply. As it happens, I am familiar with this location, which is a medium size strip-mall surrounded almost entirely by residential properties within the one-mile radius. Therefore, the conclusion I think we may draw from this sample data is, there is an approximate ninety percent probability that the supply of foodservice and drinking places will exceed demand in every city in the country. This fact, in turn, suggests that every time a new restaurant opens in a city, somewhere, another one will close or sell based on its liquidation value. This fact also suggests the valuation of a restaurant should probably take this phenomenon into consideration. BAP

To learn more about Toby Tatum, see page 11.

Figure 3

Demand	Supply	Times Supply Exceeds Demand
$8,278,969	$4,815,578	0.58
$27,648,502	$33,239,857	1.20
$23,164,995	$29,341,055	1.27
$17,634,570	$20,863,243	1.18
$20,344,547	$27,462,946	1.35
$5,866,371	$28,140,242	4.80
$24,788,694	$45,808,314	1.85