How sound advice put profitability back on the menu

Melbourne spent more time under lockdown than any other city in the world during the pandemic, a situation that devastated the hospitality sector. Many restaurants were left struggling, including Restaurant C (not its real name), which had only begun trading less than 18 months prior to the first lockdown. However, as we outline below, the restaurant was able to continue operating after Jirsch Sutherland implemented a Small Business Restructuring plan.

Background

Restaurant C is located in south-east Melbourne and specialises in modern Australian fare. It has a seating capacity of 120 and is open for dinner seven days a week and lunch three days. It typically employs six casual front-of-house staff, three full-time chefs and one casual chef.

The owners purchased Restaurant C as a going concern and when the pandemic hit, it was forced to operate under strict trading restrictions that included social distancing, QR code protocols and public health orders. This had a massive impact on its operations, which was exacerbated by the slow vaccine rollout that delayed many staff from returning to the workplace.

To address the dramatic fall in cash flow, Restaurant C's directors ceased paying themselves a wage and worked longer hours to cover the shortfall in income and lack of staff. The landlord also agreed to defer their rent.

Solution

Glenn Crisp, Managing Partner (VIC), Jirsch Sutherland

Restaurant C turned to Jirsch Sutherland for advice about how to deal with the challenges it was facing. However, the Jirsch Sutherland team of Melbourne Managing Partner Glenn Crisp and Principal Andrew Mattinson first wanted to ensure they understood the outcome the company's key director required. For example, did he want to continue to trade, or was his preference to walk away? Was his personal exposure too great to save the business? Did he want to sell the business as a going concern?

Jirsch Sutherland also attended the business premises to gain an insight into the trading location, in addition to the size and complexity of the restaurant's activities and stock holdings, to determine whether it could continue to trade in the short term. The team also reviewed the financial position and circumstances to understand the most appropriate form of restructure.

The specific challenges included:

- how the company could increase revenue.
- whether costs could be managed in the immediate future, given the accumulation of debt.
- whether creditors and suppliers could continue to support the business.

As a result, Crisp and Mattinson provided a number of options to the director and his accountant, so they could make an informed decision about the future of the company and consider what the director's own personal exposure of each option would be. These included:

- Increasing the restaurant's opening hours to include dinner on additional days (which it subsequently implemented), while ensuring variable costs were covered.
- Expanding the number of food delivery services offered, such as DoorDash, Menulog, etc.
- Recommending the director contact his most-important suppliers to update them on the changes, and inviting them to ask any questions, to help protect their relationship.

Andrew Mattinson, Principal, Jirsch Sutherland

Having provided the options, Jirsch Sutherland then recommended the Small Business Restructuring (SBR) process would best suit the company and the director's situation. "The SBR ensured the director remained in control of the business and could continue to trade without an external administrator's involvement," explains Mattinson. "If the restaurant is trading as usual, there's less disruption to operations and to staff. The process also allows the company to reduce balance-sheet debt and provide a return to creditors."

The SBR was unanimously accepted by all creditors, including that ATO.

Ultimately, Jirsch Sutherland put together a 12-month payment plan for Restaurant C to pay its creditors.

Results

The business continues to trade seven days a week and remains under the control of the director. While there are no reporting requirements, Jirsch Sutherland monitors the payment instalments. “It’s still early days but so far so good,” says Mattinson.