

FEASIBILITY OF OPENING A TEQUILA BAR IN SAN LUIS OBISPO

Presented to the
Faculty of the Agribusiness Department
California Polytechnic State University

In Partial Fulfillment
Of the Requirements for the Degree
Bachelor of Science

By
Trevor Patrick Brady
December 2009

Chapter 1

INTRODUCTION

The alcoholic beverage industry in California is flourishing; retail sales have been on the steady rise since the early 1990's. This is why a tequila bar in San Luis Obispo will be a profitable investment when looking at the bar industry as a whole. What consumers are purchasing at the liquor store is usually what they purchase at a bar or club. According to the Distilled Spirits Council of the United States (DISCUS), U.S. spirits sales for 2004 grew 3.1 percent in volume and 5.8 percent in dollars. That translated into 164.2 million 9-liter cases and \$14.7 billion in revenue. For the second year in a row there was a 3 percent-plus increase. The chief economist of DISCUS predicts continued growth to this industry because there is an ever expanding variety of drinks and brands that fits anyone's taste. On the downside there is a total number of operating liquor licenses in restaurants and bars that exceeds 225,000 and beer and wine licenses double that amount. This provides for stiff competition for any bar because there are so many competitors in the industry.

However, when looking at San Luis Obispo there is a population of about 45,000 people and two colleges in the same city. This is a large enough town with a substantial college age core that could make a tequila bar very successful. Tequila Loco would target a large spectrum of consumers, but the main target market would be college students between 21 and 25 years of age. The success of the bar would weigh heavily on the amount of college students we could get into the bar each day and night. Nonetheless, after the college students will be an older crowd that enjoys fine tequila and good company. These consumers will not come in the same numbers as the college students, but they will spend more money on the finer beverages. The last group that will be targeted by Tequila Loco will be the tourist and people visiting San Luis Obispo. Depending on what time of the year they visit this group of consumers could boost the sales way past expectations.

Opening up a new bar has many advantages, but at the same time there are just as many complications that can arise. Two of the main challenges related to opening a new business are the competition in the area and staying financially on track. Financials are very important to

making a business operate effectively so making sure to stay on the right financial tract is essential. On the positive side, being in the bar business allows owners and participants to experience the industry and allows for potential expansion and profitability. San Luis Obispo has not seen a new bar open up in over a year; having a new establishment open up could liven up the whole downtown scene. By staying ahead of the game and keeping up with the new popular bar trends Tequila Loco can distinguish itself from the other bars in town. Opening up a tequila bar in downtown San Luis Obispo is a good idea because there is a vast, untapped tequila market here.

Problem Statement

Will a tequila bar in downtown San Luis Obispo be profitable within three years of opening?

Hypothesis

By developing a strong marketing plan and using sound financial advice a new bar in San Luis Obispo could be profitable in less than three years. The financial forecast will help with the budget, while the marketing plan helps guide the business.

Objectives

1. To analyze the tequila drinking habits and tequila market in San Luis Obispo.
2. To evaluate if opening a bar will be economically feasible.
3. To assess the competition in downtown San Luis Obispo.
4. To develop a marketing plan to reach the target market.

JUSTIFICATION

According to a Rutgers University study more than sixty percent of Americans drink alcohol. Under this assumption there is opportunity for another bar in any town in the United States. There are already roughly fifteen bars in the city of San Luis Obispo with ten of them being located in the downtown area. On the other hand, there is zero tequila bars on the whole central coast. In the state of California there are 1,335 bars, 386 lounges, 14 beer gardens, 99 saloons, 526 pubs and 573 nightclubs that all serve alcohol (<http://www.manta.com/>). With only a handful of tequila bars in the entire state a new bar in SLO will give many people the opportunity to experience tequilas they have never tried before.

Chapter 2

REVIEW OF THE LITERATURE

The Business Plan

A business plan can be defined as a document that summarizes the operational and financial objectives of a business and contains the detailed plans and budgets showing how the objectives are to be realized. The plan identifies the goals of the business, contains detailed financial projections, and helps forecast your business's performance. The plan allows the business to allocate resources properly, handle any crisis that arise, and make the overall best decisions for the business. A comprehensive, thoughtful business plan can perhaps be the best tool you can have to help you reach your own long-term goals (Abrams, 2004).

A business plan is not a total necessity, but without one your business probably will not be as successful or organized. One of the most important aspects to a business plan is the management that is actually involved with that business. Managing a business requires specific management skills in addition to the knowledge of many key business practices (sba.gov). A manager has to oversee and control everything that goes on inside the business; while at the same time have the ability to manage the employees and show leadership. A business plan might seem like more work to do when you are trying to start up your business, but more than 60% of people in California write up a business plan before starting a business (www.census.gov).

The Newfound Interest in Tequila

Between 1975 and 1995 tequila sales in the United States increased more than 1,500 percent and from 1995 to 2005 sales doubled again (Walsh). Tequila drinkers in the United States are becoming more adventurous and traveling out of the norm to try new tequilas. Tequilas from the agave plant in Mexico are no longer enough to satisfy today's consumer. Big producers are opening global markets at a rapid pace. Last year, tequila production was at its highest ever at an estimated 220 million liters, compared with 190 million in 1999, according to

official figures (tequila.net). Tequila is taking its place alongside fine cognacs in the global markets; its popularity is skyrocketing, especially at the high end. And new players are coming into a once-staid industry, including two Texans, and a Philadelphia restaurant owner.

The rapid growth has some traditional producers worried about the quality of tequila, particularly given the wild production cycles for blue agave, the raw material for the drink. Some producers are giving in to the temptation to make tequila from 51 percent agave sugars and 49 percent other sugars, the minimum required to use the name tequila. The market shake-up, some tequila makers insist, has produced new fans of tequila (tequila.net).

The Tequila Industry

When you are in the bar industry you have to keep a close eye on the alcoholic beverage industry as a whole. Bars in general have become more popular over the years in the United States due to the annual consumption of alcohol increasing. The chief economist of DISCUS predicts continued growth to this industry because there is an ever expanding variety of drinks and brands that fits anyone's taste. Paul Pacult, of Manhattan's Beverage Alcohol Resource center (BAR) states that tequila imports have grown about 8% over each of the past few years and should continue to do so with the ever-expanding tequila market. The margarita has expanded the tequila industry by becoming the number one demanded mixed drink on the market (Hutsun, 95).

The negative aspect to this popularity is the inconsistency in tequila quality. As sad as it is to say some consumers will never actually taste true tequilas, but rather taste the ones that producers have corrupted by adding more sugars and less agave plant. Mexico is home to 80 percent of the world's agave plants, from which tequila has been made for 9,000 years for its nutritional, material, and medicinal properties (Monaghan, 2004). What many tequila drinkers don't know is that tequila is not only consumed to get you drunk, but rather in Mexico used to cure illness, prevent unwanted curses, and used in special recipes (Hutsun, 95). From 2001 to 2003 the alcohol industry spent roughly \$2.5 billion on television product advertising; which is only slightly lower than food product advertising says the Marin Institute. If the bar industry

continues to grow and tequila stays popular, Tequila Loco may have a chance to open other tequila bars around the state.

Financing

The finances of a business plan help to determine whether the business idea will be economically viable. It is one of the main components in determining if any outside investors will be interested in supporting the business. Financial statements help provide the information necessary to make vital decisions (Abrams, 2004). A financial plan has three components: the income statement, the balance sheet, and the cash flow projections. The income statement shows roughly whether the business will make any profit after all the expenses are accounted for. The balance sheet shows what the business is actually worth. Lastly, but most important comes the cash flow of the business. This is the single most important financial assessment, it shows whether the business has the money to pay bills and how much money is actually going in and out of the business monthly (Abrams, 2004). Having all your financial statements organized helps the business in case any unseen problems arise. The financial statements also help predict how profitable the business might be down the road. Finally, the financial plan provides solid validation for your solicitation of outside funding from investors.

Marketing

Jay Levinson's book *Guerrilla Marketing* focuses on starting up businesses and embraces the essential secrets for making big profits from small businesses. In order for any business to succeed it needs a strong marketing plan. Guerrilla marketing differs from traditional marketing in the following ways. The primary investments when using guerrilla marketing should be time, energy, and imagination, unlike traditional marketing that requires that you invest money into the marketing process. Guerrilla marketing is geared toward small businesses, while traditional marketing is geared to bigger businesses with large budgets. Jay Levinson's book suggests veering away from diversification of products and services and looking specifically at the focus; creating an excellent service or product with an acute focus will bring success.

Single weapon marketing is in the past; marketing combinations are what work now. Many expanded marketing plans include a situational analysis. This includes information about

key customers, expected competition and the possibilities of the marketplace at the moment. The following are some of the 100 tools recommended for possible use by guerrilla marketers: signs, telephone marketing, personal letters, circular, brochures, fliers, the yellow pages, newspaper or magazine ads, radio, direct mail, free seminars, exhibits, and demonstrations. Every marketing plan must include a positioning statement. A product's position is its brand image with respect to the competing products based on the consumer's perceptions of the essential attributes of the product. The position should then be measured against the following criteria: Does the product offer a benefit that the target market really wants? Does the product truly separate itself from the competition? Is the product unique and difficult to copy? The information, ideas, and methods of *Guerrilla Marketing* will be a useful guide to decide whether or not to open Tequila Loco in San Luis Obispo. Based on guerilla marketing, a tequila bar in downtown San Luis Obispo could make big profits.

Another useful marketing tool that will be used is a SWOT analysis in order to see the strengths, weaknesses, opportunities and threats of the bar industry in San Luis Obispo. The strengths could be strong brand names, good reputation with customers, cost advantages, access to distribution networks, or any other aspect that adds value to the business. The weaknesses are pretty much anything opposite of your strengths such as weak brand names or poor reputation with customers and so on. Opportunities include all external conditions that can be helpful in achieving the objective; while threats are anything that prevent you from achieving the objective. The SWOT analysis provides information that is helpful in matching the business resources and capabilities to the competitive environment which it operates (<http://www.quickmba.com/strategy/swot/>).

One of the strongest marketing tools is the marketing mix also known as "the Four P's" which include price, place, promotion, and product. Price refers to the different pricing decisions that have to be made. Place refers to the distribution of getting the product to the customer. Promotion represents the various aspects of marketing your product to your customer. Finally, product refers to the tangible or physical products as well as services. If a business can have a strong marketing mix then it will be on the right path to success (<http://www.netmba.com/marketing/mix/>).

Tequila Bars

On the heels of the tequila boom, tequila bars are multiplying, especially here in California. Some bars, such as the Pink Taco in Century City are capitalizing on tequila's good-times reputation. Others such as Amaranta Cocina Mexicana in Canoga Park are more ambitious Mexican restaurants for whom the wide selection of fine tequilas is as much a requirement as an impressive wine list is at an upscale Italian place. But before you jump off the margarita wagon and start sampling those tasty tequilas, plenty of which are priced in the \$25 to \$35 per shot range, take note you're often on your own when it comes to picking your tequilas. Some tequila bars have over 350 different tequilas to try from, while others average about 100 varieties. Even choosing from among 100 tequilas can be daunting.

It's not enough anymore to know your *blancos* (not aged) from your *reposados* (aged from two months to a year) from your *añejos* (aged for a year or more) from your golds (which can contain additives). There's extra *añejo* (aged for three years or more), *gran reposado*, *blanco suave*, platinum, even flavored tequilas. Then there's lowland style, highland style, double- or triple-distilled tequila, tequila aged in wine barrels, private labels, limited production runs and more showcase bottles than you can count. Not everyone at every tequila bar is helpful. It's not uncommon to walk into a tequila bar, ask for a recommendation and have the bartender tell you, "I don't really drink tequila," or look back at the wall of tequilas behind him with an expression as befuddled as yours might be. Tequila bars are taking California by storm and San Luis Obispo is yet to be hit by it.

San Luis Obispo Bar Scene

There are ten local bars in the greater downtown San Luis Obispo area all of which provide competition for Tequila Loco. The major competition includes the bars that are centered around drinks and dancing. The minor competition is the bars that are smaller with more of a pub style set up with just drinks. There will be four major competitors: Native Lounge, Downtown Brew, Mothers Tavern and Buffalo. The minor competitors are: McCarthy's, Black Sheep, Bulls, The Library, Frog and Peach, and Marty's. The minor competitors in town will be the bars that attract people to drink at, but have a completely different vibe. There is an Irish Pub, a few dive bars, and a couple other places you go to have one or two drinks and then head

home. One of the main reasons these bars do so well is because they have their own niche and regular clients. There is still no place downtown that just features tequila, which is where Tequila Loco fits in. We already have our niche; the only tequila bar on the central coast.

Chapter 3

METHODOLOGY

Procedures for Data Collection

This study will assess the capability of how successful a new tequila bar in downtown San Luis Obispo will be by using a marketing plan and a survey. The market research will be mostly done through a competitive analysis of the other bars in San Luis Obispo as well as using secondary data. The finances of the bar industry will also have to be examined before opening a bar in downtown San Luis Obispo. These finances will come from the help of the chamber of commerce and the comparison of the other bars in the area.

When looking at San Luis Obispo the competition in the bar industry comes from the other bars in the downtown area. There are 10 local bars in San Luis Obispo that are competition, some major and some minor, that would attract my target market. The competition will be rated one to ten on their drink pricing, their customer service, and their atmosphere and entertainment. The drink pricing will be rated on a comparison of how expensive a beer or a cocktail cost at any given bar downtown compared to each other. Customer service will be based on the promptness of service and the courtesy of the employees to the customers. The atmosphere will be ranked on what kinds of patrons spend time in the bar and the whole vibe of the bar itself including the interior decoration. Lastly, the entertainment will be rated on what each bar provides as entertainment to the customers whether it be dancing, karaoke, television, sports, games, etc. Secondary data will come from internet sites that deal with tequila information and San Luis Obispo's records and statistics from the past. This is where the town's demographics will come into play as well examining the potential customer. This data will enable us to see what type of future customers we may have. The financial data will be thoroughly thought out and estimated by talking to the surrounding bar owners and getting their financials.

To help evaluate the tequila drinking preferences of people in San Luis Obispo, a survey will be administered to college students as well as local residents. The survey includes several nominal, ratio, ordinal, and interval data questions regarding the preferences of tequila drinkers in San Luis Obispo. The first question on the survey will ask the interviewee their age in order to make sure they are over the legal drinking age of twenty-one. If the interviewee is over the legal

age then they can proceed on with the survey, if not then the survey is terminated. The following question asks what alcoholic beverages you have consumed in the past year. The next few questions on the survey are put in place to analyze how much tequila each individual purchases in a given month or in general. Question ten on the survey asks the interviewee how likely he or she would be to try out a new tequila bar if it opened in downtown San Luis Obispo. This is one of the most important questions on the survey because if a large proportion of the people interviewed would not try out the new bar, then maybe it will not be a good investment. Following question ten on the survey are several consumer demographic questions. These questions inquire about the total household income before taxes, how many people you have in the family, your level of education, gender, age, employment, and marital status. The survey is directed towards San Luis Obispo residents and Cal Poly college students. The survey will be conducted at various locations in the city of San Luis Obispo as well as on the college campus. By surveying patrons around the town the data should be as accurate as possible.

Procedures for Data Analysis

When opening any new establishment there are a great number of steps that have to be taken in order for it to be successful. Having a solid marketing plan and the financials are two keys to making your business blossom from the very beginning. One of the financial tools that will be used in this study is the income statement. The income statement is a company's financial statement that indicates how the revenue is transformed into the net income. It displays the revenues recognized for a specific period, and the cost and expenses charged against the revenues, including write-offs and taxes. The purpose of the income statement is to show managers and investors whether the company made or lost money during the time period being reported. The income statement can be prepared in one of two methods. The Single Step income statement takes a simpler approach, totaling revenues and subtracting expenses to find the bottom line. The more complex multi-step income statement takes several steps to find the bottom line, starting with the gross profit. It then calculates operating expenses and, when deducted from the gross profit, yields income from operations. Adding to income from operations is the difference of other revenues and other expenses. When combined with income from operations, this yields income before taxes. The final step is to deduct taxes, which finally

produces the net income for the period measured. Either way you go the answer should come out the same (www.investopedia.com).

An additional financial tool that will also be used is a sales forecast. A sales forecast is a prediction based on past sales performance and an analysis of expected market conditions. The true value in making a forecast is that it forces us to look at the future objectively. The company that takes note of the past stays aware of the present and precisely analyzes that information to see into the future. Conducting a sales forecast will provide your business with an evaluation of past and current sales levels and annual growth, and allow you to compare your company to industry norms. It will also help you establish your policies so that you easily can monitor your prices and operating costs to guarantee profits, and make you aware of minor problems before they become major problems. Sales forecasting is a self-assessment tool for a company. A sales forecast reports, graphs and analyzes your business. It can make the difference between just surviving and being highly successful in business. It is a vital cornerstone of a company's budget. The future direction of the company may rest on the accuracy of your sales forecasting (<http://www.va-interactive.com/>).

Once the surveys have been answered their data will be analyzed to find out consumer tequila preferences in San Luis Obispo. The survey included four different types of questions: nominal, interval, ordinal, and ratio. Nominal data is any question with several answers, yet the interviewee is only able to circle one. Interval data is data with a ratings or desirability scale. For example, question ten asks how likely the consumer is to come to a new tequila bar in San Luis Obispo. There are eleven different choices the interviewee can choose from. The consumer is still only able to choose one answer, yet the question asks to rate whether or not you would come to the new tequila bar in downtown San Luis Obispo on an eleven-scale rating. Ordinal data is the same as nominal data except the answers are arranged in a specific order. For example, question fifteen asks about the consumer's education to post-college work; the question is in chronological order. Ratio data is the data that has a numerical answer. Question three, "How much in a typical month do you spend on tequila?" This question cannot be answered by circling the appropriate answer; a numerical value must be given.

Assumptions

This project is based on the assumptions that the bar industry in San Luis Obispo will continue to grow in popularity and alcohol sales will also stay on the rise. Furthermore, it assumes that consumer awareness of tequila will only grow with the opening of a tequila bar.

Limitations

Time would have to be one the limiting factors in this study. In order to open a new bar in downtown San Luis Obispo takes longer than the time allotted for this project. Finding the right building, distributors, and employees could take more than a year. Another limiting factor would have to be the money; it costs a lot of money to start a new business anywhere.

Chapter 4

DEVELOPMENT OF THE STUDY

The Company

Tequila Loco is going to be a tequila bar and tequila tasting room located in beautiful downtown San Luis Obispo. Tequila Loco will feature good music, a fun atmosphere, and over one hundred different varieties of tequila to enjoy. Tequila Loco's decoration will be a traditional Hispanic theme with bright colors and Mexican artwork. On the weekends Tequila Loco will have more of a bar vibe with louder music for dancing and partying. Tequila Loco will offer a wide variety of tequila's from all over Mexico featuring the very top shelf (Don Julio 1949) to the bottom shelf (Jose Cuervo). Tequila Loco will be a partnership between Trevor Brady and his father Michael Brady. All of the funds necessary to start the business will come from within the Brady family.

The Company's Mission

During the day Tequila Loco is a relaxing establishment where you can go to enjoy your favorite tequila or to try all the different varieties of tequila we have to offer. The bartenders will be very knowledgeable about what they serving in order to make your experience more enjoyable. However, seeing as San Luis Obispo is a college town at night Tequila Loco will transform into more of a bar. The atmosphere will be much louder with more dancing and partying going on. Tequila Loco will be determined to offer a fun, exciting, and safe atmosphere that strives to make your visit the most enjoyable it can be.

Location

Tequila Loco will be located in beautiful downtown San Luis Obispo, California. Tequila Loco has a prime location on the corner of Monterey St. and Osos St. in a 3,000 square foot building. It is in the perfect location for walking to the parking structure and numerous other parking lots downtown. Tequila Loco will be one of many bars in the downtown area, but it will be the only tequila bar. The new tequila bar will have a maximum capacity of about 100 to 125 customers.

Products and Services

Tequila Loco will offer over 100 different varieties of tequila ranging from 100% agave to 50% agave. The majority of the tequila will come from Mexico because it is the only place it can be produced. There are four major types of tequila: Blanco or Silver, Oro or Gold, Reposado or Rested, and Anejo or Aged. Tequila Blanco is the traditional tequila that started it all. Clear and transparent, fresh from the still tequila is called Blanco (white or silver) and must be bottled immediately after the distillation process. It has the true bouquet and flavor of the blue agave. It is usually strong and is traditionally enjoyed in a "caballito" (2 oz small glass). Tequila Oro is tequila Blanco mellowed by the addition of colorants and flavorings, caramel being the most common. It is the tequila of choice for frozen Margaritas. Tequila Reposado is Blanco that has been kept (or rested) in white oak casks or vats called "pipones" for more than two months and up to one year. The oak barrels give Reposado a mellowed taste, pleasing bouquet, and its pale color. Reposado keeps the blue agave taste and is gentler to the palate. These tequilas have experienced exponential demand and high prices. Lastly, tequila Anejo is Blanco tequila aged in white oak casks for more than a year. Maximum capacity of the casks should not exceed 600

liters (159 gallons). The amber color and woody flavor are picked up from the oak, and the oxidation that takes place through the porous wood develops the unique bouquet and taste (Viva Tequila). Along with all the different types of tequilas, Tequila Loco will also offer a wide selection of domestic and imported beers all in the bottle. The beers that will be offered include: Coors Light, Budweiser, Bud Light, Heineken, Corona, Corona Light, Pacifico, Dos Equis, Tecate, Tecate Light, Modelo, Negra Modelo, Bohemia, Carta Blanca, Indio, Victoria and Sol. Our specialty drinks will include: Margaritas (frozen or on the rocks), Cadillac Margaritas, Tequila Sunrise, Vampiro (Bloody Mary), Petroleo, Dynamite, Tequila Sour and many more. Tequila Loco also offers Tequila Flights, which is a great way to sample and compare premium tequilas. The tequila flights include 3 shots of tequila with a Sangrita chaser. The tequila flights range in price depending on the quality of the tequilas you wish to taste. All of our drinks will be reasonably priced for the city of San Luis Obispo and its residents. At Tequila Loco there will be a large bar with the ability to hold up to 30 people. For those people traveling in groups there will be an abundance of tables and booths to sit at as well. There will be plenty of knowledgeable servers walking around the bar taking orders, or one can walk up to the bar and order from one of the bartenders themselves.

Target Market

There are 40,000 plus people in San Luis Obispo, California and two colleges with another 30,000 people. Of the population 25 years and over in San Luis Obispo, 91.1% have graduated from high school, 40.9% have a bachelor's degree and 15.3% have their graduate or professional degree. The estimated median household income is over \$42,000 and the per capita income is over \$27,000. This leaves us with a city that has a high population of people that can

afford to go out and buy drinks at Tequila Loco. Tequila Loco will target anyone over the age of twenty-one, but the main age group that will be targeted is college students between 21 and 28 years of age. The success of the bar will weigh heavily on the amount of college students we can get into the bar each day and night. However, after the college students will be an older crowd that enjoys fine tequila and good company. These consumers will not come in the same numbers as the college students, but will spend more money on the finer beverages. The last group that will be targeted by Tequila Loco will be the tourist and people visiting San Luis Obispo. Depending on what time of the year they visit this group of consumers could boost the sales way past expectations.

Marketing and Sales Strategy

Advertising

Tequila Loco's location downtown should serve as an advertisement in itself, attracting the many locals and tourists from the streets in to take look. By using a combination of marketing strategies Tequila Loco will create a strong image in the eye of the customer. Tequila Loco plans to advertise in local newspapers such as The Tribune and The Mustang Daily. We will also advertise by putting up flyers around town and on both college campuses. Setting up a Myspace or Facebook account on the web will also serve as an avenue for advertisement. Both of those web pages are two of the most visited sites on the internet for the younger crowd. Reaching out to potential customers through local newspaper ads and radio commercials will be used as well. Through this combination of marketing strategies Tequila Loco should get a large a customer base to check out the new bar. Once you have been to Tequila Loco, word of mouth will be huge in getting more people to come check it out.

Pricing

All of the drinks served at Tequila Loco will be priced appropriate to their value. Pricing will depend on the quality and rareness of the tequila being purchased. There will be a broad range in price from the top shelf which could be upwards to \$100 and the well tequila which cost roughly \$5. All of the beers served domestic and imported will range from \$3 to \$5 everyday. Tequila Loco will offer happy hour Monday through Friday from 2pm to 6pm where all beers and Jose Cuervo are \$3. Everyday Tequila Loco will offer different tequila at a special low price.

Operations

Tequila Loco is located on the corner of Monterey St. and Osos St. in downtown San Luis Obispo. The building itself is 3,000 square feet and there is seating for about 100 customers. There is a huge bar with thirty seats and another sixteen tables that hold roughly seventy more people. Tequila Loco will be open 7 day a week year around only closing on Thanksgiving, Christmas, and the 4th of July. Hours of operation are Sunday-Wednesday 11am-Midnight and Thursday-Saturday 11am-2am.

Our Staff

Tequila Loco will only provide work for the friendliest and most personable people in town. All of the employees will first go through a training program that shows them how to run the daily operations of Tequila Loco. During that training program you will be taught the proper way to deal with customers and learn all there is to know about the alcohol Tequila Loco has to offer. The staff as a whole will be determined to make your visit to Tequila Loco the very best it can be.

Survey Analysis

There were a total of one hundred surveys answered on Cal poly's campus and in downtown San Luis Obispo. By surveying consumers all over San Luis Obispo the data collected will be as accurate as possible. Of the hundred people interviewed 62 were between the ages of 21 and 34 years old. This is more than half the sample size in my target market. Seventy percent of the people interviewed have drunk tequila in the past year. That is a very inviting number considering the fact that we are opening a tequila bar.

Question one asks the interviewee to describe the age range they fall into. Here are the results.

18-20	0%
21-24	37%
25-34	25%
35-44	13%
45-54	15%
55-64	7%
65+	3%

Question two asks consumers which alcoholic beverages have been drunk in the past year.

Beer	97%
Wine	74%
Tequila	70%
Mixed	82%
Other	95%

Question three asks the consumer how much money they spend in a typical month on tequila. After adding up all the money spent on tequila in an average month it came out to \$42.65 per person in a given month.

Question three goes hand in hand with questions four and five. Question four asks how often do you go to a restaurant or bar in a given month and question five asks you how much you spend on a tequila shot or cocktail at a bar or restaurant. In a typical month the average consumer goes out 8.4 times and they spend an average of \$6.50 per shot or cocktail.

Question six asks of the last five times you drank tequila, was it purchased for consumption at home or a party or at a bar or restaurant. 58% of the people interviewed purchased tequila for consumption at home while 42% purchased tequila for consumption at a bar or restaurant.

Questions seven is important because it provides information on how often consumers drink tequila in San Luis Obispo. 30% of people surveyed never drink tequila, 18% drink tequila once a week, 35% drink tequila 2-3 times per week, and 17% drink tequila four or more times a week.

Question eight might be the most important question on the whole survey. It asks how likely consumers might be to try out a new tequila bar if it were to open in downtown. Roughly 80% of the people surveyed will probably try out a new tequila bar.

Certain will try out (100 chances in 100).....	40%
Almost certain will try out (90 chances in 100).....	18%
.Very probable will try out (80 chances in 100).....	22%
Probably will try out (70 chances in 100).....	4%
Good possibility will try out (60 chances in 100).....	4%
Fairly good possibility will try out (50 chances in 100)..	3%
Fair possibility will try out (40 chances in 100).....	4%
Some possibility will try out (30 chances in 100).....	3%
Slight possibility will try out (20 chances in 100).....	2%
Very slight possibility will try out (10 chances in 100).....	0%
No chance will try out (0 chances in 100).....	0%

The remaining questions on the survey were geared towards consumer demographic information.

Question nine asks whether you are a local resident, college student, or other. 33% of people surveyed are local residents, 58% are college students, and 9% are other.

Question ten asks the consumer their gender. 57% of people interviewed were male while 43% were female.

Question eleven relates to the interviewee's marital status. 28% of the people surveyed are married or living with a partner, 70% are single, and 2% are widowed.

Question twelve asks if you have any children under the age of 18 living at home. 33% of the people have children under the age of 18 at home while 67% do not.

Question thirteen asks for the level of education that you have completed. Nearly 90% of the people surveyed have at least some college education.

Grade school or less	0%
Some high school	3%
High school graduate	8%
Some college	65%
College graduate	14%
Post graduate work	10%

Question fourteen is about employment.

Employed, full time	32%
Employed, part time	43%
Not employed, retired	25%

Question fifteen is the last question on the survey and it asks about your household income.

Under \$20,000	47%
\$21,000 to \$24,999	7%
\$25,000 to \$29,999	8%
\$30,000 to \$34,999	4%
\$35,000 to \$39,999	7%
\$40,000 to \$49,999	8%
\$50,000 to \$59,999	6%
\$60,000 to \$69,999	2%
\$70,000 to \$99,999	5%
\$100,000 or more	6%

Competitive Analysis

Competitors

In San Luis Obispo there are 10 local bars in the downtown area that are competitors, some major and some minor, that would attract my target market. The major competitors are bars that have drinks and dancing. The minor competitors are the pub style bars with just drinks.

Major Competitors:

Native Lounge: They are located on Chorro St., which is in downtown San Luis Obispo. Native has been in business for a little over a year. The manager/owner of Native is Shawn. Native is a restaurant in the day and bar at night. Their target market is consumers between the ages of 21-30, but they also target an older crowd with more income. Native would be one of my major competitors because they are one of the more popular bars downtown. They are a combination of club and college bar. They have a bar area and also a dance floor. This attracts the people who like to dance and drink. Native also has an outside patio with tables, couches, and even another satellite bar. Native is more on the expensive end of bars in downtown SLO, but that is also because they offer private rooms and bottle/table service.

Downtown Brew: The Brew is located right off of Higuera in downtown San Luis Obispo. The Brew has been in business for about 5 years. They are owned by Compass West, and managed by Jerome and Jason. Their target market is college kids between the ages 21-26. Downtown Brew is the main college bar in San Luis Obispo. They attract the most college students because of their “party like” atmosphere. They have music and cheap beers specials that also appeal to college students. They market themselves as a bar that you can dance and get drunk at until they close. They use cheap drink prices and events to set themselves apart from other bars. They have been so successful in the past 5 years because they have a large bar where more people can get in and out to either drink or dance. Downtown Brew is two stories tall and can hold close to 500 people in there.

Mothers Tavern: Mothers is located on Higuera Street in downtown San Luis Obispo. It is managed by Shaun. Their target market is college students between the ages of 21-26. Mother’s is a bar that you can dance at, but is still an older type of bar setting. Mothers Tavern

promotes itself as having prompt drink service and friendly staff. Mothers posed as a competitor because they get a good crowd of college students on a regular basis. They also use a great happy hour tactic and dancing to attract their market. They have been so successful over time because they have great location and a reputation of being a fun and exciting bar.

Buffalo: Buffalo is located in downtown San Luis Obispo on Higuera Street. Personally, this is my favorite bar in SLO. They always have prompt service and the prices are very reasonable for a bar. They are managed by Mike and Nicole. Buffaloes target market is college students between the ages of 21-26. They play good music that makes people want to dance and have a good time.

Minor Competitors:

Minor competitors in town are other bars that attract people to drink at but are completely different set up and feel. Some are Irish pub, some are small dive bars, and some are places to have one or two drinks and go home. The names of my minor competitors are: McCarthy's, Black Sheep, Bulls, Library, Frog and Peach, and Marty's. One of the main reasons these bars do so well is because they have their own niche and regular clients. All of the minor competitors are also located in downtown San Luis Obispo.

Advantages Over Competition:

- New friendly environment
- Drink special throughout the week
- Every night of the week there will be different
- Entertainment provided by the bar.
- Ladies night that get free drinks for a to start out the night

Barriers to Entry: It can be relatively expensive to start up a new bar like this in a town like San Luis. The cost of materials, liquor, furniture, accruing licenses, and the main thing is rent. I read in the news paper that it is costing \$4.50 a sq. foot on downtown Higuera St. Also there are other expenses that need to be factored in before the bar can open.

SWOT Analysis

Strengths:

Tequila Loco will be the only tequila bar located in downtown San Luis Obispo which will give us an edge in cornering the tequila market. Tequila Loco's prime location centered in the middle of downtown can only help business. The staff will be full of the friendliest and most attentive people you can find anywhere on the Central Coast. The owners have personal experience in working and running a bar.

Weaknesses:

The biggest weakness is that Tequila Loco is a brand new bar that has no reputation to bring in business. Trying to open a new bar in a downtown setting that already has ten other bars in the same vicinity is another weakness. Lastly, the only liquor served is tequila, so if you don't like it, this bar is probably not for you.

Opportunities:

With a large college age population another bar in downtown could be a huge hit. If Tequila Loco makes a good name for itself there is a chance for expansion into other locations around California.

Threats:

The community and potential customers may not accept the idea of a tequila bar in downtown San Luis Obispo. Consumer's taste preference is not centered around tequila, but rather another type of alcohol.

4 P's

Price:

All pricing will be set according to the industry averages.

Place:

Everything will be served at Tequila Loco in downtown San Luis Obispo.

Promotion:

Tequila Loco will use a combination of marketing strategies to promote itself.

Product:

Tequila Loco will offer the finest tequilas in the world as well as a huge selection of domestic and imported beers.

Cost Analysis

Rent:

For a 3,000 square foot building in downtown SLO rent will be \$6,750 a month (\$2.25 per square foot) with a 5 year lease. The total per year is \$81,000 and for the full five years the total will be \$405,000.

Alcohol License:

Anyone who wants to sell alcoholic beverages must first purchase an alcohol license. The going rate for an alcohol license is \$20,000 in San Luis Obispo. The alcohol license will be listed in the assets section of the balance sheet and will not depreciate because it has full resale value.

Business License:

In order to open any business you must first purchase a business license which will cost about \$2,000

Financial Analysis

Projected Sales

Year 1: Sunday – Wednesday $\$1,000 \times 4 = \$4,000$

Thursday – Saturday $\$4,000 \times 3 = \$12,000$

Sales Per Year $\$16,000 \times 52 = \$832,000$

Year 2: Sales Per Year at 5% = \$873,600

Year 3: Sales Per Year at 5% = \$917,280

Projected Sales with 10% increase:

Year 1: $\$16,000 \times 52 = \$832,000$

Year 2: at 10% = \$915,200

Year 3: at 10% = \$1,006,720

Projected Sales with 15% increase:

Year 1: $\$16,000 \times 52 = \$832,000$

Year 2: at 15% = \$956,800

Year 3: at 15% = \$1,100,320

Projected Sales with -5% decrease:

Year 1: $\$16,000 \times 52 = \$832,000$

Year 2: at -5% = \$790,400

Year 3: at -5% = \$829,920

Customer Analysis:

Customer Perception Factors

<u>Factor</u>	<u>Max Points (1-10)</u>	<u>Tequila Loco</u>
Product/Service Features	10	10
Purchase Price	10	9
Quality	10	10
Maintenance	10	10
Image/Style/Design	10	9
Brand Recognition	10	5
Customer Relations	10	10
Location	10	10
Customer Service	10	10
<u>Total Points:</u>	90	83

<u>Factor</u>	<u>Max Points (1-10)</u>	<u>Native Lounge</u>
Product/Service Features	10	10
Purchase Price	10	6
Quality	10	9
Maintenance	10	10
Image/Style/Design	10	10
Brand Recognition	10	8
Customer Relations	10	9
Location	10	10
Customer Service	10	9
<u>Total Points:</u>	90	81

<u>Factor</u>	<u>Max Points (1-10)</u>	<u>Downtown Brew</u>
Product/Service Features	10	10
Purchase Price	10	9
Quality	10	9
Maintenance	10	8
Image/Style/Design	10	8
Brand Recognition	10	10
Customer Relations	10	9
Location	10	10
Customer Service	10	9
<u>Total Points:</u>	90	82

<u>Factor</u>	<u>Max Points (1-10)</u>	<u>Buffalo Bar & Grill</u>
Product/Service Features	10	10
Purchase Price	10	9
Quality	10	9
Maintenance	10	9
Image/Style/Design	10	8
Brand Recognition	10	10
Customer Relations	10	9
Location	10	10
Customer Service	10	9
<u>Total Points:</u>	90	83

<u>Factor</u>	<u>Max Points (1-10)</u>	<u>Mother's Tavern</u>
Product/Service Features	10	10
Purchase Price	10	8
Quality	10	9
Maintenance	10	9
Image/Style/Design	10	9
Brand Recognition	10	9
Customer Relations	10	9
Location	10	10
Customer Service	10	9
<u>Total Points:</u>	90	81

Competitive Analysis:

Internal Operational Factors

<u>Factor</u>	<u>Max Points (1-10)</u>	<u>Tequila Loco</u>
Takes Credit Cards	10	10
Full Bar	10	6
Dancing	10	8
Live Music	10	8
Other Entertainment	10	8
Good Service	10	10
Short Lines	10	10
<u>Total</u>	70	60

<u>Factor</u>	<u>Max Points (1-10)</u>	<u>Native Lounge</u>
Takes Credit Cards	10	10
Full Bar	10	10
Dancing	10	7
Live Music	10	7
Other Entertainment	10	7
Good Service	10	7
Short Lines	10	7
<u>Total</u>	70	55

<u>Factor</u>	<u>Max Points (1-10)</u>	<u>Downtown Brew</u>
Takes Credit Cards	10	9
Full Bar	10	10
Dancing	10	8
Live Music	10	9
Other Entertainment	10	9
Good Service	10	8
Short Lines	10	5
<u>Total</u>	70	58

<u>Factor</u>	<u>Max Points (1-10)</u>	<u>Buffalo Bar & Grill</u>
Takes Credit Cards	10	10
Full Bar	10	10
Dancing	10	5

Live Music	10	7
Other Entertainment	10	7
Good Service	10	9
Short Lines	10	9
<u>Total</u>	70	57

<u>Factor</u>	<u>Max Points (1-10)</u>	<u>Mothers Tavern</u>
Takes Credit Cards	10	9
Full Bar	10	10
Dancing	10	8
Live Music	10	7
Other Entertainment	10	8
Good Service	10	9
Short Lines	10	7
<u>Total</u>	70	58

Equipment

Refrigerator	2,500
Ice Machine	1,000
Glassware	2,000
Compact Refrigerator	500
Dishwasher	2,000
Misc. Supplies	5,000
Total	13,000

Furniture & Fixtures

Chairs	3,000
Tables	3,000
Decoration	5,000
Entertainment System	20,000
Total	31,000

Total	44,000
Total Depreciable Assets	44,000

Advertising & Marketing	16,000
Total	60,000

Lease – 5 Years

$\$6,750 \text{ per month} * 12 = \$81,000 \text{ per year}$

$\$81,000 * 5 \text{ years} = \$405,000 \text{ for 5 years}$

Investors

Trevor Brady: \$75,000

Michael Brady: \$75,000

Total: \$150,000

Income Statements

5% Growth Rate

Income Statement	Year 1	%	Year 2	%	Year 3	%
Total Revenues	832	100%	873.6	100%	917.28	100%
Cost of Sales	249.6	30%	262.08	30%	275.18	30%
Gross Margin Operating Expenses	582.4	70%	611.52	70%	642.1	70%
Selling, General, & Administrative Expenses	449.28	54%	471.74	54%	495.33	54%
Depreciation	8.32	1%	8.736	1%	9.1728	1%
Total Operating Expenses	457.6	55%	480.48	55%	504.5	55%
Earnings(or loss) Before interest & taxes EBIT	124.8	15%	131.04	15%	137.59	15%
Interest Expenses						
Earnings(or loss) Before taxes EBT	124.8	15%	131.04	15%	137.59	15%
Net Income	74.88	0.09	78.624	0.09	82.555	0.09

10% Growth Rate

Income Statement	Year 1	%	Year 2	%	Year 3	%
Total Revenues	832	100%	915.2	100%	960.96	100%
Cost of Sales	249.6	30%	274.56	30%	288.29	30%
Gross Margin Operating Expenses	582.4	70%	640.64	70%	672.67	70%
Selling, General, & Administrative Expenses	449.28	54%	494.21	54%	518.92	54%
Depreciation	8.32	1%	9.152	1%	9.6096	1%
Total Operating Expenses	457.6	55%	503.36	55%	528.53	55%
Earnings(or loss) Before interest & taxes EBIT	124.8	15%	137.28	15%	144.14	15%
Interest Expenses						
Earnings(or loss) Before taxes EBT	124.8	15%	137.28	15%	144.14	15%
Net Income	74.88	0.09	82.368	0.09	86.486	0.09

15% Growth Rate

Income Statement	Year 1	%	Year 2	%	Year 3	%
Total Revenues	832	100%	956.8	100%	1004.6	100%
Cost of Sales	249.6	30%	287.04	30%	301.39	30%
Gross Margin Operating Expenses	582.4	70%	669.76	70%	703.25	70%
Selling, General, & Administrative Expenses	449.28	54%	516.67	54%	542.51	54%
Depreciation	8.32	1%	9.568	1%	10.046	1%
Total Operating Expenses	457.6	55%	526.24	55%	552.55	55%
Earnings(or loss) Before interest & taxes EBIT	124.8	15%	143.52	15%	150.7	15%
Interest Expenses						
Earnings(or loss) Before taxes EBT	124.8	15%	143.52	15%	150.7	15%
Net Income	74.88	0.09	86.112	0.09	90.418	0.09

-5% Growth Rate

Income Statement	Year 1	%	Year 2	%	Year 3	%
Total Revenues	832	100%	790.4	100%	829.92	100%
Cost of Sales	249.6	30%	237.12	30%	248.98	30%
Gross Margin Operating Expenses	582.4	70%	553.28	70%	580.94	70%
Selling, General, & Administrative Expenses	449.28	54%	426.82	54%	448.16	54%
Depreciation	8.32	1%	7.904	1%	8.2992	1%
Total Operating Expenses	457.6	55%	434.72	55%	456.46	55%
Earnings(or loss) Before interest & taxes EBIT	124.8	15%	118.56	15%	124.49	15%
Interest Expenses						
Earnings(or loss) Before taxes EBT	124.8	15%	118.56	15%	124.49	15%
Net Income	74.88	0.09	71.136	0.09	74.693	0.09

Retained Earnings Reconciliation

Retained Earnings Reconciliation	Year 1	Year 2	Year 3
Beginning Owner's Capital	150	324.8	505.8
EBT or Net Earnings	124.8	131	137.6
(Withdrawals) or (Dividends)	50	50	50
Ending Owner's Capital or Retained Earnings	324.8	505.8	693.4

Balance Sheet

Opening Balance

Year One

ASSETS

Current Assets

Cash in bank	\$ 40	\$ 175
Accounts receivable	-	
Inventory	40	40
Prepaid expenses	-	-
Other current assets	10	10
Total Current Assets	\$ 90	\$ 225

Fixed Assets

Machinery and equipment	\$ 13	\$ 13
Furniture and fixtures	31	31
Leasehold improvements	-	-
Land and buildings	-	-
Other fixed assets	16	16
(LESS accumulated depreciation on all fixed assets)	-	(8)
Total Fixed Assets (net of depreciation)	\$ 60	\$ 52

TOTAL Assets	\$ 150	\$ 277
---------------------	---------------	---------------

LIABILITIES AND EQUITY

Current Liabilities

Long-Term Debt

Total Long-Term Debt	\$ -	\$ -
		-
Total Liabilities	\$ -	\$ -

Owners' Equity

Invested capital	\$ 150	\$ 150
Retained earnings - beginning	-	-
Retained earnings - current	-	127
Total Owners' Equity	\$ 150	\$ 277
Total Liabilities and Equity	\$ 150	\$ 277

Chapter 5

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Summary

The local community of San Luis Obispo has shown a strong interest in a tequila bar if it were available in town. Given the right amount of time and the necessary tools Tequila Loco could be thriving downtown in the next three years. By accomplishing the objectives and goals put forth this study was pretty successful. First the author conducted a thorough overview of a marketing plan to reach the target market. They compiled the start-up costs and determined the financials necessary to open a new tequila bar downtown. Lastly, they compared all the competition in the surrounding area using a competitive analysis and customer preference rating. By satisfying all the objectives, the hypothesis seems to be correct that Tequila Loco is on the path to success in less than three years.

Conclusion

After looking back on all the research done it seems as though the marketing plan is very helpful in getting the business started and helping find the potential customer base. However, the financial end of the project is still the most important factor in opening up any business. Financials can turn your fantasy business into reality by showing you what you can expect to gain or lose. If you can develop and follow a strong financial plan then you can turn that fantasy business into a money making business. According to the financial forecast Tequila Loco will only see strong gain in the first few years. With all the start-up money coming directly from the family there is no money owed to any investors. The problem statement was to see if Tequila Loco could be profitable in three years; after looking at the financials, this is definitely a worthwhile business adventure.

Recommendations

After completing this study I believe that a tequila bar this day and age would be a good business move for anyone interested. Let me warn you first though, it is not going to be an easy job. If you still want to go for it, I recommend that you invest all your time, energy, and focus into it. Given the right amount of time and enough financial capital and you could have yourself

a successful bar in less than three years. For anyone considering expanding or continuing research on this topic I recommend that you look into maybe serving food at the bar. Having some appetizers or entrees that complement that fine tequilas could be a good investment.