Chapter 6: Wholesale and Distribution Businesses

This division includes establishments or places of business primarily engaged in selling merchandise to retailers; to industrial, commercial, institutional, farm, construction contractors, or professional business users; or to other wholesalers; or acting as agents or brokers in buying merchandise for or selling merchandise to such persons or companies. The chief functions of establishments included in Wholesale Trade are selling goods to trading establishments, or to industrial, commercial, institutional, farm, construction contractors, or professional business users; and bringing buyer and seller together.

Restaurant Equipment Wholesale/Distribution

SIC: 5046 NAICS: 423440

Description of Business

Establishments primarily engaged in the wholesale distribution of restaurant and hotel equipment and supplies.

General Industry Information

According to the 2002 U.S. Census, there were 2,794 businesses engaged exclusively in restaurant & hotel equipment supplies wholesale. Combined, these operations accounted for over $10.47 billion in annual sales and employed over 29,000 workers, with each firm averaging $3,747,315 in annual sales.

The market for such products is a derivative of the general food service industry, where most business is obtained through word-of mouth referrals. Typically, these wholesale/distribution operations employ sales staff on a commission basis.

Many distributors and wholesalers create name-brand recognition by becoming certified dealers of specific brands. Businesses in this industry offer a wide range of products from stools and chairs, to kitchen appliances and utensils. Expanded product lines create a “one-stop-shop” where restaurants can buy what they need without shopping around from specialty store to specialty store.

Many businesses are now providing e-commerce solutions to their customers. Now, restaurant and hotel owners can log onto websites and browse for the equipment and supplies they need and place orders without ever leaving the office. While this has increased the market potential for many businesses, regional distributors have been strained by internet competition.

Technological advancements have sparked demand for new point-of-sale (POS) systems. New POS systems are much more automated than they used to be. Touch screens make the process of checking out a customer much easier and credit cards are now approved instantly thanks to broadband access connected to the POS.

Restaurants are also making use of new combination appliances. Combos like a steamer/ovens provide for both needs while saving space and money on electric bills. Restaurant owners have become increasingly aware of rising energy costs that eat away at the bottom line. Thus, owners are looking to increase cost savings by adding more energy efficient refrigerators and other minimalist appliances into their kitchens.

Financial Performance Ratios

Table 6-1: Restaurant Equipment Distribution

Margins	
Cost of Goods (% of revenue)	50-60%
Manager/Owner Salary (% of revenue)	+/- 35%
EBITDA/Operating Margin (% of revenue)	+/- 10%
Ratios	
Current Ratio	12-15%
Quick Ratio	1.5-2.5
Accounts Receivable Turnover (per year)	0.75-1.5 times
Debt/Total Capital Ratio	0-15%
Asset Turnover Ratio (%)	>150%
Profit & Growth	
Prior Years' Annual Growth (% of Revenue)	2%

Business Valuation Formulas

1.5 times ODCF

Equipment Valuation and Real Estate Rental Formulas

Equipment
Equipment is typically 10-20% of retail for OLV for used equipment held in inventory.
Real Estate
Rent as a % of Sales: 2-7% of sales. The typical square footage rented is 5,000-50,000 sq ft with a median of 15,000 sq ft for most businesses. The most typical lease is a gross expense lease.

Financing

Average down payments are 60% of the sales price. Terms usually fall between three to seven years, at rates between 8-10%.

Red Flags and Risks

Potential buyers need to have the equipment valued at the fair market price, taking into account obsolete products or dated/damaged equipment. At the time of a business acquisition, this may be the single most valuable asset of the com-