



XASIA GRILL

Executive Summary

Herbert Caudill hc37@georgetown.edu

George Denisenko gd28@georgetown.edu

Carla Gallelli cng2@georgetown.edu

Risha Hess rgh7@georgetown.edu

J. "Cliff" Johnson jcj7@georgetown.edu

John Meletiadis jm255@georgetown.edu

Sumanth Reddy sjr6@georgetown.edu

Kevin Sheriff kvs3@georgetown.edu

Kangwu Xi kx3@georgetown.edu

October 19, 2001

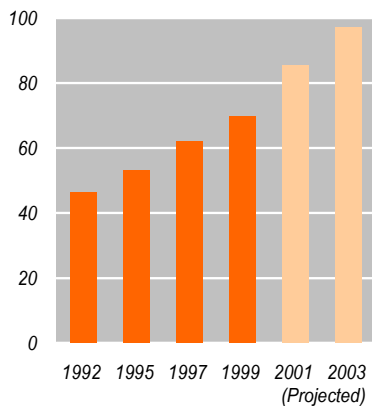
Executive Summary

Market Need

The consumer who wants to spend under \$10 for a meal, but who wants healthy, high-quality food, is faced with a limited array of choices. Our research shows that fast food is perceived as unhealthy and of questionable quality, and that consumers are increasingly dissatisfied and bored with the available options.

The demand for food that combines the food quality of casual dining with the shorter wait times and lower price points of fast food has led to the emergence of the **fast-casual** segment of the restaurant industry, which is growing faster than any other. Fast-casual restaurants are concepts with a \$7-\$10 check average, made-to-order meals, and limited table service. Large chains such as McDonald's, faced with the increasingly saturated market for fast food, have begun to invest heavily in upscale fast-casual concepts.

Figure 1: Growth of sales in ethnic restaurants, 1992-2003 (\$ billions)



Source: Hirschhorn (SBI)

Ethnic food is growing in popularity as well; food items that were exotic a decade or two ago are now mainstream. Driving this demand is an increasing desire for variety, as well as the preference of immigrants (who make up 10% of the population) for familiar foods. The number of Asian Americans in the U.S. is expected to increase by 3.7% over the next three years. However, here again the consumer's options are limited; the quality of local ethnic restaurants is unpredictable.

Portable food is growing in importance within the industry as well, as consumers increasingly demand convenience. Take-out sales have grown to represent 32.5% of total industry revenues in 2000 (up from 29.9% in 1992).

The fast-casual segment is currently dominated by Mexican or southwestern concepts and by sandwich vendors. In most markets, there is a lack of limited-service concepts featuring **Asian** or other ethnic cuisines.

Market research shows that the demographic segment likely to spend the most money on fast-casual ethnic dining is:

- **Young** (age 18-54)
- **Professional** (median household above \$50,000)
- **Urban** (25 largest metropolitan areas)

The Xasia Grill Concept

Xasia Grill is a restaurant concept that takes the proven features of existing fast-casual restaurants—a **fast**, pleasant experience combined with **high-quality** food—and applies them to pan-Asian cuisine. The target average check is around **\$8.00**. The simple menu, to be created by a high-profile chef with a reputation for innovative Asian cuisine, will be based on a limited set of ingredients that can be combined to make a number of different items. Dishes will be assembled in front of the customers according to their requests. The

menu will feature a number of **convenient, portable items** such as wraps, rolls, and stir-fries. The restaurant will also serve **Asian and domestic beers**.

Business Model

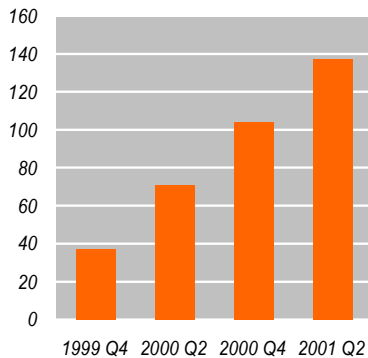
Xasia Grill's profits will depend on customers' willingness to pay a **premium for high quality**, made-to-order food in a stylish setting. In the long term, as more units are built and the concept is extended to new geographical markets, economies of scale and increased leverage with suppliers are both expected to lead to increased profitability.

Competition

Competition from within the restaurant industry falls into two main categories: other fast-casual restaurants, and other sorts of Asian restaurants.

The **fast-casual** segment of the restaurant industry is relatively young, but there are several well-positioned competitors in this field. McDonald's, noting that this segment was stealing market share, has made strategic investments in fast-casual restaurants, including Boston Market, which sells rotisserie chicken and "home-style" meals, and Chipotle Grill (formerly Chipotle Mexican Grill), which sells "Fresh-Mex" burritos and tacos. Chipotle Grill's concept and target demographic are nearly identical to those of Xasia Grill: fast, upscale ethnic food sold in stylish urban locations to young professionals. Chipotle Grill is currently growing by around 60 stores a year. Other successful fast-casual chains include bakery-café's like Panera Bread Company, which also owns Au Bon Pain.

Figure 2: Growth of Chipotle Mexican Grill (number of stores)



Source: McDonald's Corp.

There are a number of restaurant chains serving **Asian** food. The most successful of these is Panda Express, a chain of Chinese quick-serve restaurants mostly located in the food courts of shopping malls, which was named by QSR Magazine as one of "America's Hottest Chains" in 2000. Panda Express grew by 26% in 1999, a growth rate only surpassed that year by Panera Bread Company. Pick Up Stix, a California-based concept, has also been very successful; the chain offers Chinese food cooked-to-order in woks in front of the customer.

There are other chains of Chinese restaurants, but none of a comparable size. Competition also comes from local non-chain restaurants and from alternatives to eating out, such as prepared foods sold in supermarkets.

The restaurant industry is very competitive, and Xasia Grill faces a number of substantial competitors. However, the Xasia Grill concept is differentiated by the unique combination of innovative pan-Asian cuisine, portability, convenience, and hip urban style.

Management Team

Xasia Grill's management team's biggest strength lies in its marketing expertise; none of the current team has any experience in restaurant operations. In the short term, Xasia Grill must make two critical hiring decisions: a CEO and an executive chef.

The **CEO** should be someone with extensive experience in the restaurant industry, preferably someone who has brought a startup restaurant chain to profitability.

The choice of an **executive chef** is of particular importance. The person selected should bring name recognition and culinary credibility to the chain: for example, Chef Masaru Homma of Raku or Jeff Tunks of TenPenh, both very stylish and popular pan-Asian restaurants in Washington, D.C.

Store Location

The selection of the first few markets in which to open this concept is very important. Our market research indicates that **Columbus, OH** (our first market), Washington, DC and Atlanta, GA are representative of the types of cities where the chain is likely to be successful.

In order to attract the desired demographic segment of young, hip professionals, a great deal of attention must be given to the selection of store locations within a given market. Stores should be located in fashionable urban neighborhoods with heavy pedestrian traffic.

Milestones & Key Financials

Because Xasia Grill's business model depends to a certain extent on economies of scale and on the advantages of **multiple locations** in a given market, our strategy is to open with five stores in a single geographical market, subsequently expanding to other markets.

As Figure 4 indicates, Xasia Grill intends to expand quickly, establishing a presence of **30 stores in 6 markets** by the end of the fifth year.

Figure 3: Projected Net Income, 2002-2006 (\$ millions)

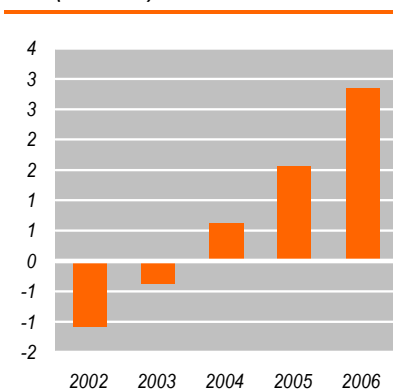
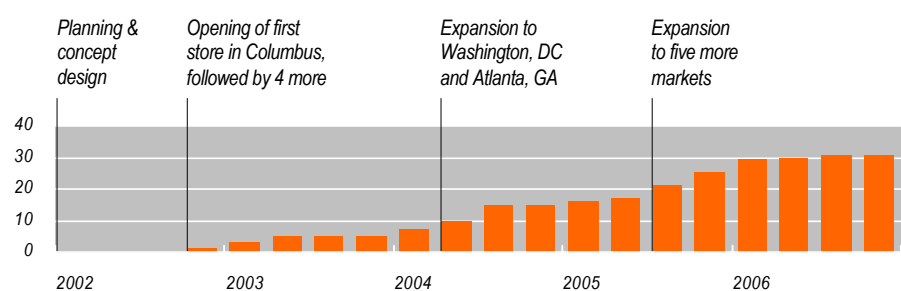


Figure 4: Timeline and Expansion Schedule, First Five Years (bars indicate # of stores)



Growth beyond the 30-store horizon would be greatly facilitated by buy-in from a quick-service chain with a national presence and distribution network. An alternative exit strategy would involve franchising the concept. A third option would be to pursue an initial public offering after the fifth year of operation.

Each store is projected to generate revenues of \$1,105,196 per year; this estimate is based on projections of 385 customers per day and an average check of \$7.97.

Table 1: Summary of Projections

Overall net income (year 5)	\$2,781,398
Profit margin (year 5)	9.8%
ROE (year 5)	15.4%
Startup costs (per restaurant)	\$320,500
Daily traffic (per restaurant)	385
Average check	\$7.97
Annual revenues (per restaurant)	\$1,105,196
Cost of goods sold	26.9%
Labor costs	32.7%
Restaurant operating expenses	53.6%

The investment required to build a single store is \$320,500. Annual per-store operating expenses are estimated at \$592,792. Cost of goods sold is projected to be 26.9% of revenues, which is considerably lower than the industry average of 30.1%.

Return on equity by the end of year 5 is projected to be 15.4%, which is much higher than the industry average of 7%. By the end of year 5, Xasia Grill is expected to be operating with profit margins of 9.8%, many times the industry average of 2.1%.

Capital requirements during the first year come to \$5.48 million; over the first five years, capital in the amount of \$10.82 million will be required. The company is expected to begin generating profits by the first quarter of 2002, with annual net income of \$2.78 million by the end of 2006.