Beach Hut Deli Case Study

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Chris Mangiola, Seth Sobottka, Lauren Yien and Megan Fox prepared this case study under the supervision of Dr. Wayne Howard in AGB 462, Applied Agribusiness Problems as the basis for class discussion rather than to illustrate either effective or ineffective management.

Troy Feist

CEO & Founder of Beach Hut Deli

The mission of the Beach Hut Deli LLC, as stated by owner and CEO Troy Feist, is to create sandwiches that we love to eat. The Beach Hut Deli became franchised in 2004, but the actual deli dates from 1981, when Troy, still a teenager, developed a fascination with old school arcades & began to make snacks/recipes for his friends. Initially, at the age of 19 Troy sought out Togo's in Folsom in hopes of making his dreams come to fruition. Unfortunately, he was laughed at for being a 19 year old kid without experience. Moreover, he was too young to buy into the franchise, so instead he made his own. Troy's parents took a second mortgage out on their home to invest in his first deli operation.

After graduating from high school, Troy opened the Lake Side Sandwich Shoppe in the Natomas shopping center, which was more of an arcade based venture. In 1992, Troy opened the first Beach House deli in the Raley's Shopping Center in Granite Bay, CA. Troy was determined to give this new store more of a restaurant and deli-like feel.

Troy was fond of Granite Bay and taking on various challenges. He was a voracious reader, but was not interested in formal schooling. He was driven by entrepreneurship and believed that it was important to find one’s passion in life. In 2002, Troy opened up two other delis. One in Rocklin & one in Folsom. After experiencing success with the new locations an opportunity for expansion arrived. Troy was inspired by what he would begin to call "the Beach Hut Vibe", which would ultimately transform into a mini vacation experience. At this point Troy had found his niche, but his primary concern was to maintain quality and consistency throughout the various branches.
Food Retail in America
Restaurants, Bars & Food Services

The food industry is providing meals, snacks, and beverages to customers around the world. This industry is so large that it generates $2.7 trillion dollars in annual sales. The market for food retail is constantly changing due to consumers’ taste, preferences, and their personal income. In order to have a successful operation one needs to have efficient services, respectable food quality, and consistent marketing. Smaller companies and franchises can compete effectively by providing superior customer service, specialized food products, and serving from local markets. Technology is also playing a huge role in the food retail sector to ensure accurate customer orders and reduce labor costs. Many establishments currently have websites and are active on social media, using Facebook, Twitter, Instagram, and other channels to engage customers, promote items, and offer discounts. Customers are willing to try these trendsetting restaurants and bars that the food retail industry has promoted on social media.

One huge trend that we see in larger cities has been food trucks. Food trucks are an inexpensive way to test new food items. Food truck sales are predicting $2 billion dollars in 2017. Healthy food options are also on the rise as we see an increased number of vegetarians, vegans, diabetics, and people allergic to certain foods. Current chains are now adding veggie items, wraps, and or dishes with gluten free items. Locally sourced ingredients is another trend that has been on the rise, ensuring fresher products and better tasting meals. The biggest trend that is still increasing around the world is fast-casual restaurants such as a Panera or Chipotle. These places offer speedy counter service and high quality meal items, endorsing organic ingredients to set them aside from fast food chains. Prices tend to be higher but sales has increased nearly by 13% in just 2014. As eating out has come on the rise, many industry opportunities have opened up for the food retail sector.

Recently we have seen more food chains in retail stores or malls due to the benefit of repeat customers eating out while shopping. This occurrence has also transpired into hotels, airports, and even museums. Pre-packaged foods have become an uprising trend in retail stores or airports. Another huge trend with chain restaurants has been the occurrence and benefits of new global opportunities. Spreading restaurants to new continents caters to local tastes that customers are searching for or didn’t know they would enjoy. Here in San Luis Obispo we have seen an increase liking towards eating out for brunch. Restaurants and local eateries have been adding brunch items as well as drinks to go along with these foods to increase customer visits during the early morning to early afternoon hours. On-the-go items, such as breakfast wraps or burritos, have become a huge success, are cheap to make, easy to prepare instead of lunch and dinner entrees. Additionally one of the most current trends seen around the United States has been the craft beer boom. These specialty drinks promote sales growth in a convenient store. Frequent craft beer drinkers have higher price thresholds, tend to visit bars more often, and consume a larger variety of alcoholic beverages than
the average customer. With all the recent success of implementing new items or practices in one’s restaurant or bar a business tends to see a lot of new challenges that come along with it.

The cost and challenges that come with a business are quite substantial. There are many variable operating costs to continue operating such as labor, relocating, remodeling, marketing, equipment and much more. Food prices can fluctuate as a result of supply changes, which may be linked to severe weather such as droughts, heavy rains, and late freezes. If a business raises prices in response to weather changes it could have a negative impact on sales. Weather changes aren't the only trend that businesses face. In the late 2000's the United States had a horrible recession, causing consumer confidence and spending patterns to change. Restaurants also had to cutback on employment as consumer expenses fell. With franchise operations we tend to see a balancing act between keeping their franchises happy and ensuring compliance with franchise agreements. Poorly managed franchises can damage consumer perception of an entire chain. Many companies struggle to turn around their underperforming locations.

**Competition**

Troy wanted Beach Hut Deli to be more than a sandwich franchise, he wanted it to be a home away from home experience. Troy mentioned "many delis have the same vibe to them" so he prided himself to distinguish his franchise towards a vacation environment with a restaurant feel. Most deli consumers enjoy the food over the experience. By offering high quality ingredients and a sensational vibe Troy’s Beach Hut Deli was an experience most consumers could not pass up. Competitions stemmed from well known sandwich shop chains that have been around much longer than Beach Hut Deli. In consideration to fast food chains Quiznos, Wendy's, and Subway are three primary competitors.

Quiznos stands as the second largest submarine sandwich shop chain in Northern America after Subway. To stay afloat the Quiznos focused on rebranding their company by updating their menu, creating unique items, and revamped the restaurant interiors. Due to the uprisong health trend Quiznos began by adding high quality ingredients such as natural chicken, angus beef, and high quality turkey. The unique items include wraps, salads, grilled panini flat breads all under 500 calories. The appearance revamp for the restaurant interiors and employee uniforms tremendously added to the recognition of a higher end chain. The rebrand of Quiznos saved them from falling in debt and led to an infusion of 150 million in capital. To keep up with the expansion of franchises local units are regulated to ensure food quality and customer service.

Wendy's like Burger King is focusing their marketing efforts on younger consumers hurt by high unemployment and the sluggish economy. They chose to focus more efforts towards boosting performance in existing locations by upgrading menus, modernizing restaurant interiors, and raise prices. Chains have started to offer healthier alternatives
that include smoothies, oatmeal, Asian chicken salad, and an option of higher end steak house hamburgers. Wendy's conducted a survey resulting in consumers willing to pay higher prices for freshness. The survey led to many changes throughout the company and has been a success so far.

Beach Hut Delis top competitor is Subway. Devoted to offering customized made to order sandwiches with a wide range of better-for-you options Subway is a threat to just about all delis. Subway prides themselves over easy access to vegetables, detailed nutrition, dietary, and healthy lifestyle information. With more than 44,000 franchise locations they have seen a great demand in opening in domestic locations such as malls, airports, and train stations⁹. Subway was mentioned as one of the top chain restaurants due to their efforts in staying with the health trends. Currently they are developing new ways in adding in vitamin D and calcium into their bread for greater health benefits¹⁰.

In addition to health efforts subway has a huge recognition for one of the best franchising operations. "Subway was an affordable, easy to operate franchise, especially with the amount of support we get from headquarter", a northern county owner said. He was certain the it was the perfect opportunity and investment he could have made. Chief development credits the franchises as well praising them for their hard work and efforts to maintain and grow Subway².

Current Industry Overview

Sandwiches to say the least are one of the biggest food industry hits. The top sandwich franchises are the most successful because they serve healthy meal options at a reasonable price, such as the $5 Dollar Footlong. As the fast food industry continues to grow, businesses big and small are changing the way they work, adding more variety, convenience, and nutrition. For years Subway has been at the top of the sandwich industry, but controversy with their main spokesperson and the declining sales, that all could be changing.

As of 2011, the three largest sandwich franchises in the United Sates are Subway, Charley’s Grilled Subs, and Firehouse Subs. Subway has outdone McDonald’s with the most number of outlets worldwide with 34,134 locations. In 2010, Subway introduced a breakfast line, which helped boost sales. They are also planning to add drive-through services and more big-box retail locations. Charley’s Grilled Subs also has done really well when 22-year-old Charley Shinn introduced the Philly cheesesteak on the Ohio State University campus. He has now brought American classics to chains around the globe including the gourmet cheddar fries and lemonade. Charley’s also has great advertising and marketing and can be reviewed through their company blog, Facebook, Twitter, and many other social media platforms. Firehouse Subs the next highest ranked franchise was brought to the United States by two firemen, Chris Sorensen and Robin Sorensen. Firehouse Subs is a fast casual restaurant chain where they serve large portions of steamed meats at great prices. This chain also has a heart for community charity work, which looks great for a huge franchise operation. The goal
of their chain is to provide fire departments, law enforcement, and emergency service providers with the tools, technology, and training they need.

The History of Beach Hut Deli

The Birth of Beach Hut Deli LLC.

At the age of 19 Troy Feist started what we now know as the Beach Hut Deli in Granite Bay, California. The original deli is located near Folsom Lake in Northern California. He envisioned the creation of a sandwich, composed of top-quality meats, cheeses, and fresh produce. Being a lover of the beach, Troy not only wanted to create a deli with a beach theme, but also a family oriented establishment with unparalleled service. The original deli is adorned with beach and surf memorabilia, and the tables are even made out of surfboards. The beach theme has transformed into a beach hut culture that has procured a "wall of infamy" depicting photos of both happy patrons and employees enjoying each others company while sporting their beach hut attire. After an overwhelming amount of support from the local community, Troy decided to franchise his operation.

The Beach Hut Deli currently has 35 locations in California, Reno, and Las Vegas with plans to expand into the Pacific Northwest.

Beach Hut contains a unique menu full of delicious combinations where many of the options contain cream cheese and fresh sliced avocados. The Beach Hut Deli experience is unlike any other deli experience. The customers not only enjoy great sandwiches, but they can have fun and relax in a "home-away-from-home environment". Each location sports the Beach Hut Deli Radio, which is composed of Troy's favorite music. Franchise owners are encouraged to support local breweries by stocking beer taps with their delicious craft beers. Patrons frequently visit the deli to socialize while watching local sporting events with their friends and family. Furthermore, the Beach Hut Deli has differentiated themselves from their competitors by offering superior customer service, specialized food products, and locally grown ingredients.

Franchise Operation Overview

Starting A Franchise

Beach Hut Deli’s future outlook for continuous growth will continue to develop for years to come. The success in many operations with the “home-away-from-home” vibe and superb customer service gets customers, who sometimes are curious investors, to find interest in opening a Beach Hut of their own. It’s as easy as a few clicks, and the Beach Hut Deli Franchise Corporation will look into anyone’s application for their own unique business ownership opportunity. However, just because an investor may have the capital to open a store, doesn’t mean they receive the keys to the front door of a new location. People with the perfect attitude and mindset for business success and sensibility will be able start their own operation. They even require that potential prospects work side by side with Troy Feist for upwards of 32 hours to see if their
personality, attitude, and work ethic will award them with a franchise location of their own.

Training

Whether or not a person is a new franchise owner, manager, or general employee proper training will be provided to ensure quality and consistency that remains imperative to the Beach Hut name and reputation. Although the deli’s environment is relaxing and a vacation culture, consistency in the food quantity and quality along with the superb customer interaction determines what their first or lasting impression of the restaurant may be like.

There are mandatory training courses for all levels of employment. It is up to the owner and or operator of each franchise to have total responsibility for every aspect of the store at all times and must have a thorough understanding of the following: product quality, reporting procedures, store operations, ordering, personnel management, scheduling, banking, bookkeeping, taxes, etc. Anyone who is pursuing a working position must abide and complete 32 to 36 hours of training, learning the basics and behind the scenes of Beach Hut Deli operation procedures.

"Through practice and experience is how an employee becomes successful at their job," Says Pun Thompson (Head of Southern California Operations)." It may seem a bit over the edge, but Beach Hut Deli breaks down each job and order of operation to the finite detail. Remember, consistency is top priority to the Beach Hut Deli franchise. Even though each store location may have a different owner and a friendly family culture of its own, it's imperative that the product created in Troy's mind, is presented on the plate the way it was envisioned.

Products

Beach Hut's menu offers a wide and diverse variety of sandwiches, salads, and snacks, all of which can be tailored to the customer’s preference. Most large scale competitors of Beach Hut Deli feature products that are very well known and profound to the public consumer. For example, when ordering off of the menu at Subway, all types of sandwiches are based off of the names of the meats, and then build your product along the line with very slim quality of products.

Beach Hut offers that similar type of option, in the basic gourmet sandwich types including turkey, roast beef, ham, pastrami, salami, and tuna. However, the proportions and freshness of the ingredients, provided by Tony’s Fine Foods, extremely differs in comparison to competitors. Furthermore, the menu becomes more personalized with specially designed creations developed by, the Founder and CEO, Troy Feist. Along the years of expansion and growth, managers/owners of all locations would meet at an annually at the BHD Conference. There they would hold fun and creative opportunities like creating a new sandwich ideas to be showcased across all locations.
From meat lovers to vegetable and vegan advocates, the menu covers all areas where customers with certain diet preferences can be accommodated to. Items range from cold specialties to hot cooked and toasted delights. Below is a list of specialty items created for consumers to enjoy.

**Surfin' Bird**

This sandwich is Beach Hut Deli flagship sandwich, representing a large percentage of the sandwiches sold at the various Beach Hut Deli locations. It dates from the 1990's, when Troy Feist dedicated a large amount of time and money to perfect it's recipe. Its ingredients include a sweet French roll layered with turkey, avocado, bacon, cream cheese, and a variety of locally grown produce. It is a fresh cold cut that pairs well with a refreshing soft drink. As the Beach Hut Deli continues to expand, they expect the Surfin' Bird will continue to be the highest selling cold cut sandwich. The flagship sandwich is displayed in Exhibit 4.

**The Islander**

This sandwich is highly comparable to an In-N-Out burger. The Islander contains hot chopped Pocino roast beef with a layer of melted mild cheddar cheese, butter sautéed onions, locally sourced fresh tomatoes, shredded iceberg lettuce, and a liberal amount of homemade 1000 island dressing on a toasted Truckee Sourdough Co. Sweet French roll. This sandwich produces an appetizing aroma of sizzling roast beef and is attractive to the eye upon final production.

**Special Items**

**The Beach Bites**

This is an extraordinaire appetizer that Beach Hut Deli offers as an alternative. This garlic bread is layered with six slices of melted provolone cheese on top of a carefully toasted Sweet French roll, which is lightly garnished with a garlic Italian dressing. The cheesy garlic bread is sliced with precision and carefully placed around a dish of chilled marinara that has been garnished with fresh Parmesan cheese. The Beach Bites are displayed in Exhibit 4.

**The Marley Nachos**

These nachos are nothing short of amazing. The key to an appetizing nacho experience starts with Santitas corn tortilla chips. The tortilla chips are carefully selected by size and formed into a volcano like structure. A melted nacho cheese sauce is layered across the chips and is garnished with dollops of cold cream cheese. Diced red onions, tomatoes, Greek peppers, avocado and bacon are then sprinkled freely across the melted cheese to create a unique dining experience. The Marley Nachos are displayed in Exhibit 4.
Beers Offered

Along with large quantities of quality food, most store locations offer an abundance of different drink options. Let alone, the beer selection. Each Deli Location facilitates with different domestic and micro beer distributors. Selecting at least 8 different drafts of local’s preference. Many store locations have upwards of 20 different kinds of beer!

Eye of the Hawk (Imperial Ale)

This beer has a long history with Beach Hut Deli. It has been featured at each franchise location for many years. It can be characterized as a rich full bodied ale that has been brewed to perfection. The label on the bottle depicts a copper colored hawk that contains a red amber ale within it. The "Hawk" produces a unique flavor composed of Cascade and Saaz hops, Clusters, pale malted barley, and a hint of caramel. This gives the craft beer a slightly hoppy sensation with a slightly dry finish. It has 8.0% Alcohol By Volume (ABV-1), contains 37 bitterness units (37 IBU-2), and pairs well with a fresh Surfin’ Bird on a hot summer day. As Beach Hut Deli continues to grow, they expect to continue their close relationship with Mendocino Brewing Co. and Eye of the Hawk will continue to be the majority of what is purchased and served through Beach Hut’s golden taps. This year round beer is displayed in Exhibit 5.

Alohawk A.K.A. "Big Boy"

This beer was designed by a culmination of opinions between the Loomis Basin Brewing Company and Troy Feist. Few franchises are lucky enough to sport this fiery golden ale because the Loomis Basin Brewing Company isn't quite equipped to distribute barrels of beer to distant locations. The small brewery is located approximately fifteen minutes away from Folsom Lake and the original Beach Hut Deli in Granite Bay. However, the Sacramento, Granite Bay, Rocklin, and Roseville deli’s can provide this hot commodity. The beer contains a sweet malt flavor with hints of honey, pears, and fresh apricots. It is a smooth well rounded beer that can be deceivingly strong.

Production & Distribution

Beach Hut Deli has historically sourced most of their specialty food items from Tony’s Fine Foods located in West Sacramento. Tony's Fine Foods is the largest privately owned food service, paper and perishable product distributor in Northern California. They have provided the Beach Hut Deli with reliable service that has been tested over the decades. Tony's has an extensive distribution network that spans from the upper regions of the Pacific Northwest down to Los Angeles. This allows for quality assurance at each current franchise location and opens opportunities for new markets. Beach Hut receives Sweet French rolls, Whole Wheat rolls, and Sliced Garlic Cheese Sourdough from the Truckee Sourdough Company. Truckee Sourdough co. offers 7 day a week delivery to ensure that Beach Hut has a consistent bread selection at each location. This company embraces the charismatic culture of the town they're located in. Truckee is a mountain town of Northern California. At 6,000 feet they have
easy access to clean water and air. This allows for a unique and fresh product that serves as the foundation for the majority of Beach Hut's sandwiches and appetizers.

Sales By Store

With over 35 store locations and growing, sales of each store franchise depends on two very important conditions; location and marketing structure. Each city has it's own demographic and economic status, making some locations more popular than others. Sales for these store locations ranged from 75k a year to nearly 500k a year for certain store locations. Top store locations for the year of 2015 are Auburn CA, Sacramento CA, and Davis CA, all located in the northern state; close to the city of the first and original Beach Hut Deli. As expansion continues to grow, stores will become more established throughout the communities as owners strive to give back and become more profound with the local atmosphere.

Marketing

Beach Hut Deli targets multiple audiences and channels in order to help marketing for the franchise. They target many social media platforms such as Facebook and Instagram which are two popular applications for the younger generation that is attracted to the Beach Hut vibes. According to media post Instagram imagery should reflect high quality images similar to the content already put out by the consumers. Pictures should not be too staged, they should be an image that the consumer should be capable of capturing. Millennial consumers are looking for real and imperfect photos something that Beach Hut Deli Instagram does. Each franchise has their own Instagram account averaging 400 followers. Promotions, daily deals, and special events are often posted to gain attention and inform the followers of what is going on within the franchise or at a specific location. They have also utilized the hash tag and location tag to increase word of mouth marketing from their own consumers.

Beach Hut is very well known for the friendly and relaxing vibe that the restaurant holds and the people who visit Beach Hut appreciate the local connections and word of mouth news that they hear day to day. You'll never walk into any Beach Hut location and not be treated like a friend. At the deli the workers are known for their friendly and fun attitudes in order to build and relationships with the new customers that walk in the deli everyday.

Another promoting opportunity for Beach Hut is attending local neighborhood events. Each year Beach Hut Delis across California attend events such as, Beer Fest, car dealerships, sports tournaments, and company parties. They bring food trays full of specialty items you can see on the Menu, as well as coupons for a free beer or sandwich! The company invests in Beach Hut Deli gear to get their logo out into the public, this helps build name recognition and brand loyalty. One of the biggest parts of Beach Hut Deli that the customers enjoy is the atmosphere it encompasses. Beach Hut Deli is beachy, relaxing, friendly, and a community place where friends gather to share a beer and listen to great music. One of the things that you can recognize in every Beach
Hut location is the similar music style. Troy Feist started the Beach Hut Radio station where they broadcast famous reggae artists. Along with the great music, Beach Hut is known for their cool decorations; such as old wooden surfboards, giant chalk boards, old cars and fun beach pictures. You can expect to see local specials, happy hours, upcoming events, and new sandwich creations shown on the chalkboards. With all the work Beach Hut Deli puts into marketing the franchise and each location the most important factor is the solid customer service. Most customers try or know of the deli through friends in the community.

Endorsements and Events

The Beach Hut Deli has a team of corporate employees that assist in the coordination of both on and off site events. Different franchise locations participate in food festivals with the goal of spreading the word about their delectable sandwiches. For example, the Beach Hut Deli Los Osos location participated in the SLO Bacon Fest last November and provided various samples of sandwiches that contained bacon as their primary ingredient. This served as a fun and effective way for the storeowner to integrate further into the community.

Apart from off site events, the Beach Hut Deli hosts an annual Thanksgiving Eve party for the local community. The event takes place at the original location, in the Raley's shopping center, every year. It can be described as a fun and safe environment for local alumni reconvene.

Benefits

Beach Hut Deli offers their employees one free meal for each four-hour shift, and a 30-minute lunch break for every eight-hour shift. Aside from meal compensation, the employees are tipped fairly well. Furthermore, Beach Hut's employees are well fed and compensated. However, Beach Hut's most enticing benefit is the fun and family oriented work environment. Each location is characterized by individual close-knit families composed of different storeowners, managers, and general employees.

Beach Hut Delis Future

Room to Grow

Opening their new locations near San Diego State and in the Pacific Northwest will allow Beach Hut Deli to expand into new markets. The two locations in San Diego are in close proximity to the college campus. This will enable the Beach Hut Deli to experiment with various marketing strategies geared towards college students. Aside from the San Diego locations, the Beach Hut Deli plans to open one location in Portland and another in Bend shortly after. After those locations in Oregon open the Beach Hut Deli will be encroaching the state of Washington. The Beach Hut Deli’s signature sandwiches and appetizers continue to fly off the cutting boards showing that there is a great demand for high quality sandwiches across the state of California.
Exhibit 1 Consumer Infographic

Top 5 Performing Beach Hut Locations

Exhibit 2: In Store Marketing
Exhibit 3: Consumer Research Report Infographic

- Familiarity with Beach Hut Deli
- Do Students Visit the Los Osos Area?

Most college-aged population is unfamiliar with Beach Hut, most likely due to the location.

- How Much are Students Willing to Pay?

Students are willing to spend around $6-$10 dollars for Beach Hut. The data shows that increasing the price may lead to a decrease in consumer demand for Beach Hut items. These factors can negatively impact the business.
Exhibit 4 Specialty Foods

Surfin Bird  Beach Bites  The Islander

Marley Nachos
Exhibit 5 Seasonal Beer Selection

- Pineapple Sculpin
- Sculpin IPA
- Lizards Mouth
- Eye of the Hawk Ale
- Sunny Daze
- Lagunitas IPA
- Mirror Pond IPA
- 805 IPA
Endnotes


