

How to start a business with limited capital

When considering starting your own business, one of the main concerns, apart from what kind of business to launch, is money. With a limited capital, you can still have the opportunity to start a successful business

When thinking about what kind of business to start within the hospitality industry, restaurants are usually the most popular choice as hotels tend to run higher costs and require a larger level of expertise to ensure success. "Hotels are more difficult to open and operate as the bulk of capital is spent on furnishing," says Christian Fernaine, partner of Ulysses Management and Consulting. "People think that opening a restaurant is the easiest option, but in actual fact this is not the case." Focusing too much on your location and décor is costly, and often not as integral as the product you are selling. "Invest in the kitchen and your ingredients, rather than the design of your restaurant and your location. In this business, you are only as good as the food you are serving," adds Fernaine.

Unless you have extensive experience running a restaurant, be wary of overestimating your knowledge and ability of doing so. "You may have the know-how of dealing with suppliers, but you may have no knowledge of how a kitchen actually operates or how to manage and deal with your chefs. You must remember the three main aspects of running a restaurant: the kitchen, your front of house and the accounting," says Fernaine. By keeping these three things in mind and always running at their full

potential, by hiring competent staff, securing reliable and quality suppliers and keeping on top of your accounting, you have a much higher chance of success. "Unfortunately, without the appropriate skills, most restaurants close down after a year or two," adds Fernaine.

Most people feel that starting their own business is a risky endeavor. Your first step to starting any business, no matter how big or small, is a fleshed-out business plan. A simple plan should include the main strategy and research you have accumulated, serving as an operating manual when you are ready to start your business.

As to how to secure your capital, the most obvious source of funds is your own savings. If you are not risking any of your own capital, it will be more difficult to obtain loans or capital from others. You can also obtain loans from banks and other lending institutions, such as Kafalat, a Lebanese financial company with a public concern that assists small and medium sized enterprises to access commercial bank funding. "With a sum of \$40,000-50,000, you can start a respectable business with the support of Kafalat, which offer loans of up to \$250,000 to small businesses," says Fernaine. You will need to provide banks and lending institutions with a business plan and financial statements that show



Tips from an expert



Christian Fernaine spills the beans

• **Focus on quality:** There is a growing trend of using smaller spaces in order to focus on quality instead. Olio in Gemmayzeh is a good example of this as their main concern is the quality and freshness of their ingredients.

• **Breakfast, lunch or dinner:** You must also take into account your shifts—whether you open for breakfast, lunch, dinner or a combination of the three—as well as table turnover. For example, Gruen in Gefinor only opens for lunch (and brunch on weekends) but has very high table turnover.

• **Conquering space and dime:** You must adapt your concept to your budget. For example, Sahyoun in Monot, operates within an area of four square meters but manages to serve over 1,000 falafel sandwiches daily, for a cost of about just \$1 each. This is a great example of running a successful restaurant business using not only limited capital, but also limited space.

your ability to repay any borrowed funds. A third option is obtaining capital funds from investors who will be co-owners with you. This can be trickier as you may have less freedom of choice when it comes to making decisions regarding your business.

What about your return on investment? You should count on a cash cushion to live on for at least the first year and a half to two years because you likely won't have an income, but will be covering your costs and paying back your loans. Fernaine warns budding entrepreneurs of this. "A restaurant of about 50-70 seats will get their return on investment in their second year." Once the business launches, regularly compare your actual income and expenses to your original forecasts to

take the pulse of your company.

Your business plan should overestimate how much money you will need right from the start because it is always easier to raise money before the launch than it is after projections are not being met. Fernaine suggests minimizing your costs right from the start by trying to acquire the bulk of your equipment and furniture second-hand. "Find a restaurant that is closing down and buy all their equipment thus getting a good deal on things that usually account for the bulk of the cost of starting a restaurant business." You may be tempted to use credit cards at times but beware that credit card debt is the most expensive debt you can accumulate so try to steer clear of this at all costs.



More about Kafalat

- Kafalat guaranteed loans benefit from interest rate subsidies which have been set up to mitigate the crowding out effect of the high interest rates in Lebanon that are induced by public sector borrowing.
- Kafalat helps businesses by providing loan guarantees based on business plans/feasibility studies that show the viability of the proposed business activity.
- Kafalat (SAL) is owned by the National Institute for the Guarantee of Deposits (75%) and fifty Lebanese banks (25%)