

To Raise Cash, Restaurants Turn to the Crowd

The New York Times - 8 Nov, 2011



Christophe Vorlet

By [GLENN COLLINS](#)

Published: November 8, 2011

AARON LEFKOVE was struggling to raise close to \$200,000 [to open a New England-style clam shack](#) in a Gowanus, Brooklyn, storefront.



[Enlarge This Image](#)

Emily Berl for The New York Times

Cassia Maher, left, and Stephanie O'Connor at Littleneck, which received community support.



[Enlarge This Image](#)

Fred R. Conrad/The New York Times

David Lefkowitz, left, and Scott Kester in the TriBeCa space that is to become the Elevens. They are seeking \$500 each from 2,000 strangers

Bank loans were out of reach. “We didn’t have the kind of collateral they wanted,” said Mr. Lefkove, a 31-year-old punk rocker and publisher’s copywriter, nostalgic for family visits to Bigelow’s New England Fried Clams in Rockville Centre, N.Y.

“I liquidated my [401\(k\)](#) and my I.R.A. as well,” Mr. Lefkove said. “I even sold my guitars.”

It wasn’t enough. He and a partner reached out to friends and family and used their own credit cards. Still not enough. “We picked up investors — some became partners, some would get a return, everyone was structured differently,” he said. “Even that was not enough.”

So to help get his restaurant, [Littleneck](#), over the finish line, the next stop was [Kickstarter.com](#) — a Web site that solicits donations to finance art, technology and business projects. Promising little more than good karma, some discounts and a T-shirt, he raised \$13,000 from 162 donors — \$5,000 more than his goal. With the help of a few final investors, the 38-seat restaurant began serving fried clams and lobster rolls last month, with the chef [Alan Harding](#) in the kitchen.

The Internet campaign helped Littleneck financially, but Mr. Lefkove sees other benefits. “Beyond the money,” he said, “it connected us to the community, got our name out — and engendered good will.”

Spurned by tapped-out investors and tightwad bankers in challenging times, restaurateur-wannabes are turning to their

neighborhoods, and the wider community of the Internet, to finance their dreams. It is part of the same movement toward community-supported financing that has capitalized farms, independent grocers, bookstores and other small businesses. Many primarily philanthropic Web sites like Kickstarter and Kiva.org have sought small sums in support of high-risk ventures, arts groups and charities under the rubric of [microfinancing](#) and crowd-sourcing.

For restaurateurs it provides the added benefit of eliminating interfering investors who second-guess them and demand higher prices for higher returns.

John Fraser used Kickstarter to raise about \$24,000 for his [short-lived](#) but well-reviewed pop-up restaurant, [What Happens When](#). And the [Brooklyn Grange](#) rooftop farm in Long Island City, Queens, raised more than \$20,000 that way.

Claire’s Restaurant in [Hardwick, Vt.](#) — the town that inspired the locavore best-seller [“The Town That Food Saved”](#) (Rodale Books, 2010) — used a different community-based approach, getting \$5,000 loans from local families at 5 percent interest. The [Awaken Café](#) in Oakland, Calif., sold \$1,000 gift cards redeemable for \$1,250 each, attracting money up front that let it open its doors.

In the name of job creation, Howard Schultz, the chief executive of Starbucks, is encouraging customers to earmark \$5 or more

to support loans through [nonprofit groups](#) to businesses near the company's stores.

Chris Mooney, a 39-year-old music distributor who lives near Littleneck, had no such noble goals when he kicked in \$100 for its Kickstarter campaign. "The more new restaurants in Gowanus, the better," he said. "They'll give me a tote bag, so that will be free advertising for them."

Online financing, or crowd-funding, as it is known, is not a panacea: the owners of the 38-seat [Egg](#) restaurant in Williamsburg, Brooklyn, couldn't attract enough Kickstarter donors to establish their [Goatfell Farm](#) in Oak Hill, N.Y., so they resorted to family and friends. To raise money for a new 60-seat restaurant, Parish Hall, the owners have targeted investors through "entrepreneur showcases" — show-and-tell sessions for potential donors — by [Slow Money](#), a national nonprofit that supports community businesses.

"If we want to make the food industry truly sustainable, we must look at how we are funding the enterprises within it," said Holly Howard, Egg's operations director. Owners, she said, shouldn't have to "cut corners in order to pay investors a huge return."

Perhaps the most ambitious plan is for the Elevens, a bar and restaurant that two designers, Scott Kester, 50, and David Lefkowitz, 44, are hoping to open in May in a former Pearl Paint annex on Lispenard Street in TriBeCa. They are asking for \$500

from 2,000 strangers online (that's \$1 million when you do the math), so they can open without major investors.

With a menu created by Daniel Patterson, whose restaurant [Coi](#) in San Francisco has two Michelin stars, and a drinks roster formulated by the mixology star [Dale DeGross](#), they hold out an appealing promise. Donors will be designated lifetime "seatholders," entitled to priority reservations at the 65-seat restaurant, 25 percent discounts and access to privileges like exclusive tastings. Seatholders could transfer their seats to new donors for \$500.

Mr. Kester said the partners envisioned a neighborly oasis. "So we said, let's create something that is owned or shared by the patrons — like being in a club but not an exclusive one, since anyone can get in the door," he said.

"We trust people," he added, "and you reap what you sow, and we are hoping that the people who are going to be seatholders believe in the kind of establishment we crave."

They are hoping that "others will use this concept and copy it," Mr. Kester said. They also want to skip the traditional preopening secrecy. "We plan to be so transparent we'll have a construction cam — you know, 'Hey look, we just finished the plumbing,'" he said.

Jack Berman, a 45-year-old Manhattan real estate developer, learned about the restaurant in an e-mail from a friend. "It's

genius,” he said. “This gives them a built-in clientele of 2,000 people — and they tell their friends.”

He’s one of 109 seatholders tallied on the restaurant’s Web site, the11s.com.

“This could be my Cheers bar,” he said. “And how great — now I can add the word restaurateur to my résumé.”

Rick Camac, managing partner of the Fatty Group of restaurants, said he saw the plan’s appeal for the owners, but thought it might be too challenging.

“I’d feel more comfortable that they could reach their goal if they asked for 500 people to give them \$2,000 apiece,” Mr. Camac said. “Two thousand? That’s a lot of people.”

The risk, then, is that the 65-seat restaurant might not open its doors.

“We don’t want to think about not opening,” Mr. Kester said, “but it is a risk that every startup business faces. If it does not open, we lose all our efforts — and those who contributed lose their contribution.”

But Mark Phillips, a 28-year-old options trader, was sanguine about his \$500 roll of the dice. “At the very worst,” he said, “I see it as buying a discount card.”

Mr. Kester, Mr. Lefkowitz and Mr. Patterson said that their restaurant is more about community-building than making a profit. “You want people to have an emotional

interest in your business,” Mr. Patterson said, “and this is the modern-day version of barn-raising — come help me build my barn, and I’ll help you build yours.”

And the investor-free financing would prevent dictation that would “deform the concept of the restaurant,” Mr. Kester said, by “people who don’t know anything about hospitality or design.”

Community begins at home for the Elevens, which gets its name and ambience from the pre-Prohibition custom of having a nip at 11 a.m. Mr. Patterson’s wife, Alexandra Foote, who practices law in Oakland, Calif., has been working out formal details of the plan, some of which are formidable, since aspiring crowd-funders can collide with the Securities and Exchange Commission regulations for anyone offering investors returns through interest, capital gains or stocks. The owners hope their seatholder plan is exempt, because federal registration can be costly.

“The estimate for going public is a minimum of \$50,000 to \$100,000,” said [Amy Cortese](#), an expert in community financing and the author of “Locavesting: The Revolution in Local Investing and How to Profit From It” (John Wiley & Sons, 2011). The money is needed for “paying for accountants to conduct an audit, hiring a securities lawyer to register with the S.E.C., and filling out an abundance of forms.”

She said that Congress is looking at ways to either exempt small companies or accommodate community financing. The S.E.C. is studying the issue.

Another thorny issue involves the New York State Liquor Authority, which requires that restaurant investors disclose their financials.

But William Crowley, a spokesman, said the authority's three board members usually require full disclosure from "those providing the financing who have control and are making a profit," which would probably not include the seaholders.

Beyond its liquor license, the risk at the Elevens is "not only that the place actually will open, but that it will meet your expectations," said Sara Pepitone, the 38-year-old proprietor of a New York Web site called [30 to Midnight](#), a night-life resource for those over 30.

But, she added, "I realized that I wanted to be a tiny part of this venture," so she is seaholder No. 88.

Mr. Kester and Mr. Lefkowitz are toiling not to disappoint her.

Every Little Bit

Here are Aaron Lefkove's estimates of how \$200,000 or so was raised to open Littleneck in Gowanus, Brooklyn. The stocks, retirement accounts, records and instruments were Mr. Lefkove's.

\$105,000 Outside investors.

\$60,000 Partners' initial investment.

\$13,000 Kickstarter donations.

\$8,000 Out-of-pocket expenses.

\$5,800 Roth [I.R.A.](#)

\$5,000 [401\(k\)](#).

\$1,275 Records sold on eBay.

\$1,200 4 shares of Apple stock.

\$800 Records sold on [Discogs.com](#).

\$600 Fender Rhodes electric piano.

\$550 2 Electro-Harmonix guitar pedals.

\$300 Danelectro guitar.

\$250 Rogue electric sitar.

A version of this article appeared in print on November 9, 2011, on page D1 of the New York edition with the headline: Selling the Pie, Piece by Piece.