

THE FEASIBILITY OF A NEW SIT-DOWN RESTAURANT IN VENTURA

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Bachelor of Science

by
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Chapter 1

INTRODUCTION

Fast food chains have grown at an incredible rate over the past couple of decades. There seems to be a McDonald's or Burger King on every street corner. Fast food offers people in a rush an inexpensive way to grab food whenever they want. In the United States, fast food restaurants accounts for 46.7% of the total food service industry while sit-down restaurants have 39.3% (Bureau of Labor Statistics, 2009). This forces sit-down restaurants to target a different market, people that are looking for pleasure and a relaxing experience.

The food services industry is considered to be the most known industry in the world. Sit-down restaurants typically offer full menus, which include appetizers, entrees, sides, desserts, and all types of beverages including alcohol. Most restaurants will have a host or hostess that will greet a person as they walk in and show them to the table that they will be sitting at for the duration of their meal. Sit-down restaurants typically will have trained chefs to cook and prepare the meals and servers that will completely take care of any needs that there will be while eating at the restaurant (Bureau of Labor Statistics, 2009). It is important to have honest and hard working servers at a sit-down restaurant to ensure that people will have an enjoyable time at their establishment.

If a restaurant has a unique reputation then the customers will come back time after time. For a restaurant to have a loyal customer group, it must be able to serve the customers with high quality food and service. The restaurant must also have different things that differentiate itself from other sit-down restaurants. Instead of just getting a bite to eat at a fast food chain, a person can go to a restaurant and enjoy him or herself with family and friends for an extended amount of

time. The restaurant experience should become a form of entertainment for the customers.

Some restaurants also offer a bar, which fast food chains do not. At a bar, people can come in and drink a few beers while watching a sports game on television. At night, the bar area can become a place for people to relax or enjoy themselves with some dancing. Many college age people like to spend a little time at a bar to relieve stress and to dance. With two colleges in the area and an increase of tourism within the past decade, Ventura, CA would be a logical place to open a new restaurant.

Ventura is a city in southern California and has been revamping its image to attract more people to the downtown area. The city has been growing in population with many new housing tracks recently built along with those under construction. The city is considered a beach town with many people visiting the beach every spring and summer. There is also a large amount of foot traffic in the downtown area as well as near the mall and the major schools.

The problem with opening a new restaurant is being able to establish the business, while differentiating itself from others. A restaurant should be in a recognizable area which can be used as a landmark. In order to do so, the restaurant must find a theme and a strong following of customers. With the right marketing, good service, good management and strong financial information, a new restaurant can be a great business to start up.

In order to open a restaurant, the owner should know the consumer characteristics of the area. Ventura's population is mostly Caucasian, making up 72.3% of the total population. The remaining population of Ventura includes 3.4% Asian, 1.1% African American, .1% Native Hawaiian and Alaska Native, 1.1% American Indian and Alaska Native, 17.0% are some other race and the remaining 4.9% are two or more races (U.S. Census Bureau, 2009).

For a restaurant to do well there must be people willing to spend money. That is why knowing the area's workforce is important. Ventura has a strong work force with only 4.5% of the population being unemployed who are over the age 16. The city's largest work industry is educational services, health care and social assistance which is at 21%, followed by professional, scientific, management, administrative and waste management services at 12.3%, retail trade at 11.8%, arts, entertainment, recreation, accommodation and food services at 10.1% and manufacturing at 7.8%. Some of the most prominent occupations of people that live in Ventura are management, professional, and related occupations at 38.8%, sales and office occupations at 25.7% and service occupations at 17.2% (U.S. Census, 2009).

Problem Statement

Is opening a sit-down restaurant in downtown Ventura feasible?

Hypotheses

A new restaurant in downtown Ventura will have a demand of at least 50% of the people surveyed. The new restaurant also will be able to cover its everyday operating expenses as well as its start-up cost while still making a profit.

Objectives

1. To assess the feasibility of a sit-down restaurant in Ventura.
2. To conduct a survey to determine the interest of a new restaurant.
3. To determine the target market for a new restaurant.

Justification

A feasibility study for a sit-down restaurant in Ventura will be beneficial to anyone who would like to open a sit-down restaurant in downtown Ventura, as well as Ventura County due to the similar demographics throughout Ventura County. The study will also be helpful to anyone who would like to open a fast food restaurant in the area because of the analysis of the desirability of the location of the new restaurant. The analysis of the amount of people that go downtown in Ventura will be able help other entrepreneurs that plan on opening a small business because the study will give them the knowledge of how many people go downtown on a regular basis which can give them an idea of how many potential customers they may have. This study will also help people planning to open a restaurant in an area with similar demographics as Ventura.

Chapter 2

LITERATURE REVIEW

Competition Analysis

Opening a restaurant takes a lot of time and effort to be successful. One of the most important things to know when assessing the target market for a restaurant is who the competition is. The competition can range from fast food chains all the way to a high-class sit-down restaurant. Many people are in a rush at times or are too tired to cook for the family after work, which drives them to dine out. These people then have to decide if they want inexpensive fast food or go to a sit-down restaurant to be serviced. That is why it is so important for restaurant owner to know who the target market is. Fast food restaurants target people in a hurry and that want an inexpensive meal, while sit-down restaurants target people that are there to take their time and be provided with good service (Brown, 1990).

When assessing the competition Debruyne and Reibstein (2005) found it is important to know the technology and services that the competition has so that a company can keep up with them. Debruyne and Reibstein (2005) also went on to say that companies should consider approaches to avoid attracting competition to a new market. That is why having employees that can be trusted with company secrets is very important.

Analysis of Potential Profit

There are many things that need to be taken into consideration when projecting a company's potential income. The location of a restaurant can have a large effect on the amount

of income that a restaurant obtains, which is why finding a good location for a restaurant is important (Coats, 1986). The better the location, the more people will know about it and want to stop in. Having a restaurant in a place where foot traffic is heavy can be beneficial to the restaurant's success because people walking down the street could see the restaurant and decide to stop in and eat. In order to see how much money could be made, a business should develop projected financial statements so they can see how much the business would cost to run the restaurant (Newman, 2008).

Besides projecting income and expenses, there are many other things that a restaurant owner should take into consideration when trying to figure out if the restaurant will be profitable. Sweasey (1987) found a restaurant had a better chance of being profitable if it has a creative menu. This is very important for a sit-down restaurant because potential customers could order food from a well-known place like Domino's Pizza, or a McDonalds. The key to success would be to offer many different types of food that would be unique to a particular restaurant. Another thing that indirectly affects a restaurant's potential income is the relationship that the employees have with their managers (Davis, Schoorman, Mayer and Tan, 2000). Their study found that trust between management and employees can affect the restaurant financially because employees are willing to work harder for a manager that they can trust. A restaurant's profit can also be affected by inventory control. Archibald, Betts, Johnston and Thomas (2002) stated that for a new business to survive it should be conservative with their inventory. This is very important with restaurants because there are many types of foods and ingredients that can go bad if not used in a short amount of time, which causes the restaurant to lose money from having to waste their inventory.

The price of items on the menu is also very important according to Becker (1991). He

found if prices of food are too high then customers will feel that they are being treated unfairly, which will keep them from coming back to the restaurant. It is important for a restaurant to have consistent customers because they will help bring in new business by telling others how good the restaurant is.

City of Ventura

According to Kalnins and Mayer (2004), people that know the area and the interest of the people in the area tend to have more success operating a restaurant than people that do not know the area. Ventura is located half way between Los Angeles and Santa Barbara with a population of 109,946. The city was founded in 1782, by Father Juipero Serra when Mission San Buenaventura was built (State of California, 2010).

Ventura is continually growing with new housing tracks recently built and some currently being constructed. The city is also rising in popularity and marketing towards becoming a tourist destination. Ventura has 3 large high schools and a junior college. Near Ventura, is California State University Channel Islands, with many of the students commuting there from Ventura. Ventura restaurants also receive business from Channel Island students who live on campus and near campus that just want to get away from their area and eat somewhere nice.

Ventura also attracts people to its downtown area with many places to shop and eat. Downtown seems to be a good location for a new restaurant because of the heavy foot traffic throughout the week. The city also has a shopping mall near downtown, which attracts even more people to the area. Ventura is known as a beach town as well, which helps bring more tourists to the city. A restaurant near the beach could be a good location assuming that people will see the restaurant on the way to the beach.

Chapter 3

METHODOLOGY

Procedures for Data Collection

To determine if a restaurant will be feasible, a projected income statement must be made to figure out if expenses will be covered and if profits can be made. This will be done by going to different restaurants and talking to the owners and managers about the financial aspects of the restaurant along with how to run the operation smoothly. If the owners decide not to provide the financial information needed, then research online for standard restaurant financials will be collected.

There will also be a survey made to determine Ventura's demographics, and personal interests. The survey will be given out at random at mostly downtown Ventura. Two other places that the survey will be given out is at California State University Channel Islands and Ventura College. The survey will be administered for about four hours at each location. The survey will also provide information about the type of food that should be on the menu and finding out if people would rather go to a dive bar or dance club at night. The survey can also be used to determine what type of theme the restaurant should have. One other thing that will be used from the surveys is to determine the target market so that the restaurant can be marketed to those that would be most likely to try the new sit-down restaurant in Ventura.

Procedure for Data Analysis

When the financial information is obtained, the data will be analyzed and provide projected numbers for a new sit-down restaurant. Once the projected financial statements are made, there will be several tests to see if the restaurant will survive and be profitable.

Once the survey is completed, the information will be analyzed in SPSS. Using the information from the collection of data will create a better understanding of the restaurant market in downtown Ventura. The analysis should show an accurate description of the individuals who represent the population of Ventura. The data will show the people that like to go downtown, what age groups there are, their education level and income level. The data from the surveys should be able to show who the target market is for restaurants in downtown Ventura. Overall, the information that is obtained from the survey should be able to show an accurate target market and interest for a new restaurant in downtown Ventura.

Assumptions

This study assumes that Ventura's economy will remain stable and the growth rate of the city will remain consistent. The study also assumes that the observations conducted will be an accurate measurement of the desirability of restaurants in Ventura.

Limitations

The study that was conducted will be helpful to other cities in California, but the actual analysis of the target market will be solely for Ventura County due to the unique demographics of the city.

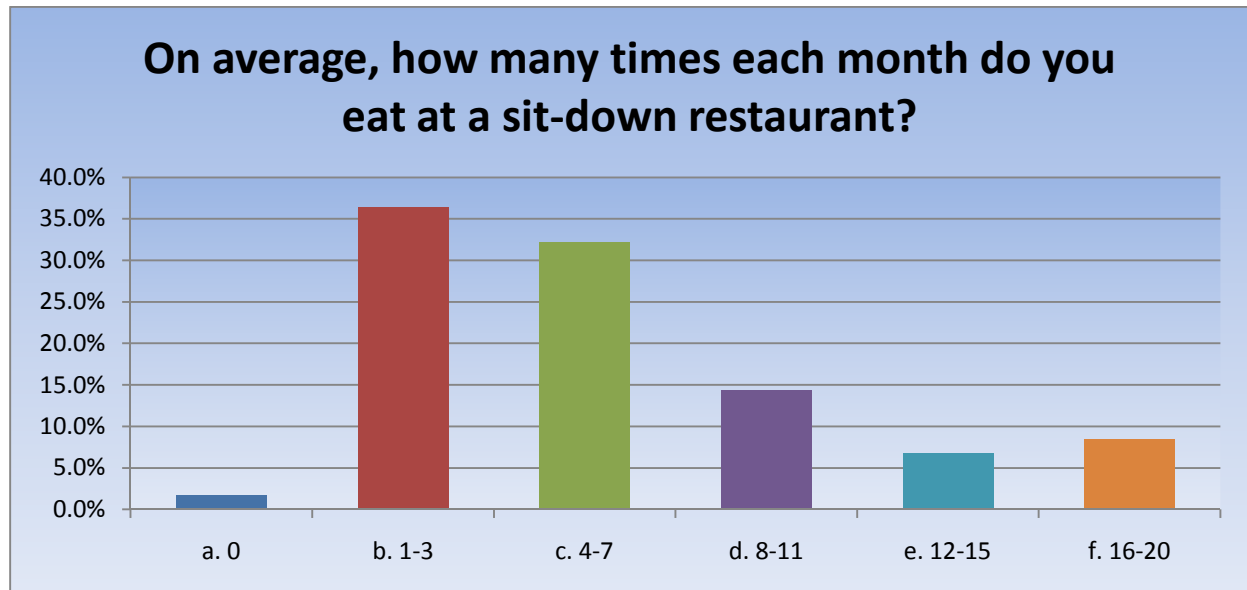
Chapter 4

DEVELOPMENT OF STUDY

Surveys can be a great tool to find out information from consumers. They can show the interest of the people, who the target market is and the demographics of the area. The survey was distributed mostly in downtown Ventura due to the heavy foot traffic of the area as well as the potential location of the new restaurant. 118 responses were collected and then analyzed in SPSS.

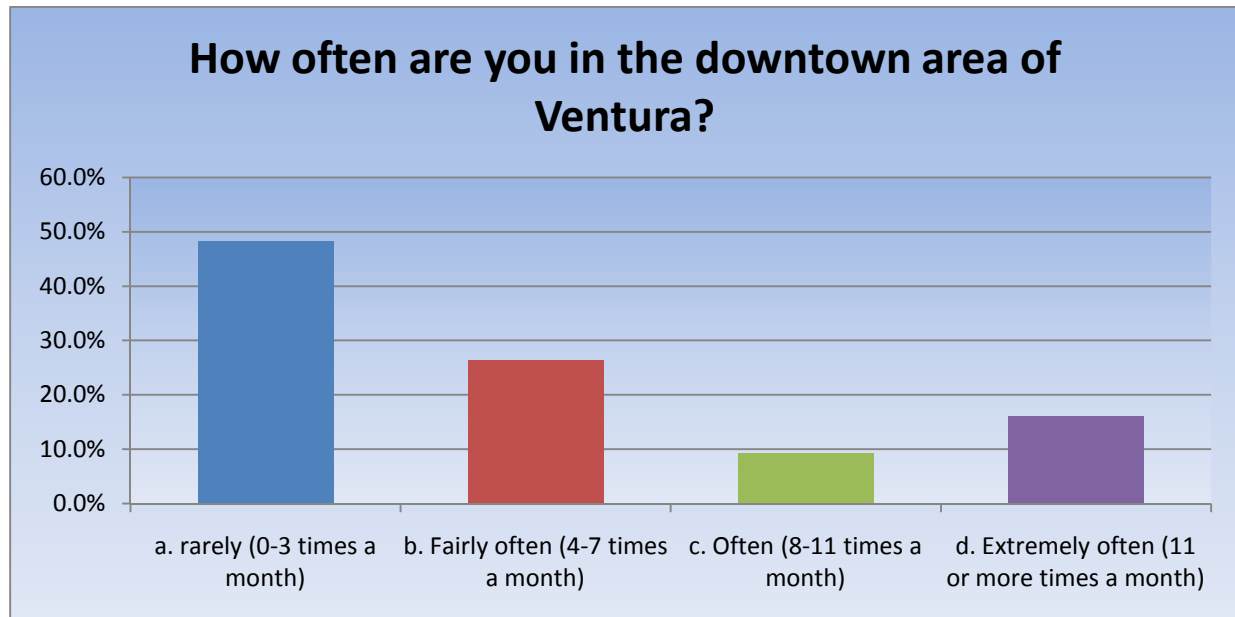
The following charts and analysis will show the results of the survey conducted. The first question asked how many times a month a person eats at a restaurant. It is important to know how often people like to eat at a sit-down restaurant because the people that go out to eat often will be more likely to actually try a new eating establishment. The majority of responses were 1-3 times a month at 36% and 4-7 times a month at 32%. Only about 2% of the responses said that they never eat at a restaurant.

Figure 1. How often at a sit-down restaurant



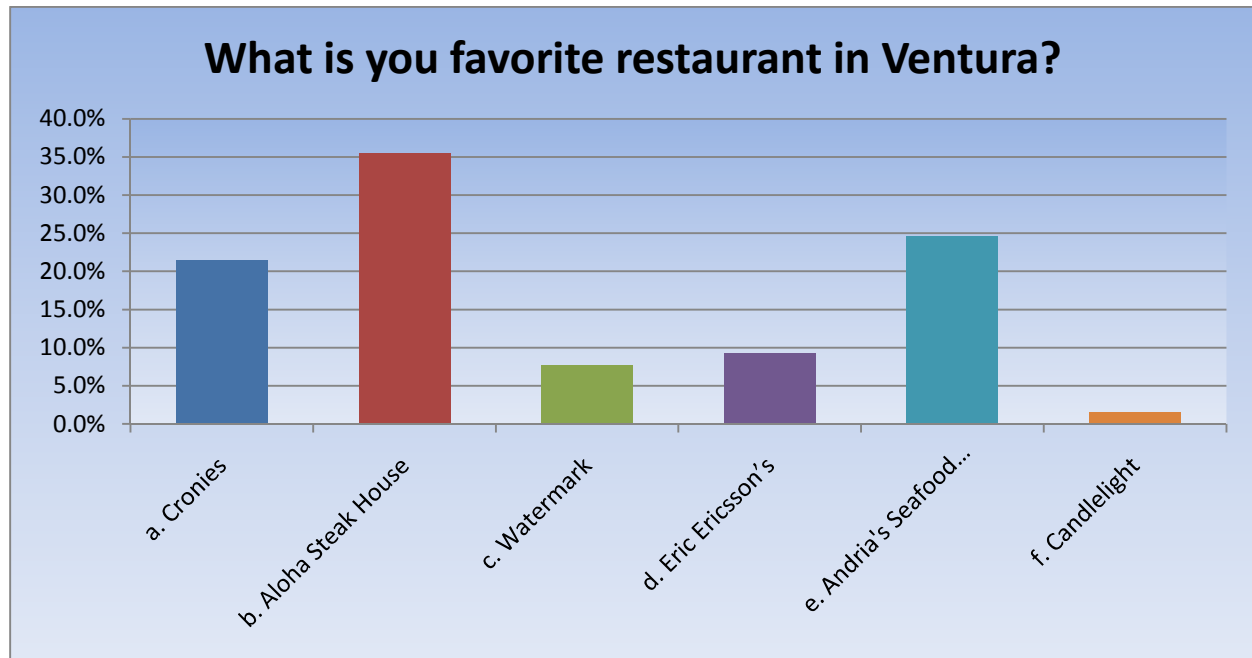
The next question asked how often the individual went to the downtown area of Ventura. Knowing how often people go downtown is essential because the more foot traffic an area has the more likely someone is willing to stop in and check out a new business. The largest response was 0-3 times a month; however 52% of surveyees said that they do go downtown at least 4 times in a month.

Figure 2. How often in downtown area



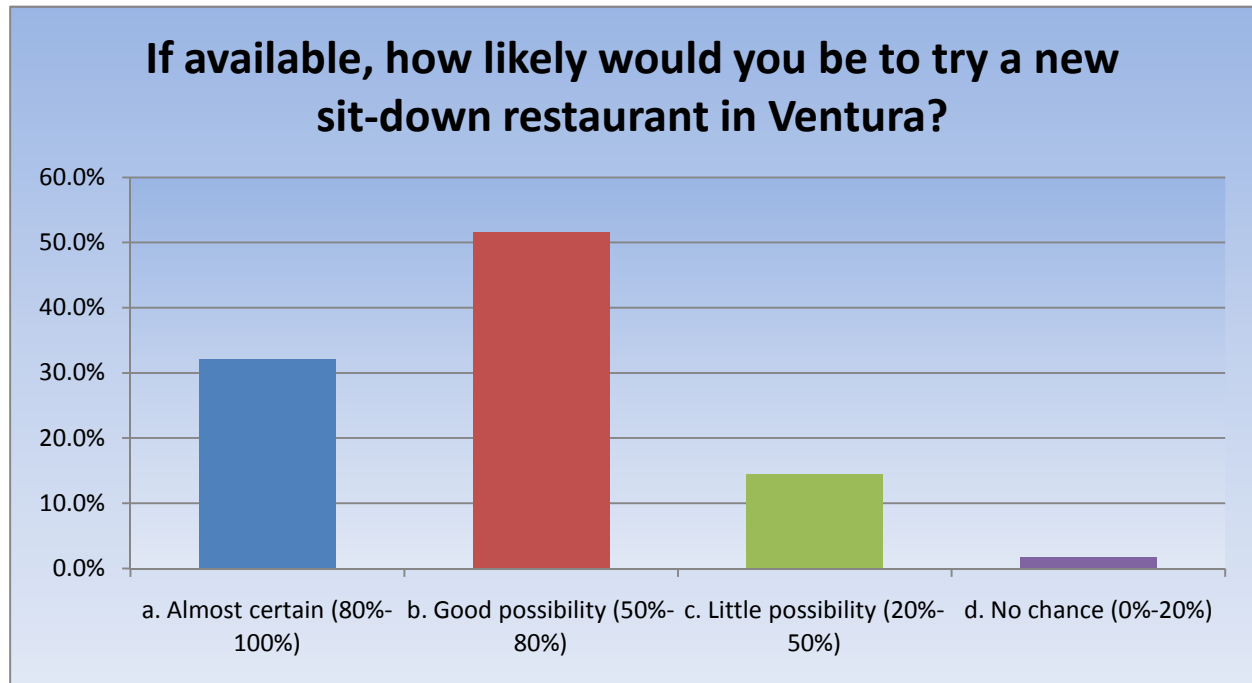
When the respondents were asked what their favorite restaurant in Ventura was, 35% of the respondents answered Aloha Steak House and 25% said Andria's Seafood Restaurant. Knowing what type of restaurant people like to eat at can give an idea of whom the competition is and what type of restaurant they like to eat at. This information is important for a new restaurant to know so that they can start marketing towards a selected market.

Figure 3. Favorite restaurant



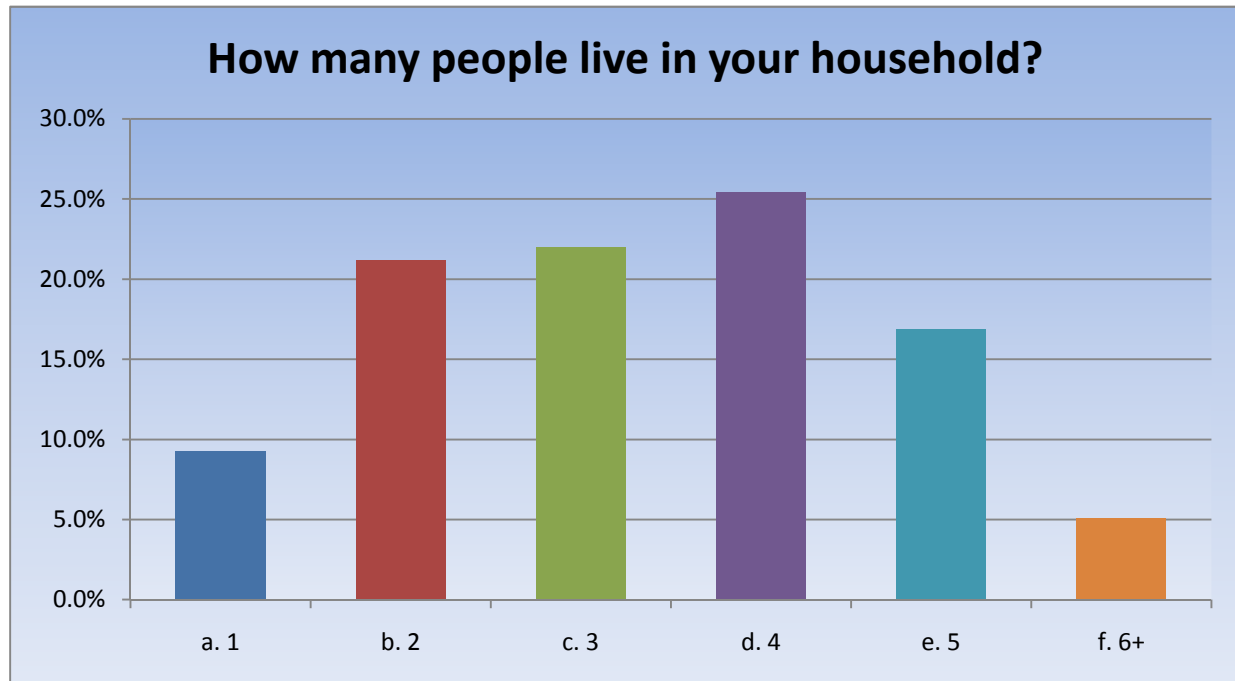
When asked how likely the respondent would be to try a new sit-down restaurant in Ventura, 32% said they would certainly try it and 52% said that there was a good possibility they would try a new eating establishment. Only 2% of the respondents said that they would not be willing to try the restaurant out. People willing to try a new restaurant are the most important people to market towards. These individuals can become loyal customers and even help the business out by telling others about the restaurant.

Figure 4. Likeliness of trying a new restaurant



The next question asked how many people lived in their current household. This response was spread out with the three largest responses being four people at 25%, three people at 22% and two people at 21%. People tend to eat in groups, whether it's with family, friends, roommates or even co-workers. Most people are likely to bring members of their household with them while eating at a restaurant, which increases sales. This information can help when determining whom the target market will could be.

Figure 5. Number of people in household



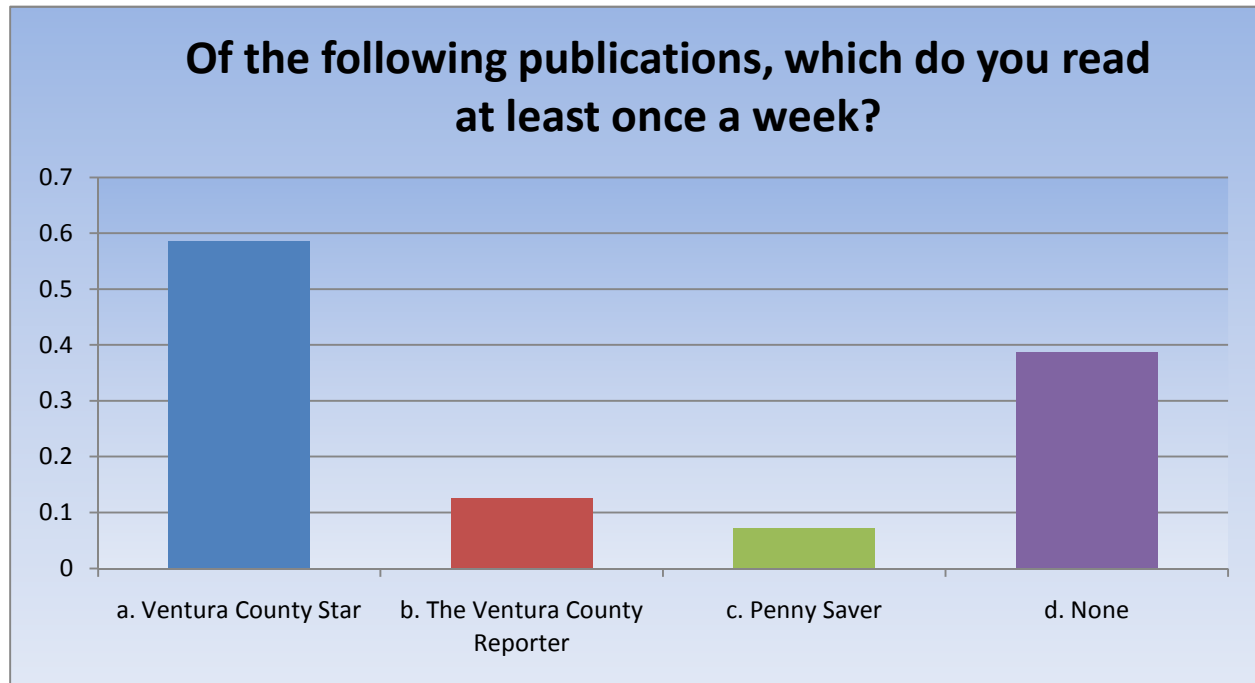
This next question asked how desirable the social atmosphere, reasonable prices, variety of food, time food takes to be ready and service at a restaurant or bar is. The averages were 3.93 for social atmosphere, 4.3 for reasonable prices, 3.84 for variety of food, 3.87 for time food takes to be ready and 4.5 for service. These attributes are important to know in order to have the right type of atmosphere, employees and management style needed for the establishment to succeed.

Figure 6. Attributes



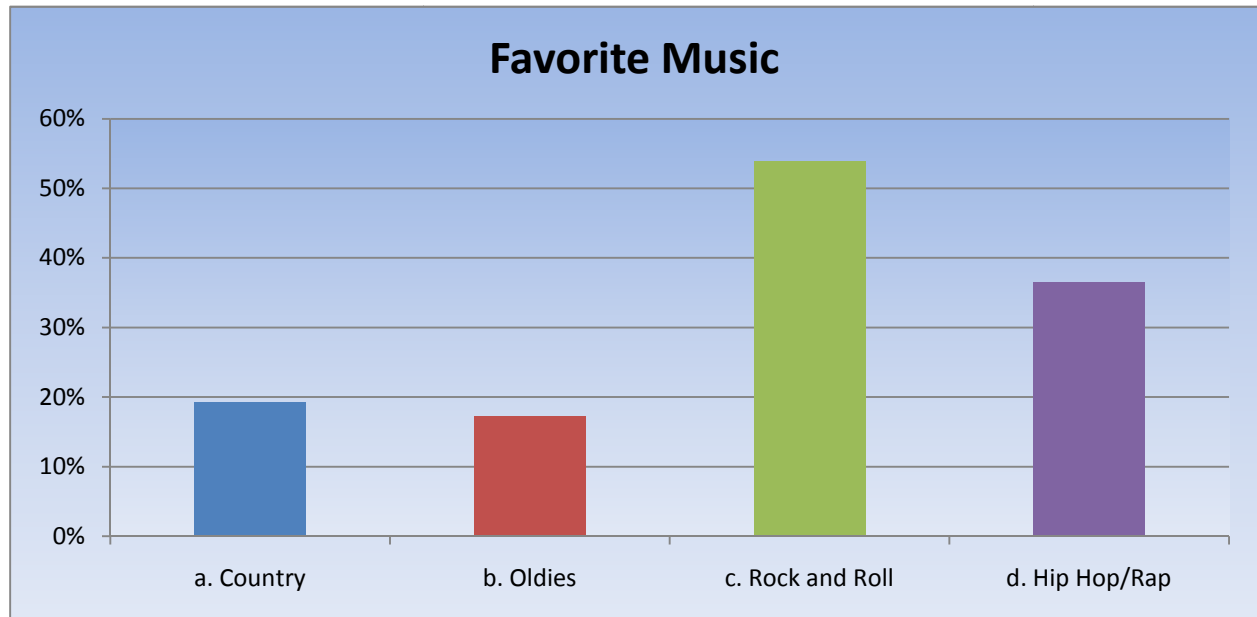
When the people surveyed were asked what publications they read at least once a week, 59% said that they preferred to read the Ventura County Star. This information is critical when deciding where to advertise. Establishing a new business's name is one of most difficult things to do, which is why knowing where reach the public to advertise is important.

Figure 7. Frequently read publications



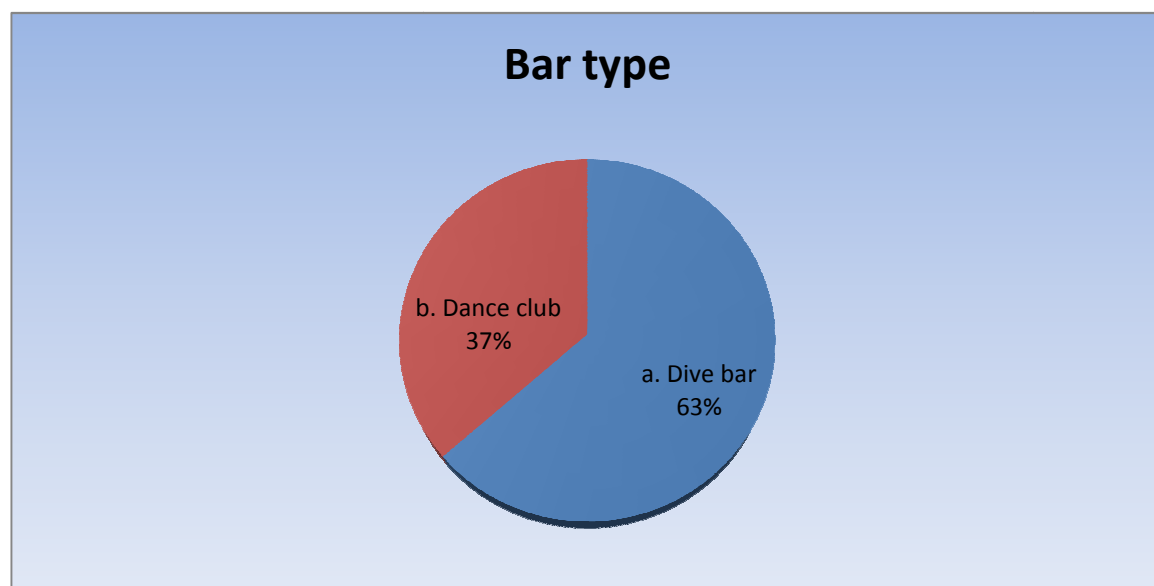
The next question asked the type of music the respondents liked to listen to. Rock and roll had the highest response and next was hip-hop and rap with 54% with 37%, respectively. Knowing the type of music people prefer to listen to can help when advertising by having announcements on radio stations with that type of music. The type of music the surveyees like to listen to can also be helpful when determining the music that will be played at night in the bar area of the restaurant.

Figure 8. Favorite music



The next question asked if people would rather go to a dive bar or dance club at night. Over 60% said they would rather go to a dive bar rather than a dance club at night. Knowing the type of bar atmosphere that consumers like at night is important for a restaurant owner to know. This will help drive in more customers at night, which may increase the amount of sales.

Figure 9. Bar Preference



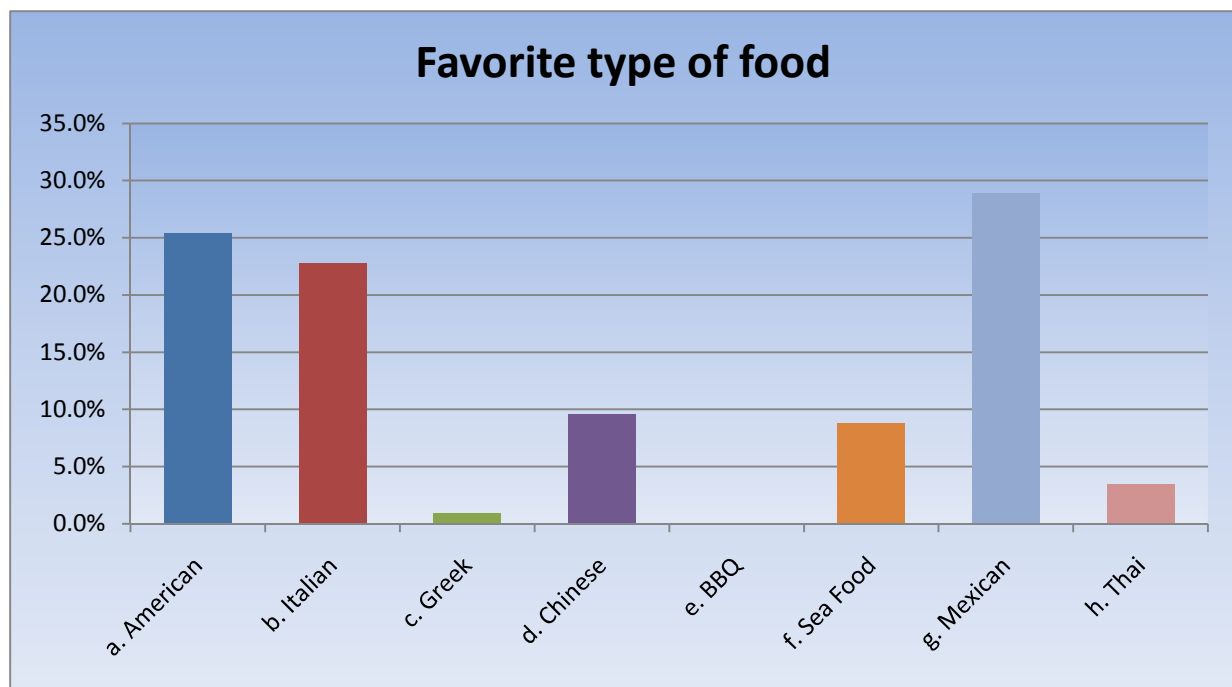
The following question asked the individuals where they would most like to see another restaurant. 47% said that they would like to see a new restaurant downtown with 35% saying Main Street would be the best location in the downtown area. The next two places people would like to see a restaurant open at would be near Century theaters or near Ventura College which were both at 20%. The location of the restaurant is vital to its success. People want to eat where they often are at on a regular basis. Many people go downtown, and Main Street is the street with the most traffic of people. The place with a lot of foot traffic will not only be a great place for the shoppers that want to eat, but also employees of other businesses that need to eat something on their break. Knowing people also would like to see a restaurant near Century Theaters and Ventura College can be helpful if the restaurant owner ever wanted to expand and open up a new location.

Figure 10. Preferred location



When the respondents were asked what their favorite type of food was, 29% said Mexican food, 25% said American food, and 23% said Italian food. The type of food people prefer to eat will help determine the type of items that should be on a menu. The best menu would be traditional American food, with a section of Mexican and Italian food, due to the crosstab analysis, which will be covered in more detail later in the chapter.

Figure 11. Favorite Food



When the respondents were asked how many people lived in the household with them who were under the age of 18 years old, the average came out to be one child. Although, the number a children per a household is low, the total number of people in the household has the ability to make up for this low number.

The next two questions of the survey asked the general time people ate lunch and dinner. It is important to know when people like to have their meals so the right amount of employees

can be staffed at that time. The majority surveyed ate lunch between 11:00am and 2:00pm and dinner between 5:30pm and 8:00pm.

When asked what days of the week the respondents generally are in the downtown area of Ventura and what days they eat at a restaurant the majority said that they generally are downtown and eat at a restaurant on Fridays and Saturdays. This information also helps determine the amount of staff needed during certain days of the week to ensure proper service is provided to the customers.

Figure 12. Days of week downtown

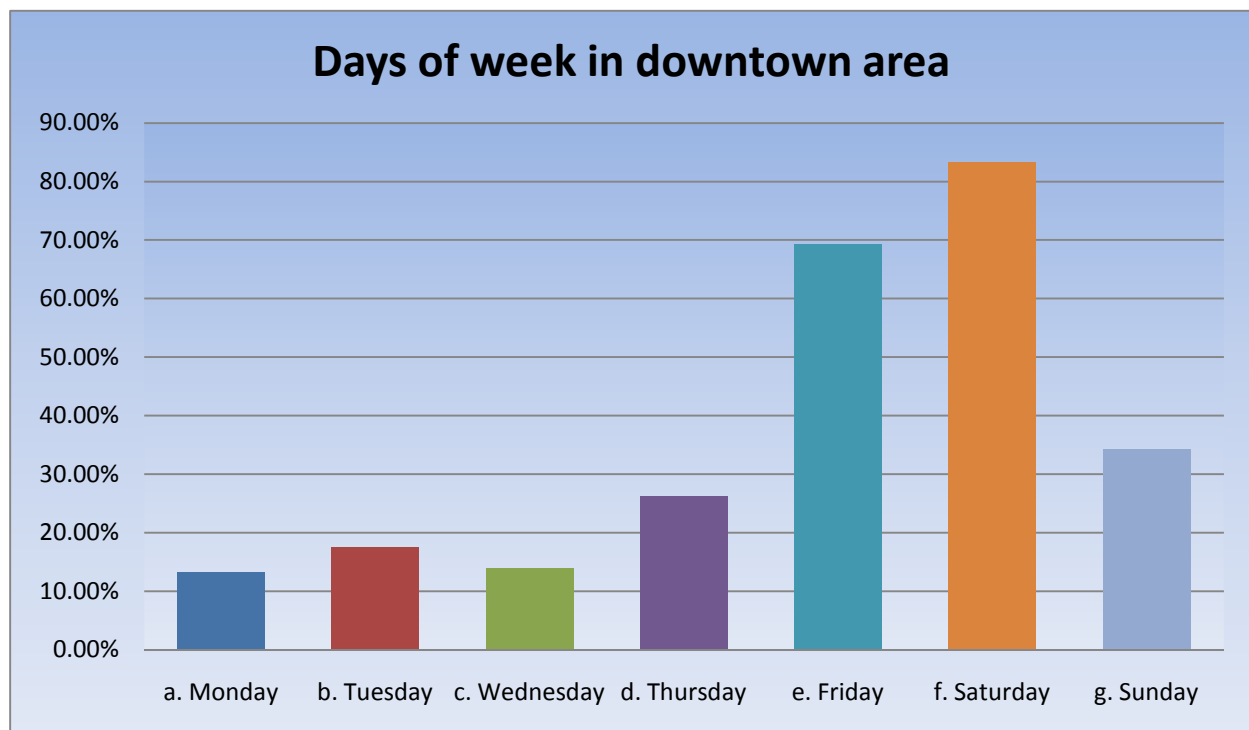
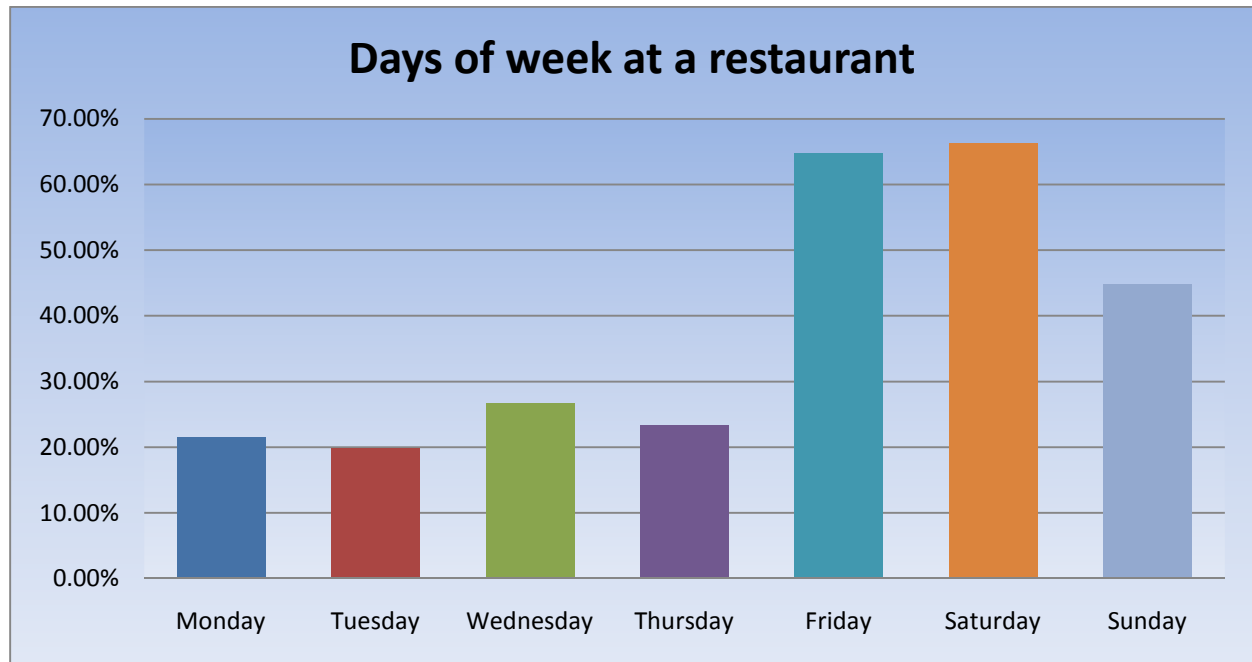
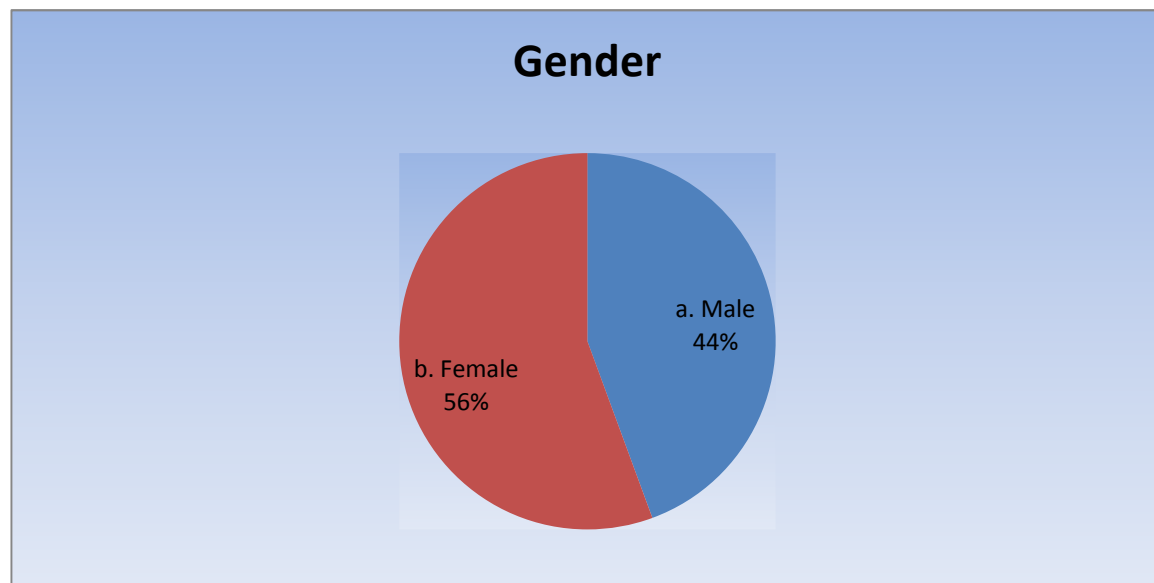


Figure 13. Days of week at a restaurant



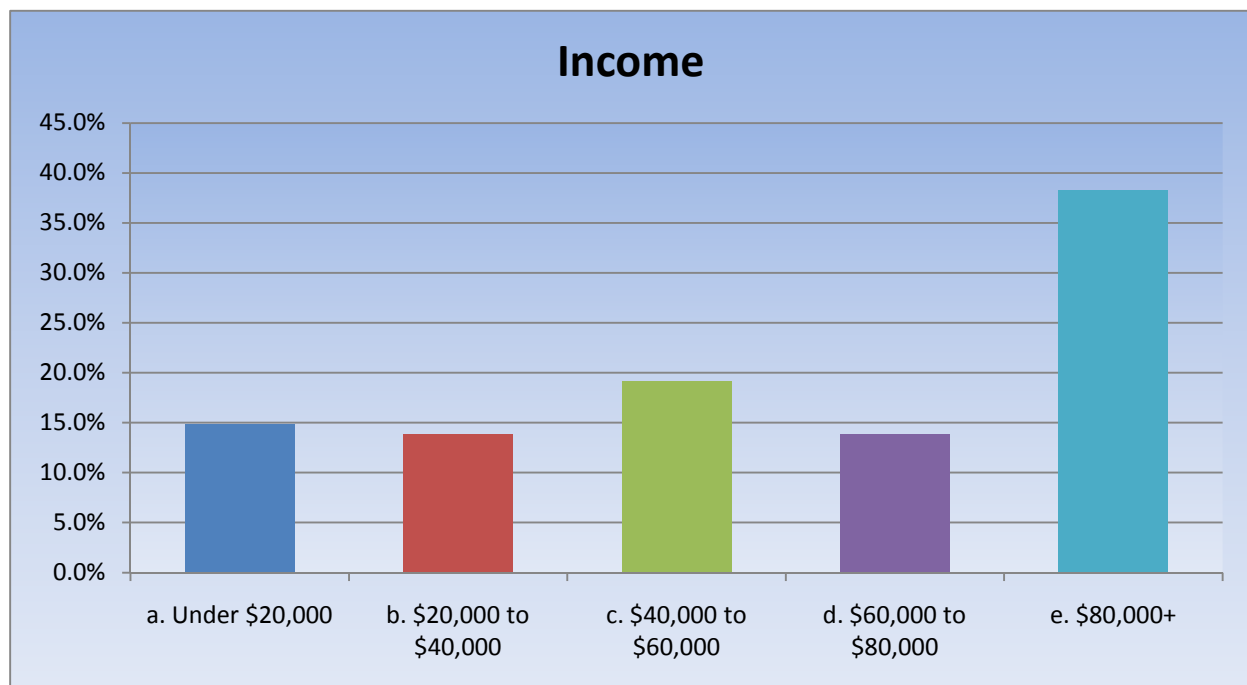
The next question asked the respondent what gender they were. 44% of the respondents were male and 56% were female.

Figure 14. Gender



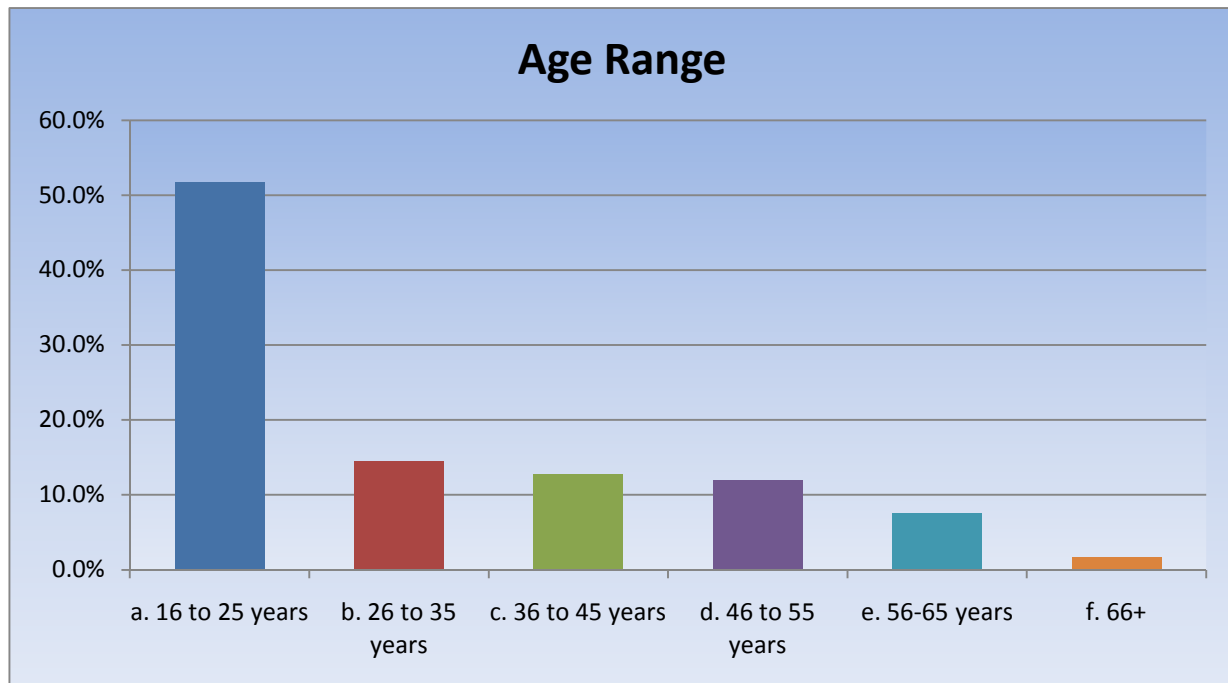
When the respondents were asked about their household income, the majority at 38% answered over \$80,000 a year and the next highest response at 19% was \$40,000 to \$60,000 a year. People with money are more likely to spend money. Eating at a restaurant is a luxury, which is why it would be important to market towards people that are willing to spend money. Knowing the income level of a household can help determine who will be spending the money to eat at a restaurant.

Figure 15. Income



The breakdown of age showed over half of the respondents were 16 to 25 years old and the next largest group of surveyees were in the 36 to 45 age range. The age of the respondents will help in determining who the target market is for a new business when the crosstab analysis is conducted.

Figure 16. Age



Further analysis was conducted using crosstabs in SPSS. Critical questions were compared to other questions to reveal specific behaviors of potential restaurant customers. This analysis can give a more precise showing of the preferences and atmosphere of restaurant people are willing to try.

The most useful information from these tests were discovering the respondent's preferences who responded that they would certainly or have a good possibility of trying a new restaurant in Ventura. The following crosstabs used in the analysis of the survey are significantly valid using chi-squared testing.

Of the people who indicated they would be likely to try the new restaurant, 80% said they eat at a restaurant 1-3 or 4-7 times a month. Of the 15% of respondents that said they go to a restaurant 12-15 and 16-20 times a month, 89% of them said that they were likely to try a new restaurant in Ventura ($P = .027$). This is important because the people who go to eating

establishments often are the people that are more likely to actually go to a new restaurant when it opens.

When comparing people that like American food to people that like ethnic food, 79% of people that like American food said they would like to see a dive bar over a dance club ($P = .035$). Due to the individuals' preference of a dive bar over a dance club, traditional American food would be an excellent choice of food for the menu. The menu should also be broad and have a bit of variety to it in order to attract more customers. This is why the menu should also include Mexican and Italian entries due to the high preference according to the survey results.

Although not many surveyees reported that they were in the downtown area often, 81% of them still responded they would like to try a new restaurant in Ventura ($P = .077$). These people may not go down town on a regular basis, but they can still be a great resource to advertise by word of mouth. They may eventually try the place out and then tell their friends and family about the business. Although not significant valid, as far as gender goes, 80% of men that were surveyed said that they would be likely to try a new restaurant establishment and 86% of women said that they would ($P = .433$). This information can be useful in determining the target market for the new restaurant.

When examining the survey results to help determine the target market of a new restaurant in Ventura the following results were found. When comparing males and females, females make up the majority of respondents who make \$60,000 to \$80,000 (69%) and over \$80,000 (51%) ($P = .787$). When looking at how many people live in the household for women the highest response were two people with the next being five people in the household ($P = .177$). These results were close to the target market that MRI, Inc had in their database, which will be discussed in the following chapter.

A projected income statement can be helpful when trying to determine if the restaurant has the ability to be successful. The income statement can also be used to help run the business properly and help the owners and managers be efficient at their job.

The following income statement in Table 1 was based off Food Service Warehouse's (2006) website of a sample restaurant's income statement for a week in Greenwood Village, CO. All numbers were then multiplied 52 to give the financial information for the year as a whole. This information was adjusted using the rent as a base number to determine the rest of the expenses as well as the revenue. Rent typically goes for \$2 a square foot in downtown Ventura. An efficient restaurant size of 4,000 square feet was used to determine that rent would cost \$96,000 a year. Further adjustments were made to incorporate the start-up cost of a restaurant, which is in the range of \$300,000 to \$500,000 (Rainsford and Bangs, 2001). The number used in this study was \$300,000.

After the first year was constructed, the revenues and expenses were increased by 2% due to inflation for the next two projected years. Changes in the income statement that are not held in consistency with the example income statement given were the equipment and repairs expense for the first year which includes the start-up cost along with a \$5,000 projected repairs expense. The next year only included the repair expense with respect to the number used for inflation.

To determine the interest expense, an amortization schedule in Table 2 was made based on a five year, \$300,000 loan with a 7% interest rate for the start-up cost of the company. Advertising and promotions expense were also added to the income statement to help promote the restaurant's name, which is essential in the first few years of operation. A depreciation expense was added in to account for equipment and supplies. The depreciation expense was

calculated by using the straight-line method for five years on the \$165,920 for equipment and supplies. The number used for depreciable assets was calculated by taking the initial start-up cost and then subtracting any items that are not depreciable.

A miscellaneous expense of \$1,000 was also added in case of unforeseen costs that may occur throughout the year. A break-even analysis in Table 3 was then performed to determine how many meals would have to be sold to cover expense. The unit price was based on an average projected meal cost of \$11 for the first year and then adding in inflation rates for the next two years. The number of meals that would need to be sold for the first three years to break-even would be 70,403, 42,770 and 42,416, respectively.

Table 1. Income Statement**Projected Income Statement**

Sales	Year 1	Year 2	Year 3
Food	483,496	493,166	503,029
Wine	70,668	72,081	73,523
Liquor	59,488	60,678	61,891
Beer	126,464	128,993	131,573
Beverages	3,744	3,819	3,895
Total Sales	743,860	758,737	773,912
Cost of Goods Sold (COGS)			
Food	157,144	160,287	163,493
Wine	25,428	25,937	26,455
Liquor	15,444	15,753	16,068
Beer	35,412	36,120	36,843
Beverages	5,564	5,675	5,789
Total COGS	238,992	243,772	248,647
Gross Profit	504,868	514,965	525,265
Labor Cost	146,640	149,573	152,564
Operating Costs	33,540	34,211	34,895
Occupancy Expenses			
Rent	96,000	96,000	96,000
Interest Payment	73,167	73,167	73,167
Insurance	5,980	6,100	6,222
Utilities	20,020	20,420	20,829
Waste Removal	2,704	2,758	2,813
Equipment/Supplies and Repairs	305,000	5,100	5,202
Advertising/Promotion	7,000	7,140	7,283
Permits/Licenses	200	204	208
Misc Expenses	1,000	1,020	1,040
Depreciation Expense	33,184	33,184	33,184
Total Occupancy Expenses	544,255	245,093	245,948
Manager Labor	50,000	51,000	52,020
Total Expenses	774,435	479,877	485,427
Net Profit/Loss	-269,567	35,089	39,838

Table 2. Amortization Schedule**Amortization Schedule**

Year	Beginning Balance	PMT	Total Principal	Interest	End Balance
1	300,000	73,167	52,167	21,000	247,833
2	247,833	73,167	55,819	17,348	192,014
3	192,014	73,167	59,726	13,441	132,288
4	132,288	73,167	63,907	9,260	68,381
5	68,381	73,167	68,381	4,787	0

Table. 3. Break-Even**Break-Even Analysis**

	Year 1	Year 2	Year 3
Total Expenses	774,435	479,877	485,427
Projected price of meal	11.00	11.22	11.44
Units needed for B/E	70,403	42,770	42,416

Chapter 5

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Summary

The data that was collected and analyzed from the 118 surveys collected proves the hypothesis to be correct by showing that people have a strong interest of trying a new restaurant in downtown Ventura. The hypothesis was also proven to be accurate through the projected income statement by showing that after the first year, the restaurant would start making a profit with the following years increasing in net income. The desirability of a new eating establishment by the people of Ventura appears to be high with 84% replying they would be likely try out a new restaurant.

People who responded to the survey said service is the most important attribute of a restaurant which means the time of day staffing is most important would be from 11:00am to 2:00pm for lunch and 5:30pm to 8:00pm for dinner. The days of the week that more staff then usual would be needed is on Saturdays and Sundays due to the large amount of people that like to eat at restaurants and go downtown on these days.

The target market for the restaurant according to MRI, Inc (2010) which was close to the results of the survey analysis are Caucasian women, who have attended or graduated from college, 25 to 54 years old who are employed full time in sales and office occupations or professional and related occupations, with an income of \$80,000 or more and three to four people living in the household.

Conclusions

The best type of restaurant in respect to the results of the analysis would be a traditional American food restaurant with a section of the menu being dedicated to ethnic food mainly including Mexican and Italian food. The type of bar the restaurant should have at night should be a dive bar with a mixture of rock and roll, hip-hop and rap playing in the background. The average price for a meal should be around \$11.

The location of the restaurant should be downtown and preferably on Main Street near places to shop. Possible places to expand would be near Ventura College or by Century Theatres. The best way to advertise for the bar would be running ads in the Ventura County Star newspaper or on radio stations and internet radio stations that play rock and roll or hip-hop and rap.

Recommendations

This study shows that opening a new sit-down restaurant would be feasible in downtown Ventura but further research of consumer trends of Ventura could be done to have a more accurate desirability of the restaurant market in Ventura. It would also help to have a strong background and work experience in the sit-down restaurant industry. Contacting and obtaining more financial information from restaurant owners or managers would also be helpful when conducting the financial analysis.

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