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Bars

SIC: 5813

NAICS: 722410

Number of Businesses / Units: 53,500

See Also

- ▶ [Bars -- Adult Only \(Adult Clubs/Nightclubs\)](#)
- ▶ [Bars with Slot Machines](#)
- ▶ [Bars--Nightclubs](#)
- ▶ [Beer Taverns -- Beer & Wine](#)
- ▶ [Brew Pubs](#)

This industry comprises establishments known as bars, taverns, nightclubs, or drinking places primarily engaged in preparing and serving alcoholic beverages for immediate consumption. These establishments may also provide limited food services.

Rules of Thumb

35 to 40 percent times annual sales— business only plus inventory

2.5 to 3 times SDE plus inventory

3.5 to 6 times EBIT

3 to 4 times EBITDA

4 times monthly sales + game revenue (net) plus inventory

4 times monthly sales + liquor license and inventory

General Information

"Owners must understand this is a business and the purpose is to make money, not a place to 'hangout.'"

"You have to understand how liquor licensing works in your state."

"High degree of owner involvement on a day-to-day basis. Ability to contain costs and prevent 'shrinkage.' Creating a customer-friendly environment which provides good value. Owner usually must have excellent people skills, not a business for introverts."

"Number of Licenses in town, length of lease, % of food sales, % of liquor sales, entertainment costs, if any. Watch for ratios that are out of industry standards."

"Never trust the books. Check sales tax returns, bank

Pricing Tips

"Main variable is the fair market value of the liquor permit, as some areas have a high number of available permits which results in the permit having no or limited additional value, while in other areas limited number of available permits may cause the permit to have a substantial value. One will need to research type of permit and its availability and if in fact a market exists for the permit itself. I have seen liquor permits being sold for as high as \$150,000, which obviously impacts the value of the business."

"Location, lease, and liquor license dictate the value of a bar. The concept is usually changed with a new buyer, and a significant investment is made to improve the premises."

"Recently in the Denver market we have seen 50 percent of sales as a rule of thumb; more if easily operated (less employees)."

"You really need to understand if the liquor and beer costs are in line and how much the establishment is selling versus food."

"Discretionary cash flow can be very different from deal to deal. There is one very important DCF item that should be identified: Does the Bar or Taproom have any Vending? (Examples of this are Video Poker, Tobacco, Juke Box, Pool Tables, etc;) If the answer is 'Yes,' then the next question should be, Is there a Vendor Arrangement, or does the seller own the machines? A vendor arrangement means that the Vendor owns the machines and collects a portion of the proceeds. If the seller owns the machines, the seller collects all of the proceeds, and can use these funds to reduce their COGS and labor considerably. In each case, (with the seller as owner or the vendor as owner of machines) OFF BALANCE SHEET seller financing or vendor financing can be a very powerful source of funds. There are a few little things that can alter the valuation in a Bar or Taproom. Generally, these type of establishments derive a lot of revenue from Draft Beer. (COGS for Draft beer 25% - 30%, Gross Profit 70% - 75%). If the establishment is operating on an antiquated draft system, glasses may not appear clean, spouts look discolored,....this could warrant a discount. Most states require that draft system / draft lines are cleaned weekly. A potential buyer should ask for vendor beer invoices to determine the 'popular' products of the establishment. This is important if the

statements, etc. Also, check the price points and compare to the actual COGS. Are the comps legitimate on the P&L? Are COGS high due to the owner skimming, or are they giving the house away? We never address a value to skimming and never represent it to buyers. Experienced buyers will recast the financials using their own labor percentage, etc."

"Food costs must be controlled. Lots of businesses fail due to ineffective food and liquor cost controls."

Expert Ratings

▶ Competition	2.4	(1=Lot of : 4= Not Much)
▶ Amount of Risk	3	(1=Very : 4= Not Much)
▶ Historical Profit Trend	2.8	(1=Down : 4= Up)
▶ Location & Facilities	2.6	(1=Poor : 4= Excellent)
▶ Marketability	2.4	(1=Low : 4= High)
▶ Industry Trend	2.4	(1=Declining : 4= Growing)
▶ Ease of Replication	2	(1=Easy : 4= Difficult)

Expert Comments

"Location location location. It is still the dream of many to be a 'bar owner.' A clean and well maintained place always sells quicker than a 'dive.'"

"Smoking ban hit many establishments hard in 06. Also, heavy liquor enforcement (over serving etc)"

"Competition may keep a bar from succeeding initially, and, conversely, a competitive environment indicates a good area for customers and traffic. The fact that bars and nightclubs are extremely trendy could lead to significant profit declines after the 'buzz' has worn off."

"I think it is easier to open a bar versus a restaurant. There is a lot of competition so it is important that operators are constantly running promotions and keeping up to date with trends."

"Loss of smoking in bars and taverns has cut revenue in some cases by as much as 25%. Many smaller places unable to compete for the local business anymore."

"Bars and restaurants have always been highly competitive, risky, and potentially profitable endeavors, and extremely attractive to the majority of buyers within a market, yet they also tend to rely on contemporary trends within the area, and few can sustain consistent growth beyond the 'buzz' factor."

"I think the competition is intense for the local neighborhood places, brought on by the chain-type concepts opening up in suburban markets. Some of the rent factors make it cost-prohibitive for the local venue to compete. Neighborhood bars are always a popular pick since it is a recession-proof business."

"Lots of taverns, one on each corner. Liquor license may be the majority of the value."

"Must buy an existing liquor license in New Jersey, no new licenses available."

"Location is key to success...as is longevity for resale, unless major renovations will occur. Location needs to have sufficient parking."

Seller Financing

"3 to 5 years"

Questions

"Liquor license violations, amount of revenue generated from games/amusements on a weekly basis, # of 'cash' employees."

buyer has a potential age group in mind as the primary patrons. This is a forward cash flow assumption that should be acknowledged. If vendor beer invoices are not made available, check the trash dumpster on a regular basis, it is an excellent source of information. If Liquor is being served, the pouring routine should be observed. Measured shot or free pour, can materially change COGS. 750ML Bottle yields 26 ounces, which is 14 shots at a 1.75oz free pour, and 21 shots at a 1.25oz measured shot. This difference could be the cost of 1.5 Bottles. (Generally these establishments sell mostly beer / draft beer, but this scenario should be included in forward cash flow assumptions.)"

"You have to factor in the location, lease term or property sale, equipment and the ease of someone taking over without having to put a lot of funds in."

"\$ for \$ of Gross if property is included. Value of liquor License included in price."

"Unreported cash is always an issue with these types of businesses. Any value placed on cash sales should be significantly discounted since these sales are not recognized by lending institutions and sellers need not be compensated or rewarded for illegal, unreported funds."

"Location is key to success...as is longevity for resale unless major renovations will occur. Location needs to have sufficient parking."

"It is easier to go thru the receipts of the business than go thru returns."

"Lease terms a huge factor; ratio of food to liquor drinks; current market wants light food, less than 25%"

"Multiples of earnings are similar to full-service restaurants. However, income statements for bars show a loss, even after non-operating expenses."

"Value and type of liquor license is always a key consideration. Ownership of real estate is always a big plus. Many buyers are looking for real estate as part of the purchase."

"Location, value of lease, liquor license value, willingness of seller to hold note, cooperation of seller to supply necessary financial information, beware of 'red' flags."

+/- value of the liquor license
+/- lease value
+/- location
+/- seller financing"

"Is the seller reporting all income? What is seller's pour cost? Is seller hands-on owner?"

Benchmarks

"Most important factor is to have a rent factor (rent as a percentage of gross sales) in the 6% to 8% range. This is the first thing which I look at, and, far and away, it's the most important, as the only way to 'fix' it is to increase sales."

"Successful restaurants should maintain their liquor costs at 15%, beer costs at 25%, and wine costs under 35%."

"Hard to say. Still a very high percentage of 'bad books'. Any neighborhood bar (without food) that has an occupancy cost of ten percent or less is a great benchmark. Of course, skim or bad books skews the numbers."

"Cost to Sell a Draft Beer—25% to 30% of price of beer; cost to sell a bottled beer— 27% to 32% of price of beer; cost to sell liquor, 750ML Bottle 20 Shots poured (Avg)— 25% to 35% of price of bottle. Quick and dirty benchmark for bar and taproom, COGS beer and liquor 30%."

"Successful bars and nightclubs can usually generate up to \$5,000 per well on a good night."

"What conditions have been placed on the license restricting the hours, use, or entertainment associated with the license?"

Scrutinize happy hour, comps etc. Many buyers think they can increase sales by eliminating give aways which usually does not work. Ask to see all liquor invoices and cash receipts from liquor purchases."

"For the tax returns, why they are selling?, Cooperation is key in this business. Bars are difficult to sell when there are unreported sales, weak returns. Many of the sellers in our market will not hold notes."

"Discretionary Cash Flow should be evaluated very carefully. There can be a huge difference from deal to deal."

"How much cash revenue is not reported? Are there any conditions on the license or permits? What type of entertainment is specifically included in the permit for entertainment?"

"Is the seller reporting all income? What is seller's pour cost? Is seller hands-on owner?"

"Cost of goods should be below 28% of sales in a Tavern/Bar with little or no food. Payroll should be less than 20%."

"The key is profitability. See if the seller can back up their statements. It is the bottom line. See if they have systems implemented to reduce loss. It is always helpful knowing they have controls in place."

"Lite food is a plus"

"\$327 sales per sq. ft. in a bar generating \$850,000 in sales with a 5% net profit"

"Food costs in the 40s %—too high. Beer costs in the mid-20s % and under 30%—good."

"Twenty-eight percent COGS is at the high end; some operators can be in the low 20s depending on the price points. Labor can be significantly lower or higher depending if the state has a tip credit for minimum wage. Ten percent to the bottom line is only a rule of thumb."

Expenses as a Percentage of Sales

▶ Cost Of Goods	25% to 30%
▶ Payroll/Labor Costs	20% to 25%
▶ Occupancy Costs	6% to 10%
▶ Profit (pretax)	15% to 25%

Industry Trend

"Increased governmental regulation, e.g. smoking bans."

"More wine bars, tapas bars/drinking is always popular. More pricier drinks."

"Liquor licenses in certain areas where there are high concentrations of establishments within major cities have become extremely difficult to obtain, thus driving the value of those licenses very high."

"Upward trend. As mentioned above, as cities 'revitalize' certain areas, the corner bar/ taproom will remain a part of the 'new' community, and most likely will see increased turnover in ownership."

"Smaller locations seem to be taking a smaller and smaller share of the existing business."

"Bars should continue to see consistent growth as their resiliency carries them through the good and bad times."

"We see a lot of different trends with ethnic food trend influence."

"Diminished demand for bars due to influence of major chains with large bar followings and promotions"

Advantages

- ▶ "The bar business is in an industry that thrives during good times and bad times."
- ▶ "Great business for a person with a 'social' personality and good business acumen."
- ▶ "Excellent cash flow if run right, and the buyer is hands on or has a 'key' employee that is well versed in this type of business. It is a very unique business."
- ▶ "It is definitely a people business."
- ▶ "Cash business with high profit margin, low cost of help

due to tips and limited product line."

- ▶ "Great cash flow"
- ▶ "Perceived to be 'fun' and having 'status'—Cash business with good profit margins."

Disadvantages

- ▶ "Unable to avoid the numerous distractions and temptations inherent in the business. Owner must be compatible with the customer base—if the owner doesn't like or respect the customers, results will be disastrous."
- ▶ "It is very hard to 'alter' the clientele. A new owner may have this as part of the plan going forward, to increase cash flow. This is where the urban revitalization plans in place in certain cities can be a new owner's best friend."
- ▶ "Long hours, employees, insurance costs"
- ▶ "Employee theft, long hours. Inventory control is sometimes an issue. Easy to get burnt out in this business."
- ▶ "Long hours, large cash business, high potential for theft, and any misconduct on the part of the owners or the patrons could put the liquor license in jeopardy immediately."
- ▶ "Major chains and large players taking the market share from the smaller bars"
- ▶ "Long hours!!! Hard work!!! Difficult customers. Employee theft."
- ▶ "Employee turnover"
- ▶ "It is a very complex type of business to sell with all of the licensing, taxes, being a cash business. Banks don't like to get involved in these transactions. It can be difficult to get a complete picture of the business."
- ▶ "Maintaining food and liquor costs to manageable levels"

Additional Resources

Trade Publications

- ▶ [BarConfidential: Running a Successful Bar by Bob Johnson](#)

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