



# XASIA GRILL

## Business Plan

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## Executive Summary

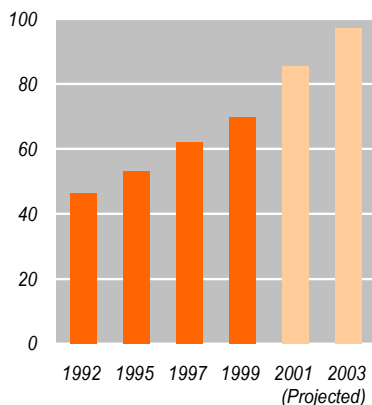
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### *Market Need*

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

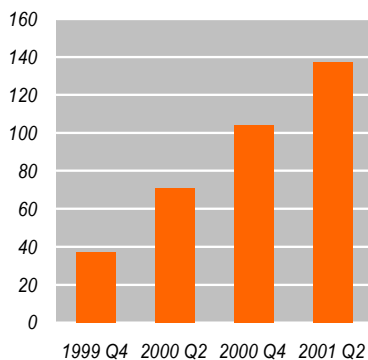
Xasia Grill's profits will depend on customers' willingness to pay a **premium for high quality**, made-to-order food in a stylish setting. In the long term, as more units are built and the concept is extended to new geographical markets, economies of scale and increased leverage with suppliers are both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

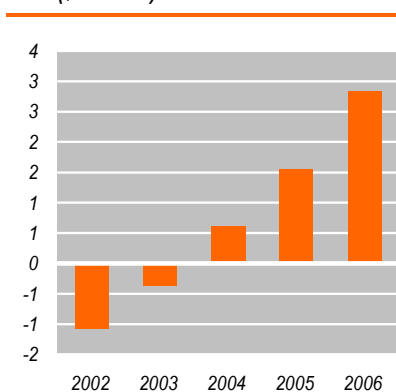
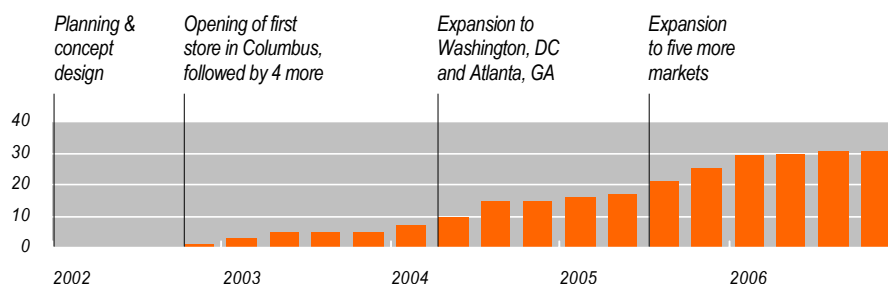


Figure 4: Timeline and Expansion Schedule, First Five Years (bars indicate # of stores)



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.

# External Analysis

**Table 2: The Restaurant Industry:  
Some Key Statistics<sup>1</sup>**

Employee turnover rate	82%
Failure rate for new restaurants	50-60%
Net margins	2.1%
ROE	7%
Annual growth rate (1999)	1.5%

**Table 3: Net Profit Margins and ROE for  
Selected Competitors**

	Net Margins	ROE
Panera Bread Company	5.3%	10%
Tricon Corp. (KFC, Taco Bell)	5.6%	n/a
McDonald's Corp.	12.5%	20%
P.F. Chang's	4.5%	13%
Brinker International (Chili's, etc.)	5.9%	18%

## The Restaurant Industry

Food service is a difficult industry. Failure rates are high, margins are generally low, and employee turnover rates are high. The industry is growing slowly (see Table 2). Saturation levels for U.S. restaurants have reached all time highs.<sup>2</sup> Low barriers to entry have resulted in a very competitive industry landscape.

Many chains are attempting to compete and differentiate themselves through remodeling efforts, such as adding better lighting and better quality of furniture. Others are lowering their prices; McDonald's and Wendy's both currently offer dollar menus. Television and radio advertising is expensive but an absolute necessity for the large fast-food chains.

However, it is possible to make money in a difficult industry; the success of new chains such as Panera Bread Company, Chipotle Mexican Grill, Panda Express, and Pick Up Stix provides ample evidence that new concepts can thrive within a challenging competitive environment. The key is to identify areas of growth within the industry. We have identified two areas of growth: **fast-casual** dining and **ethnic** cuisine. Xasia Grill's success will come from the intersection of these two trends.

### ETHNIC CUISINE

Ethnic food is growing in popularity. The definition of "mainstream" has broadened to encompass food items that were considered exotic only a decade or two ago. An increased desire for variety is driving this demand, as are the food preferences of America's growing population of immigrants.<sup>3</sup>

First-generation immigrants currently make up 10% of the population.<sup>4</sup> The number of Asian Americans in the U.S. is expected to increase by 3.7% over the next three years.<sup>5</sup>

### FAST-CASUAL DINING

Industry analysts call the emerging fast casual segment of restaurant industry "red hot." The segment has revolutionized the industry in the recent years by providing the best aspects of fast food and casual dining to the customers. Fast-casual combines the speed of fast food with the food quality of casual dining, for an average price per meal of \$8-10.

Since the fast-casual segment is new and evolving very quickly, there is very little in the way of comprehensive analysis or statistical measurement of the segment's performance. The market research and retail consulting firm King-

Casey conducted one of the first comprehensive marketing survey of the sector in the beginning of 2001.<sup>6</sup>

According to the survey and analysis, the fast casual niche is highly fragmented. Most of the concepts mentioned in this analysis enjoy growth between 10% and 20%. National brands (e.g. Boston Market, Au Bon Pain) are competing with regional, lesser-known players (e.g. Pick Up Stix, WrapWorks). Indicating substantial room for further business development, the analysts concluded that “obscure and regional concepts” would continue to enjoy substantial growth in coming years. With the slowing economy, the sector promises to post stronger growth, as it continues to appeal to customers with high quality food that is served quickly and at relatively low price points.

## Competitor Analysis

### *Industry Segments*

Xasia Grill will face competition from a number of different types of rivals. There are five types of establishments that will pose a competitive threat to Xasia Grill: quick-serve (fast food) restaurants, fast-casual restaurants, casual dining establishments, neighborhood restaurants, and supermarkets.

#### QUICK-SERVE RESTAURANTS

Prominent brands in the category of quick-serve (the industry term for fast food) include McDonald's, Burger King, Wendy's, Domino's Pizza, Kentucky Fried Chicken, and others. These chains are nationally widespread, do not offer table service, provide take-out options, and may provide delivery options. Table 4 lists major fast food chains in operation in the U.S.

Xasia Grill will face increasing competition from fast food establishments once the chain begins to generate profits. While McDonald's or other nationally recognized chains are not likely to offer the exact same product, they could easily provide cheaper, lower-quality versions of our best selling dishes. Many of the firms listed above have often changed their menu selections to match trends or competitors' menus. The size of McDonald's and other national chains provide them with a great deal of leverage over suppliers, which would allow them to replicate Xasia Grill's menu items with cheaper input costs.



**Table 4: Largest US Restaurant Chains<sup>7</sup>**

<b>Chain</b>	<b>Parent Company</b>	<b>US Sales</b>	<b>US units at FY end</b>
McDonald's	McDonald Corp	19,573	12,804
Burger King	Diageo Plc	8,695	8,064
Wendy's	Wendy's Int'l.	5,813	5,095
Taco Bell	Tricon Global	5,100	6,746
Pizza Hut	Tricon Global	5,000	7,927
KFC	Tricon Global	4,400	5,364
Subway	Doctor's Assoc. Inc.	3,788	12,254
Domino's Pizza	Bain Capital Inc.	2,647	4,818
Applebee's	Applebee's Int'l.	2,625	1,251
Arby's	TriArc Corp.	2,410	3,153
Dairy Queen	Berkshire Hathaway Inc.	2,225	5,058
Dunkin' Donuts	Allied Domecq PLC	2,178	3,641
Denny's	Advantica Restaurant Group	2,137	1,753
Red Lobster	Darden Restaurants	2,105	629
Hardee's	CKE Restaurants	2,028	2,526
Outback Steakhouse	Outback Steakhouse	1,992	611
Jack in the Box	Foodmaker Inc	1,921	1,634
Starbucks	Starbucks Corp.	1,785	2,700
Sonic Drive-In	Sonic Corp.	1,779	2,175
Chili's Grill & Bar	Brinker International Inc	1,735	681

However, the large quick-serve chains' strategy now seems to be to invest in alternatives to fast food without applying their own brands to them, rather than to attempt to combine fast-casual and quick-serve menus into a single concept. McDonald's has taken majority positions in several fast-casual concepts, including Chipotle Grill, Boston Market, and Donato's Pizza.

#### FAST-CASUAL CHAINS

Xasia will have to face competition from several established players in the fast-casual segment (i.e., Au Bon Pain, Chipotle Mexican Grill), relative new comers (i.e., Pick Up Stix, Pei Wei) and potential entrants (i.e., Panda Express). These competitors appeal to roughly the same demographic and will compete with Xasia on the basis of ambience, freshness, speed, and price. The next section looks at some of Xasia Grill's closest competitors in more depth. However, our direct competitors have largely established themselves and are investing heavily in expansion. Chipotle Mexican Grill is growing at a rate of around 60 stores a year and currently has over 150 units in operation. Panera Bread Company (a Wall Street favorite) added 81 units in 2000 and ended the year with 262 restaurants."<sup>8</sup>

#### CASUAL DINING ESTABLISHMENTS

Full-service casual dining establishments had estimated revenues of \$134.5 billion in 2000 (55.62% of all US restaurant sales) and \$143.3 billion in 2001 (56.13%).<sup>9</sup> The casual dining category includes competitors such as P. F. Chang's, TGIF, Bennigan's, Friendly's, Houlihan's and others. Casual dining establishments have higher prices than fast-casual restaurants; they offer table

service, do not rely on substantial delivery or take out service, and usually serve alcohol.

Xasia Grill's advantages over casual dining restaurants are the advantages of the fast-casual concept: the same quality of food, with lower wait times and lower prices.

#### NEIGHBORHOOD RESTAURANTS

Neighborhood establishments and other locally owned restaurants will pose an ongoing competitive threat to Xasia Grill. The exact nature of the threat will vary from market to market and from neighborhood to neighborhood. Xasia Grill's advantage over these restaurants has to do with its consistently high quality (particularly vis-à-vis local Asian restaurants), the speed of its service, and the visual style and appeal of the restaurants themselves.

#### SUPERMARKETS

While supermarkets do not compete directly with fast-casual restaurants, they do provide products that can serve as substitutes to Xasia Grill's offerings, and therefore do pose a competitive threat. Some consumers consider supermarkets more convenient than restaurants.<sup>10</sup> Supermarkets have an added advantage in a tough economic climate.<sup>11</sup>

Supermarkets have several cost advantages over Xasia Grill, including lower spoilage costs, little or no cooking expenses, lower risk/liability, and lower labor costs. Supermarkets will provide similar if not identical food options at lower prices. Xasia Grill's competitive advantage over supermarkets centers around convenience, since the consumer can avoid the time and trouble of meal preparation by going to a restaurant. Two-income families are under growing time pressure, and establishments like Xasia Grill can make their life easier.<sup>12</sup>

### *Selected Competitors*

Xasia Grill will compete with a multitude of nationwide, regional, and local players in the fast-casual segment. The following analysis focuses on evolving competition in the segment in order to assess the potential future competitor landscape, and focuses on a cross-section of rivals, including established competitors, relative newcomers, and potential entrants.

#### BOSTON MARKET

McDonald's acquired Boston Market at the bankruptcy stage. Recognizing the value of the brand and of the chain's talented in-house R&D team, McDonald's decided to keep Boston Market alive. It improved store-level operations, conducted nationwide and local marketing campaigns, and appointed a veteran senior executive to become the chain's COO. Since its acquisition, Boston Market added nine new items to the menu, including grilled items and fresh salad stations.

With annual system-wide sales of \$700 million and 702 units in 28 states in 2000, the chain stays true to its home-meal-replacement concept, offering signature rotisserie chicken and meatloaf dishes and an average check of \$9.60.

In addition to financial resources, McDonald's' presence brought a vast supplier network and associated cost reductions, new merchandizing ventures and partnerships for continuous menu innovation.

Beginning in 2002, the chain is poised for new unit growth in the Boston, Chicago and Denver metropolitan areas. The McDonald's franchisee community is expected to take active part in chain growth. With sales increases of 7%-8% a month since May 2000, Boston Market is poised to begin taking additional market share within the fast-casual segment.

#### CHIPOTLE GRILL

Founded in Denver in 1993 under the name "Chipotle Mexican Grill," this burrito chain currently boasts over 150 units and estimated average unit sales of \$1.05 million.<sup>13</sup> The restaurant offers large burritos and tacos with ingredients that can include grilled chicken, steak, and organic pork, as well as guacamole, sour cream, salsa, beans, rice and corn. The chain emphasizes its gourmet-quality ingredients and spices, the guaranteed freshness of its food, and its average check of \$8.

McDonald's acquired a majority ownership stake in Chipotle in 1998. Chipotle benefited from this partnership by gaining access to cheap capital, an improved model for screening real estate sites, an extensive purchasing network, and increased clout with suppliers.

The firm's nationwide marketing budget is a meager \$1.5-\$2 million; its core marketing strategy has been word-of-mouth. Restaurant employees often pitch new menu items at customers while at the counter line. The firm uses creative marketing solutions, such as the very popular Free Burrito Day. Simple, inexpensive black-and-white ads in alternative weeklies feature irreverent headlines like "Usually, When You Roll Something This Big, It's Illegal."

Chipotle is planning to add 75 stores in 2001. The expansion is targeting major metropolitan areas such as Houston, Los Angeles, and San Francisco. The chain is seriously considering franchising as a vehicle to rapid expansion. With many stores experiencing double-digit growth, Chipotle is quickly emerging as a strong national brand, a concept that promises to work in any market.

Chipotle Grill is probably Xasia Grill's closest competitor, as it also provides a stylish eating environment and made-to-order at the intersection of the fast-casual and ethnic segments.

#### PICK UP STIX

Another direct competitor to Xasia Grill will be Pick Up Stix, a California-based concept recently acquired by Carlson Restaurants Worldwide (owner of

T.G.I. Friday's and other chains). With its slogan, "We Never Start Your Meal without You", the 51-unit chain offers Chinese food cooked to order in woks in full view of the customer. After preparation, servers deliver the food to the table.

Clean and contemporary facilities complement the festive atmosphere. Menu prices range from \$5 to \$9, with an average check of \$7.50. Average unit sales equal approximately \$1 million, with 65% of sales from takeout orders. The chain locates restaurants near shopping centers and offices, as well as new residential developments.

Pick Up Stix differentiates itself from other Chinese restaurants through the freshness of its produce. The company owns a USDA-inspected commissary where all meat, poultry, seafood, vegetables, and sauces are prepared. It ships ingredients to its units daily using its own distribution network.

Pick Up Stix will gain substantial expertise from Carlson in its plans for nationwide expansion. Currently located in Southern California and Las Vegas, Pick Up Stix is planning to open 20-25 new units in 2001 and is considering franchising. The chain's long-term goal is to surpass \$100 million in revenues by 2005.

#### PEI WEI

An up-and-coming direct competitor to Xasia Grill is Pei Wei, an Asian diner chain based in Arizona.<sup>14</sup> The restaurant offers cooked -to-order food ordered at the counter and delivered to the table. Despite the low average check of \$8-\$10, customers eat with stainless steel flatware, and food is served on fine china. The menu includes parent company P.F. Chang's bestsellers: chicken lettuce wraps, spicy chicken, Pad Thai, Dan-Dan noodles, Mongolian beef, and Kung Pao chicken. Décor is modern and clean with 80-100 seats on average.

Order-to-table time is approximately 10 minutes or less, somewhat longer than Xasia Grill's target time of 5-8 minutes. Carryout is extremely popular.

Parent company P.F. Chang's recognized an unfulfilled need for high-quality, cooked-to-order food served quickly. P.F. Chang's originally considered a noodle shop concept, but eventually opted for a broader Pacific Rim menu. The parent company, which was the winner of *Nation's Restaurant News* "Hot Concept" award in 1996, supplied \$500,000 in start-up capital and helped secure industry expertise (including Mark Brezinski of Canyon Café and Paul Fleming of Ruth's Chris Steak House). It is currently exploring concept expansion to Dallas, Denver, and Las Vegas markets.

#### PANDA EXPRESS

Founded in 1982 to complement casual dining parent Panda Inn, Panda Express had sales of \$254 million in 2000 and estimates growth of 25% in 2002.<sup>15</sup> The concept offers Chinese food à la carte, in combination plates (choice of fried rice or chow mein) or in a "Panda Bowl" (entrée with steamed rice). Currently

many Panda Express units are located in shopping mall food courts, but the chain is moving into other concepts including freestanding units.

Unit volumes vary from \$400,000 to \$2 million. Panda Express' strengths are in its marketing segmentation, its information systems management, and the special emphasis it places on its employees. As it moves into stand-alone formats, the company is facing increased competition. It has responded by mounting national and regional advertising campaigns, and by putting extra emphasis on its real estate, décor package, and close interaction with individual customers.

Panda Express recognizes that employees are the key to retaining customers. It maintains an hourly productivity incentive program, provides full medical insurance coverage for all staff (including part-time), has equity sharing plans, and runs an 18-day development program for its management.

The chain's custom-built information systems track data for human resources, purchasing, and inventory control, and provide theoretical food costs models and optimal labor scheduling tools. The chain's regional managers can track local units' reactions to business changes.

Although it is a ready-to-serve concept, Panda Express always emphasizes the freshness of its products. The latest street-front store prototype features exhibition kitchen with chefs tending their woks. The company is focused on expanding its business with extensive advertising, including promotional tie-ins with Asian-themed movies like *Crouching Tiger Hidden Dragon* and Jackie Chan's *Rush Hour 2*.

Panda Management Company, Panda Express's parent, operates Panda Panda (7 units), Panda Inn, Hibachi-San (9 units), and Orleans Express (1 unit). Its vision is to become \$1 billion company, and it is exploring various additional concepts. In 2001, the chain opened two new units per week.

## Market Analysis and Demand Estimates

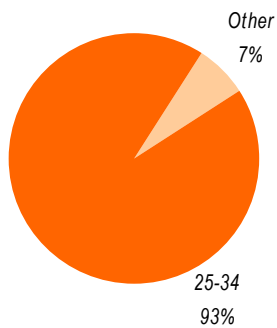
### *Market Survey*

In October 2001, a convenience sampling was taken of 91 people in Xasia Grill's target audience. Respondents were asked to fill out a survey of 9 questions asking about their general eating habits and about Asian food in particular. (The survey instrument is shown in Appendix A). Respondents were targeted through the McDonough School of Business at Georgetown University, and were primarily students, with some faculty members responding as well.

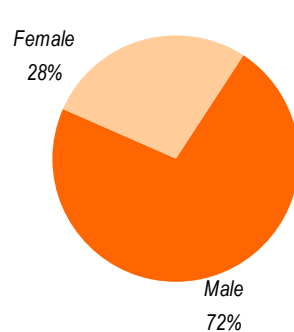
### SURVEY DEMOGRAPHICS

The following figures provide a demographic profile of the survey respondents.

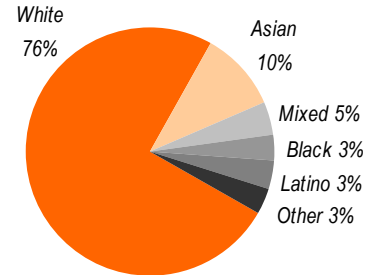
**Figure 5: Age of Respondents (n=89)**



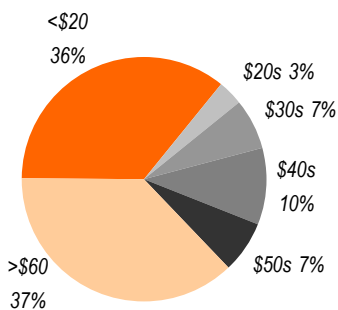
**Figure 6: Gender of Respondents (n=91)**



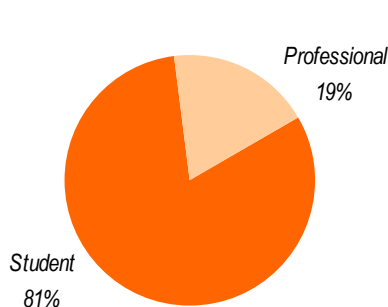
**Figure 7: Ethnicity of Respondents (n=89)**



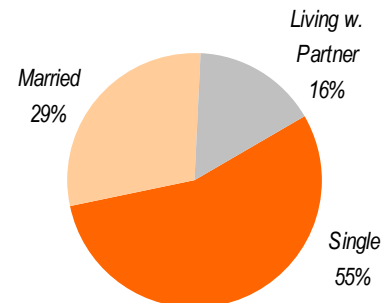
**Figure 8: Income of Respondents (n=89)**



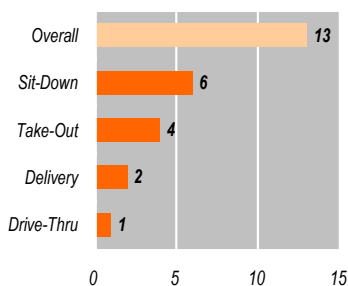
**Figure 9: Gender of Respondents (n=91)**



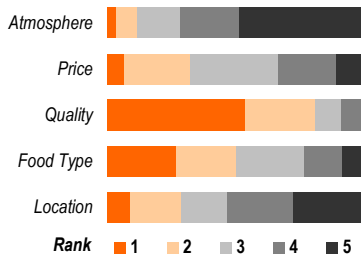
**Figure 10: Marital Status of Respondents (n=91)**



**Figure 11: Monthly Frequency of Eating Out (n=91)**



**Figure 12: Ranking of Importance of Restaurant Aspects (n=90)**



## FREQUENCY OF EATING OUT

Respondents were asked how many times they ate out in different situation on an average month. On average, they ate out 13 times per month. The most common situation was in a sit-down restaurant, while respondents only ate at drive-throughs an average of once per month. Figure 11 shows the breakdown.

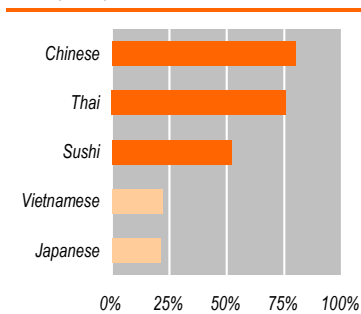
## RESTAURANT CRITERIA

Respondents were then asked to rank the importance of five aspects (location, food type, food quality, price, and atmosphere) in deciding which restaurant to eat at. The results are shown in Figure 12. Respondents overall placed priority on Food Quality (average rank of 2), followed by Food Type (3), Price (3), Location (3) and Atmosphere (4).

## PRICE

Respondents were asked how much, on average, they spend on lunch and beverage for just themselves. The average price was \$9.72, with a range of \$3.50 to \$40.

**Figure 13: Preferences for types of Asian food (n=90)**



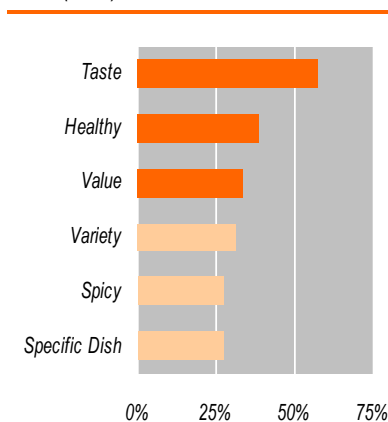
## PREFERENCE FOR ASIAN FOOD

Respondents were asked specifically how many times a month they eat Asian food (from a restaurant). On average, they ate 3.23 times per month with a range of 0 to 15.

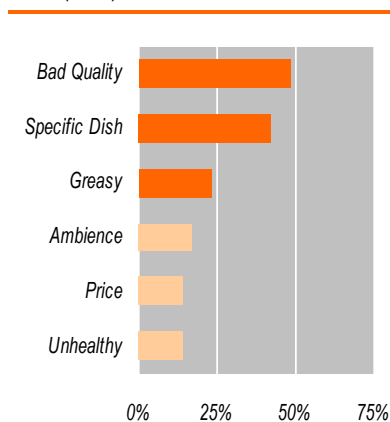
When they ate Asian, they were most likely to eat Chinese. They were asked to their three favorite types of Asian Food. There were no clear differences between what type was listed as first, second and third.

Next, they were asked what three aspects of Asian food they like best. See Figure 13 for the responses as coded from open-ended responses. The top five aspects are taste, healthy/ low fat, value (low price, large portions), variety, and spicy. A successful restaurant should provide a variety of healthy dishes at a reasonable price that has spicy options. That people like to share their food and other rituals involved in eating Asian food is something more suited for full-service restaurants.

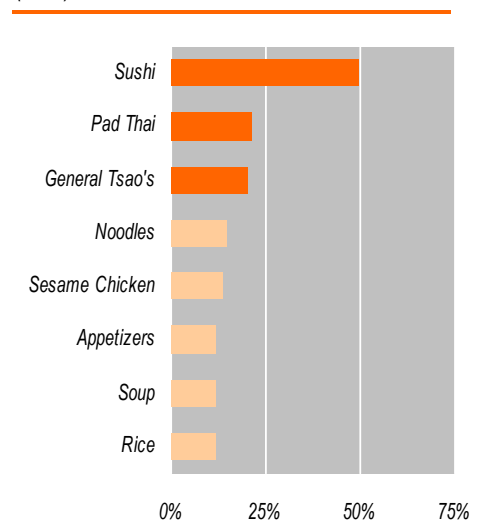
**Figure 14: Favorite Things About Asian Food (n=80)**



**Figure 15: Least Favorite Things About Asian Food (n=64)**

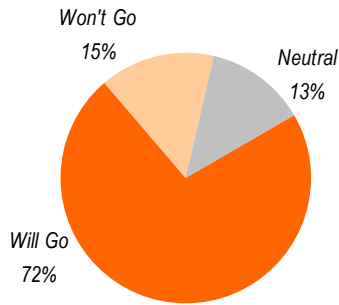


**Figure 16: Favorite Asian Dishes (n=83)**



Conversely, they were asked an open-ended question about their three least favorite aspects of Asian food. By mitigating these factors, Xasia Grill can increase demand for Asian food. The biggest problems cited with Asian food are listed in Figure 15. Results indicate that consistently high quality be a key success factor in the success of the concept. One way to achieve this is to enter a market with multiple locations offering consistent menus and décor, signaling to the consumer that the quality is uniformly high. The results also indicate that there is room for improving ambience in Asian restaurants. Other priorities indicated by these results include keeping price reasonable, making health a priority (including reducing the greasiness), providing spicy and non-spicy options, and not using MSG.

**Figure 17: Likelihood of going to Xasia Grill (n=86)**



## MEASURING THE CONCEPT'S APPEAL

Finally, respondents were asked their likelihood of eating at Xasia given the following description:

*An Asian fast-casual dining experience. You walk in, order one of 10 pan-Asian dishes, and your order is prepared with fresh ingredients behind the counter as you watch (similar to Chipotle Mexican Grill). You can sit down or take out the food. The average price is \$6-\$7. The food is high quality and healthy, the atmosphere stylish. The dining concept is food higher in quality than traditional fast food, but with quicker service than a full service restaurant. Xasia Grill is a chain restaurant with several locations in each city.*

An impressive 72% said they were likely to go (40.7% were very likely and 31.4% were likely) to Xasia Grill.

## Market Analysis

Based on our demographic analysis, we have isolated three groups of potential customers:

### YOUNG BUSINESS LUNCHERS

Young Business Lunchers are young professionals who work in downtown area of cities. They go out to eat about 12 times a month and decide where to eat on the basis of food quality followed by food type (i.e., Mexican, burgers, Chinese). They spend an average of \$8.81 on lunch (including beverage). When eating Asian food, which they do an average of 2.59 times per month, they prefer Chinese, followed by Thai and sushi. In general, they do not have more than an hour for lunch, so they need something quick; and they prefer a cheaper meal, since they are just starting out and are relatively less affluent.

### DISPOSABLE INCOME STUDENTS

Disposable Income Students go out to eat about 13 times per month; like their older counterparts, they decide on the basis of food quality and food type. They spend an average of \$9.93 on lunch. When eating Asian food, which they do an average of 3.38 times per month, they prefer Thai food followed by Chinese and sushi. This segment eats at more varied hours as classes dictate their schedule. We are looking at students with high disposable income, which generally means they are being supported by their parents.

### OLDER PROFESSIONALS

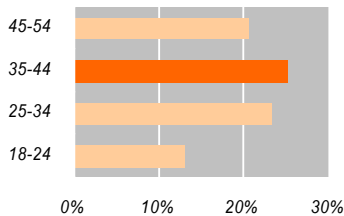
Older Professionals work in downtown in urban areas, have been working for many years and have become relatively prosperous. While their income means they can dine out more frequently, they also enjoy a more affluent lifestyle and may therefore want to dine in pricier establishments. However, because they work in high-stress occupations, they generally take short lunches, which fits perfectly into the fast-casual market.



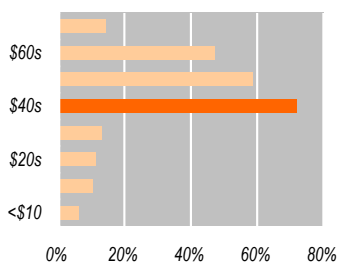
It seems likely that the young business lunchers and disposable income students will be the first to try Xasia because of the atmosphere and price; the older professionals will follow as word gets out about the quality of the food.

## Food Preferences and Demographics

**Figure 18: Ages of Chinese Food Consumers**



**Figure 19: Household Income as a Determinant of Chinese Food Demand**



### A G E

Those with the highest preference for Chinese food are between the ages of 35 and 44, as Figure 18 shows. However, people in the age ranges of 18-24, 25-34, and 45-54 also demonstrate a preference for Chinese food. In sum, 18- to 54-year-olds represent 82% of the market for Chinese food; this suggests that our target market is students and young to middle-aged professionals.

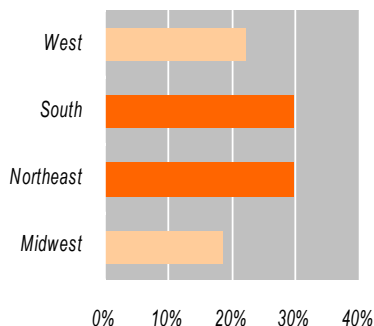
### I N C O M E

Household income also seems to play a role in the demand for Chinese food. As Figure 19 indicates, our research indicates that demand for Asian food rises sharply above the \$40,000 level of annual household income.

It seems reasonable to believe that among high-income consumers, demand for Xasia Grill's upscale offerings will be even higher than that for generic Chinese food. Our assumption is that our target market will be in the \$50,000 and higher category of household income.

## Geographical Location

**Figure 20: Locating the Region (U.S.) of Greatest Demand for Chinese food**



The following two demographic criteria identify the areas of the country that are most likely to display a preference for our food. These factors, along with the demand demographics displayed above will guide us when deciding upon restaurant locations.

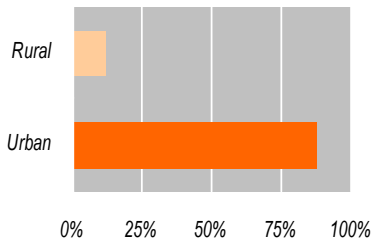
While preferences are distributed quite evenly throughout the country, Figure 20 illustrates that the greatest demand can be found in both the South and the Northeast sections of the nation. A pronounced difference is apparent when comparing metropolitan and non-metropolitan areas; see Figure 21. We have decided to open our first restaurants in the northeast due to the large population concentrations, the number of metropolitan areas, the cultural fit, and the knowledge and familiarity that our team has with these regions.

Based on the above criteria we can generalize that the typical Xasia Grill customer will be between the age of 18-54 years old who earns more than \$50,000 per year (with the exception of students) and who lives in a metropolitan area located in the northeast region of the United States.

From 324 U.S. metropolitan areas,<sup>16</sup> we eliminated areas that do not contain a substantial portion of Xasia's demographic groups. Table 5 features 13 cities with the largest concentrations of people who demand our product. While most of these cities have similar demographics, we chose Columbus, Ohio as our opening city, for the following reasons:

- Columbus contains a comparatively high metropolitan population.
- Columbus is nationally known to be a testing ground for new restaurant chains.<sup>17</sup>
- Opening in Columbus costs less than opening in a major city such as Washington, DC or Boston, MA due to lower property costs and cost of living.
- Chipotle Mexican Grill's top grossing restaurant is in Columbus, which indicates strong demand for both ethnic food and fast casual dining.

**Figure 21: Choosing an Urban vs. Rural setting**



**Table 5: Location Selection**

Location	Total Population	White + Asian Population %	% Age 25-54	Avg Pretax Earnings	White Collar
Boston	3,895,800	92%	46%	59,927	64%
Columbus, Ohio	1,499,800	86%	46%	49,951	59%
Hartford	1,118,900	90%	46%	59,649	62%
Nassau – Suffolk	2,698,800	91%	45%	67,500	62%
New Haven - Waterbury - Meriden	795,300	88%	44%	55,780	60%
New York	8,743,700	71%	46%	54,854	66%
Newark, N.J.	1,959,200	77%	46%	64,028	61%
Philadelphia	4,950,300	80%	44%	58,361	62%
Trenton	337,600	78%	45%	66,591	67%
Washington	4,769,800	74%	50%	64,327	63%
Wilmington – Newark	574,700	82%	45%	54,698	63%

## Estimating Demand by Market Segment

An analysis of consumer preferences for Chinese food and an understanding of Xasia Grill's target customer market lead to the formation of 4 distinct market segments. Below is a table identifying Xasia Grill's target groups, along with a detailed calculation of demand for year 2001.

Specific attention should be given to middle-aged professionals who have the highest population of the group, as well as the greatest preference for Chinese.

The bottom half of Table 6 lists repeat purchasers as 88,627 (90% of our total 2001 demand estimate). This figure is based on National Restaurant Association research indicating that restaurants with average per meal prices of \$8 or less typically have a repeat customer percentage of 90%.<sup>18</sup> The number of annual repeat purchases was obtained by multiplying our repeat customers by the number of times per year we expect such customers to visit Xasia Grill (twice a month).

**Table 6: Predicted 2001 Demand For Xasia Grill**

Segment Type	Age	Population	White/ Asian	White Collar	Preference for Chinese	Total
Students	18-24	157,130	86%	N/A	13.12%	17,729
Young Professionals	25-34	231,452	86%	59%	23.22%	27,269
Middle-Aged Professionals	35-44	251,631	86%	59%	25.15%	32,111
Older Professionals	45-54	203,714	86%	59%	20.67%	21,365
Total 2001 Demand						98,474
Repeat Purchase Rate						90%
Repeat Purchasers						88,627
Annual Purchases per Repeat Customer						24
Annual Repeat Purchases						2,127,038
Annual Non-Repeat Purchases						9,847
Predicted Total Purchases						2,136,886
Total Predicted Annual Demand (Avg. Check = \$7.50)						\$16,026,645

## Demand Growth Forecasts

It remains impossible to predict demand for our product based on estimates of future trends in cuisines and consumer tastes. It is, however, useful to approximate the rate of growth of our target populations by varying age categories. Table 7 below illustrates demand for Xasia Grill projected for the next five years based on national population growth projections for our target demographics.<sup>19</sup>

**Table 7: 5-Year Demand Growth Projections**

Segments	2001	2002	2003	2004	2005	2006
18-24	17,729	18,084	18,446	18,630	18,816	19,005
25-34	27,269	27,129	27,068	27,016	27,006	26,995
35-44	32,111	31,731	31,277	30,890	30,527	30,159
45-54	21,365	21,638	22,086	22,530	22,979	23,401
Totals	98,474	98,582	98,877	99,066	99,328	99,560
Repeat Purchase Rate	90%	90%	90%	90%	90%	90%
Repeat Purchasers	88,627	88,724	88,989	89,159	89,395	89,604
Annual Repeat Purchases	24	24	24	24	24	24
Purchases a Year	2,127,038	2,129,371	2,135,743	2,139,826	2,145,485	2,150,496
Non Repeat Customers	9,847	9,858	9,888	9,907	9,933	9,956
Annual Customers	2,136,886	2,139,229	2,145,631	2,149,732	2,155,418	2,160,452

Table 7 illustrates demand for Chinese food in Columbus, OH during the next five years. Note that the figures quoted above have only been adjusted for expected yearly population growth of Xasia Grill target segments. The above figures represent total demand figures. We expect to capture a great percentage of the potential demand illustrated above; however, actual traffic and revenues will depend on the number and location of restaurants opened, as outlined in the following section.

# Internal Analysis

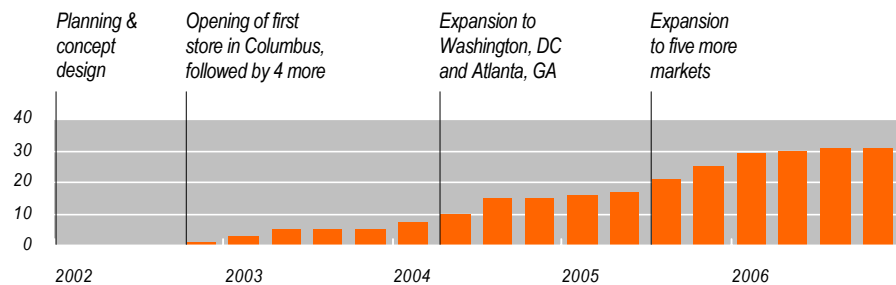
**Figure 22: First Three Target Metropolitan Areas**



## Milestones

As Figure 23 shows, Xasia Grill's first five years will be marked by rapid expansion. The Xasia Grill concept will first be tested in Columbus, OH. The first store there will be quickly followed by four more. This strategy of quickly establishing a multi-store presence in a market will be repeated in each new city as the concept is expanded. The chain will be introduced in two further markets after a year, and then into three more markets a year after that. By the end of the fifth year, Xasia Grill will be present in six markets with 30 stores nationwide.

**Figure 23: Timeline and Expansion Schedule, First Five Years** (bars indicate # of stores)



## Concept Design

**Table 8: Sample Menu**

Item	Price	Cost	% ordering
Wrap 1	\$6.75	\$1.20	9%
Wrap 2	5.95	1.65	8%
Wrap 3	6.25	1.75	4%
Wrap 4	6.50	1.80	12%
Stir-fry 1	5.75	1.75	5%
Stir-fry 2	5.95	1.65	12%
Stir-fry 3	6.50	1.80	11%
Rolls 1	5.00	1.35	4%
Rolls 2	5.50	1.40	5%
Rolls 3	5.75	1.75	12%
Rolls 4	6.00	2.00	15%
Soup 1	2.25	0.25	7%
Soup 2	2.75	0.50	10%
Soft drink med	1.25	0.13	25%
Soft drink large	1.35	0.15	24%
Beer 1	2.75	0.75	8%
Beer 2	3.25	1.50	12%
Beer 3	3.50	1.10	5%
Bottled drink/water	1.50	0.45	15%
Average check	\$7.97	\$2.14	

The first step in implementing Xasia Grill is to refine further the restaurant concept design. The first step in this refinement will involve extensive market research, ranging from surveys to focus groups, primarily targeted at ascertaining consumers' food and atmosphere preferences. More specifically, this research will be used to identify potential menu items or food themes that appeal to Xasia's key target demographic of young professionals with discerning tastes. Ultimately, Xasia Grill's executive chef will use this data to create a simple menu that offers a new twist on pan-Asian cuisine.

A sample generic menu, along with prices and rough costs, is shown in Table 8. These calculations form an essential part of Xasia Grill's financial model; all income and cash flow projections are based on the average check price and corresponding average cost of goods per check shown here.

The restaurant's atmosphere and image are just as important to the design as the high quality of food that will be offered. Market research will be critical in defining the Xasia Grill atmosphere and image.

As Chipotle has demonstrated, both atmosphere and image are successful differentiation strategies for capturing the young professional market segment. Xasia Grill will apply this same differentiation strategy in pan-Asian cuisine, by creating a hip, modern, and clean eating environment.

By the end of the concept design stage, Xasia Grill will have established a detailed menu based on market research, as well as a restaurant design and visual identity calculated to appeal to its target market.

### *Key Business Partners*

Xasia Grill's management team has no experience in the restaurant industry. The success of the concept will largely therefore depend on business alliances with individuals and firms that do know the restaurant industry. In the short term, Xasia Grill must make two key hiring decisions: a CEO and an executive chef. Xasia Grill will hire both of these individuals in 2002 Q1

Xasia Grill will hire an individual with extensive experience in the restaurant industry as CEO. More specifically, the management team will hire someone with a proven record of accomplishment of opening and establishing new restaurants in competitive urban markets. The CEO must also be capable of managing a team-oriented organizational structure, in which all associates have a voice in the restaurant's management. Lastly, the CEO must also possess strong contacts with key restaurant suppliers.

The choice of an executive chef is of particular importance. The person selected will be responsible for translating extensive market research into a pan-Asian menu with a "new twist." This is a challenge for two reasons: the menu of Xasia Grill is pan-Asian and will be limited to a small number of ingredients. In short, the executive chef must have expertise of many types of Asian cuisine and must be creative. Xasia Grill will therefore hire an executive chef with experience in creating new and different menu items.

These critical hires are discussed in more detail on page 24.

Lastly, Xasia Grill will form key partnerships with the local community in which it operates. Xasia Grill and its employees will be involved in the local community. This will include both sponsoring and volunteering at local community events and discounted food for local schools and churches.

### *Xasia Grill Beta Test*

Xasia Grill will beta test its food product in 2001 Q3 at a variety of community events, ranging from the Taste of Columbus, Red, White & Boom, and the Columbus Arts Festival. These events will offer an excellent opportunity for introducing Xasia Grill's menu to consumers prior to opening the restaurant's doors. Consumers' reactions to the food product will allow the executive chef to adjust the menu (if needed) before each event, and before the first restaurant opens. This method of beta testing will provide an excellent opportunity to refine the menu as needed. Sales volume of certain products will also enable Xasia Grill's leadership team to identify the most successful food items. This will ensure that Xasia Grill has the appropriate supply of those menu items when the first restaurant opens. In order to perform the beta test, Xasia Grill will lease a mobile food preparation unit.

Xasia Grill will beta test the restaurant's atmosphere and image just prior to the first store opening in 2002 Q4. Xasia Grill will invite focus group participants to

dine at the restaurant up to a week in advance of the grand opening and ask these participants to encourage or invite others to dine at Xasia Grill. All consumers who visit Xasia Grill during this weeklong beta test will eat for free. This word of mouth/free-food strategy will allow for a beta testing of the product before the official opening.

### *The Grand Opening*

Xasia Grill will open its first five stores in Columbus, Ohio in 2002 Q4. The first store will be located in the Arena District Neighborhood, where a number of new and existing businesses have located recently. Additionally, the first location will achieve increased business due to home NHL games and arena events, such as concerts. In anticipation of the opening, Xasia Grill will do a direct coupon mailing to nearby residents and businesses, offering a free entrée. Additionally, Xasia Grill will advertise heavily in local entertainment and alternative newspapers and do limited radio spots.

Xasia Grill will open its second location in the Columbus suburb of Worthington, near the CrossWoods Business Corridor. Although, this business corridor has experienced tremendous growth in the past three years with a number of existing business re-locations, there are no fast-casual restaurants currently serving the market.

Xasia Grill will open its third location in Columbus suburb of Grandview. Grandview is a central-ring, urban suburb of Columbus possessing a strong mix of both residential and business consumers. Grandview is a ripe market for Xasia Grill, as it is an affluent area of the Columbus and is located within a short distance of Upper Arlington, another affluent suburb, and the Ohio State University campus, home to more than 120,000 students, faculty, and staff. Grandview is also home to Chipotle Grill's highest grossing location.

Xasia Grill will open its fourth location at the Easton Town Center. The Easton Town Center is a mixed-use development featuring large office parks, retail, and residential space.

Xasia Grill will open its fifth location either in the Brewery District or near the Ohio State University campus.

### *Expansion to New Regions*

Xasia Grill will expand by five stores each in Washington, D.C. and Atlanta, GA. in the third quarter of 2004. The first Washington, D.C. locations will include Adams-Morgan, Dupont Circle, Georgetown, and the Capitol Hill area. Atlanta locations will include Buckhead, Downtown, and Little Five Points. Little over a year later, the restaurant concept will be extended to three additional markets, to be determined later.

## Costs

### Real Estate Costs

**Figure 24: Targeted Store Locations, Columbus, OH**



Address	Neighborhood
1 1234 Grandview Ave	Grandview
2 1234 Front St.	Arena District
3 1234 Easton Way	Easton Town Center
4 1234 High St	Ohio State
5 1234 Crosswoods	Crosswoods

Xasia Grill will lease space for its first five locations. Leasing is generally cheaper than buying commercial real estate, and offers a clear exit advantage. Xasia Grill will hire Ohio Equities, Ltd., a leading commercial real estate firm in Columbus, Ohio, to identify potential locations and leasing opportunities for the first five restaurants. Ohio Equities, Ltd. charges a 2% commission (or \$2500, whichever is higher) on all real estate transactions. Xasia Grill will finalize all leasing agreements in Q2 2002.

Xasia Grill will also contract with the consulting unit of Wasserstrom, a leading restaurant equipment supplier, to evaluate the suitability for potential sites for a fast-casual restaurant. Xasia Grill estimates that it will require an average of twenty hours of Wasserstrom's consulting services each month during in Q1 2002 and Q2 2002, at a cost of \$150 per hour.

Xasia Grill will require space ranging from 900 square feet to 1200 square feet. Xasia Grill will look primarily at former restaurant locations as the renovation costs are much lower than for non-restaurant use space. Where former restaurant locations do not exist, Xasia Grill will fully convert non-restaurant use space.

For renovation and conversion of restaurant spaces, Xasia Grill will contract with Wasserstrom (for restaurant operations and delivery logistics), NBBJ Architects (for restaurant design), and Fast-Casual Contractors (for location renovation services). Improvement costs are estimated at a total of \$75,000 per store.

The largest on-going cost will be the monthly lease costs, which are estimated at \$75,000 per year per store.

### Equipment Costs

The equipment that Xasia Grill will require will be determined by the executive chef in consultation with Wasserstrom. Equipment needs range from food preparation equipment (grills, woks, cutlery) to office and maintenance supplies (cash registers, drink containers, mops, etc.) Most of this equipment will be obtained through Wasserstrom. Where possible, Xasia Grill will purchase used equipment from Wasserstrom's extensive supply of used equipment. Grills and ovens, though, will be bought new due to the high rate of problems often associated with these used equipment items.

### Labor and Training Costs

Xasia Grill's success is largely dependent on its employees' skills, teamwork, and dedication to serving a high-quality product. As such, Xasia Grill will invest heavily in identifying the right associates and providing them with the right skills to properly serve our customers. Xasia Grill's associate and organizational philosophy is discussed further in the organizational behavior section of this operating plan.



**Table 9: Summary of Startup Costs per Restaurant**

Improvements	\$75,000
Furniture, Fixtures, Equipment	175,000
Liquor license	1,000
Legal costs	2,000
Real estate identification	2,500
Other	65,000
<b>Total</b>	<b>\$320,500</b>

Xasia Grill estimates that it will require the equivalent of eight full-time employees. At the lunchtime peak, Xasia Grill estimates that it will need six people behind the counter, in addition to a cook and a store manager. During non-peak hours, only two or three people will be required behind the counter. Table 10 summarizes Xasia Grill's planning for staffing needs. (The columns labeled A, B, C, D, E represent the number of employees necessary for different shifts).

**Table 10: Projected Customer Flows and Staffing Needs**

Hour beginning	Average customers	Cook	Counter	Customers / staff	A	B	C	D	E
9:00 AM	0	1	2	0.0	2				
10:00 AM	5	1	2	2.5	2				
11:00 AM	30	1	3	10.0	2	1			
12:00 PM	50	1	6	8.3	2	1	3		
1:00 PM	45	1	6	7.5	2	1	3		
2:00 PM	40	1	6	6.7	2	1	3		
3:00 PM	30	1	4	7.5	2	1	3		
4:00 PM	20	1	3	6.7	2	1			
5:00 PM	40	1	5	8.0		1			2
6:00 PM	35	1	5	7.0		1			2
7:00 PM	30	1	5	6.0				3	2
8:00 PM	25	1	4	6.3				3	2
9:00 PM	20	1	4	5.0				3	2
10:00 PM	10	1	3	3.3				3	2
11:00 PM	5		2	2.5					2
12:00 AM			2	0.0					2
<b>Daily totals</b>	<b>385</b>	<b>14</b>	<b>62</b>						

Our financial projections are based on labor expenses of \$12/hour for a cook and \$9/hour for counter staff. Restaurant managers (one full-time and one half-time) will cost \$60,000 annually.

In addition to salary costs, Xasia Grill is also exploring tuition reimbursement, revenue sharing, and language classes to help attract and retain promising associates. Xasia Grill estimates that both managers and associates will require one-week of non-work training and one week of on-the-job training at each employee's requisite salary or hourly wage cost. Benefits and training add 10% and 20% for hourly and salaried workers, respectively. Staffing needs and strategy are discussed in further detail starting on page 24.

## Food and Beverage Costs

Xasia Grill is only as good as its food. Accordingly, Xasia Grill will only prepare food meeting rigorous standards for quality and freshness. Consistent with these standards and an extensive evaluation of numerous food suppliers, Xasia Grill has selected Sysco as its primary food supplier. Sysco has a long and distinguished reputation as a national food distributor with a wide array of fresh food products. In short, Sysco is one of few food distributors nationwide that offers the quality and breadth of food products necessary to create Xasia Grill's creative pan-Asian menu.



Xasia Grill will complement the quality of its food by offering a variety of high-quality beverage alternatives to its patrons, including Coca-Cola products. In addition to being the world's number one soft drink, restaurant patrons associate Coca-Cola with the best restaurants. Additionally, Coca-Cola offers a wide array of high-quality beverages, including Diet Coke, Cherry Coke, Sprite, Minute Maid, and Dasani water. Xasia Grill will primarily sell Coke products as fountain drinks and offer customers free fountain drink refills.

In addition to offering Coca-Cola products, Xasia Grill will offer a limited number of domestic and international beers, including Budweiser, Bud Light, Miller Lite, Sapporo, and Tsing-Tao.

Table 8, on page 18, lists estimated food and beverage costs per item (including distribution costs).

### *Legal Costs*

Almost every aspect of launching Xasia Grill will require legal counsel. Negotiating the lease and renovation of commercial real estate will require the services of capable real estate attorneys. Additionally, Xasia Grill will require legal counsel for incorporation filings, trademarks rights, contractual dealings, insurance and liability issues, and labor law requirements.

Due to the diversity of needs, Xasia Grill will contract the services of a full service civil law firm, with capable attorneys in each area of need. Xasia Grill will contract with the law firm of Luper, Sheriff & Neidenthal to provide the necessary counsel. Luper, Sheriff & Neidenthal offers a full range of legal services and has experience with start-up companies. Additionally, the firm of Luper, Sheriff & Neidenthal has agreed to discount its hourly billing charges and retainer fees.

In the very near term, Xasia Grill will require few hours of legal counsel and thus will be billed on an hourly basis during 2001 Q4. Xasia Grill estimates that it will require an average of twenty hours a month during this quarter, at a cost of \$150 per hour. In 2002 Q1, Xasia Grill will move to a retainer fee of \$5,000 per month. In addition, each restaurant will require \$2,000 per month of legal fees.

### *Other Costs*

Utility costs are generally high for the restaurant industry. The most significant costs are for electricity and natural gas; other expenses include water, telephone, and Internet access. Total monthly utility expenses are estimated at \$42,400.

**Table 11: Summary of Annual Costs per Restaurant** (exclusive of cost of goods sold)

Hourly wages	\$263,538
Salaries	60,000
Benefits	38,354
Lease	75,000
Insurance	2,200
Operating Expenses	56,200
Utilities	42,400
Administrative Expenses	40,300
Repair & Maintenance	14,800
Total Restaurant Expenses	\$592,792

Xasia Grill will protect its investors' interests from consumer lawsuits, disasters, etc. by securing property and liability insurance. Nationwide Insurance Services is a leader in the insurance industry and offers a full array of protection services; Xasia Grill will contract with Nationwide for up to \$10 million in property insurance and \$50 million in liability insurance at a monthly rate of \$2,200 per store.

The restaurant business is highly regulated compared to other industries due to health issues inherent to food preparation. Xasia Grill will need to pass routine health inspections in order to obtain a food operator's license. Additionally, Xasia Grill must also meet certain Ohio Department of Liquor Control guidelines for serving alcohol in order to obtain a liquor license. All businesses must also pay workers' compensation.

In addition to the costs detailed above, Xasia Grill will also incur association dues (National Restaurant Association, state restaurant associations, chambers of commerce, etc.), and travel costs, as well as other unforeseen costs.

## Staffing and Organization

### *Organizational Structure*

Xasia Grill will have a very flat organization. The corporate staff will be extremely small for the first five years, consisting of a team of six individuals with responsibilities divided among functional lines. A highly qualified board of directors will provide guidance.

#### BOARD OF DIRECTORS

In order to guide Xasia Grill through the challenges of the restaurant industry, the company will need a capable, talented, and experienced board of directors. Xasia Grill has assembled such a board, bringing together some of the country's most effective and creative corporate leaders, spanning a wide variety of industries, including restaurants, finance, retail, energy, and government. Prospective investors can trust the following directors will serve their financial interests well:

- **Lana Whatley**, VP for Human Resources, Jack-in-the-Box
- **Kym Arnone**, Senior Managing Director, Bear Stearns
- **Al Dietzel**, Vice President, The Limited Company
- **John Kasich**, Lehman Brothers
- **James Turner**, Vice President, Cynergy Corporation

#### EXECUTIVE CHEF (CONSULTANT)

The choice of a consulting executive chef is nearly as important as finding a strong CEO. The essence of Xasia Grill's product is high-quality food at a low price. Very simply, Xasia Grill cannot compete without a superior menu offering consumers a wide variety of dining choices for a competitive price.

Xasia Grill will seek an accomplished chef from a well-known, upscale urban restaurant, to develop an innovative blend of Asian cuisines that will appeal to our target demographic.

The individual selected will be responsible for creating an Asian-fusion menu with a “new twist.” This will be a challenge because the menu will be limited to a small number of ingredients in order to keep costs down. In short, the executive chef must master a variety of genres of Asian cuisine and must be creative. Xasia Grill will therefore hire a consulting chef with experience in creating new and different menu items. Xasia Grill will spare no expense in identifying the right consulting chef, budgeting \$100,000 annually for the perfect culinary talent.

The person selected should not only have the requisite culinary skills, but should bring name recognition and culinary credibility to the chain, signaling to people who care about good food that Xasia Grill is serious about quality and taste. Examples could include Chef Masaru Homma of Raku or Jeff Tunks of TenPenh, both very stylish and popular pan-Asian restaurants in Washington, D.C.

#### C H I E F   E X E C U T I V E   O F F I C E R

Xasia Grill recognizes that short-term, day-to-day decisions will largely dictate the long-term success of the franchise. The company will hire a chief executive officer with at least ten years of management experience in the restaurant industry. More specifically, Xasia Grill will hire someone with a proven record of accomplishment of opening and establishing new restaurants and food concepts in competitive urban markets, and bringing a startup restaurant chain to profitability.

Xasia Grill will contract with a professional recruiter to identify a CEO that is capable of:

- Executing the Xasia Grill business plan and making adjustments to the plan where necessary;
- Soliciting potential investors;
- Articulating a long-term vision for Xasia Grill that anticipates business opportunities (i.e. franchisees) and industry changes;
- Managing a diverse, team-oriented organizational structure, in which all associates have a stake in the restaurant’s management;
- Managing contacts with key restaurant suppliers

It seems likely that in order to locate a person with the skills and experience required, Xasia Grill we need to employ strategic poaching.<sup>20</sup>

#### C O R P O R A T E   S T A F F

The corporate staff will be extremely small at the outset, consisting of a team of five individuals plus the C.E.O., who will divide along functional lines the tasks

of running the company: administration, finance, marketing, human resources, and operations. As the company grows, these individuals will need to build up teams around them to handle the increasing complexity of the company's operations.

#### STORE MANAGER

The Xasia Grill store manager will be responsible for his or her store's day-to-day operations. Most important, this person will be responsible for establishing Xasia Grill's superior standard for quality of food, service, and overall customer experience. As such, Xasia Grill will hire store managers with extensive restaurant management experience. More specifically, Xasia Grill is looking for candidates that possess the following abilities:

- **Outstanding knowledge of the day-to-day logistics of the restaurant business.** Xasia Grill's profitability will largely depend on its store managers' operations expertise. Store managers will be responsible for monitoring a wide array of store data and appraising corporate management of emerging trends. More important, Xasia Grill store managers will be empowered to adjust his or her store's strategy to best meet the challenges of the store's specific market.
- **Superior human resources skills.** Each manager will be responsible for training, motivating, and managing Xasia Grill's associates to create an efficient, friendly, and high-quality dining experience for each patron. Xasia Grill's store managers will be rewarded for innovative human resources thinking that minimizes employee turnover.
- **Commitment to quality.** Store managers will be empowered to adjust their stores' strategy to fit each store's market; however, one of Xasia Grill's key differentiation strategies (particularly as relates to local Asian restaurants) involves the quality and consistency of the experience across restaurants. Thus, store managers will need to strike a balance between meeting their local markets' needs and maintaining the chain's high level of quality. Xasia Grill has promised its consumers consistently excellent food and service at each of its locations. Store managers will be primarily responsible for meeting this promise.

#### ASSOCIATES

Xasia Grill food service associates (cooks and servers) are the company's most important resource. Xasia Grill recognizes that the consistency and quality of each patron's experience is largely dependent on the associates who prepare and serve the food. Therefore, Xasia Grill will target experienced, more mature food service associates that not only love food, but love serving food. In short, our patrons' experience is largely a factor of our employees' experience.

### *The Challenge of Staff Retention*

The most important staffing issue facing the restaurant industry is employee turnover. An estimated one out of three Americans has worked in the restaurant industry at some point in their lives; but most do not stay.<sup>21</sup> Restaurants with

checks under \$10 face annual employee turnover rates of around 82%. Retaining good, hard-working employees will be one of the greatest challenges that Xasia Grill will face.

Job satisfaction and employee retention are key contributing factors to establishing a service-oriented culture. If our employees are satisfied with their jobs, they will project satisfaction to our customers, and provide better service. Additionally, if our satisfied employees are retained, we will be able to eliminate the costs of continuously rehiring and retraining new employees. Ultimately, both of these factors will have a positive impact on Xasia Grill's profits. We, therefore, look to follow the Seven Practices of Successful Organizations<sup>22</sup> in order to put our employees first in our organization.

#### EMPLOYMENT SECURITY

Locations would be staffed at a minimum of needed employees thereby ensuring the job security of each employee.

#### SELECTIVE HIRING

Since Xasia Grill is looking to hiring and retaining its employees, Xasia Grill will look to hire the right people for the job. The right people for Xasia Grill are those people with the following critical skills and attributes: ability to learn, motivation, personality and sales skills

Xasia Grill will look to recruit its employees who have a minimum of a high school education and who have a willingness to provide good service.

Another differentiating factor in terms of hiring will be hiring people who have experience working in teams since teamwork will be a key component of the work atmosphere at Xasia Grill.

Rather than focusing recruiting efforts on 15 – 24-year-olds, as much of the quick-serve industry does, Xasia Grill will target adults who have recently immigrated to the U.S. This is partly because of demographics (the “baby bust” generation currently occupies the 15 – 24 age bracket, and does not have the numbers to meet the demands of the restaurant industry),<sup>23</sup> and partly because it may be easier to retain more mature workers.

#### DECENTRALIZATION

Each Xasia Grill location will be treated as its own entity, or team. There will be one general manager and one assistant manager for each location, and all other employees will be required to contribute equally to the maintenance and production at each location.

Employees will be required to maintain food stock records and order new food and condiment supplies from the central office. Each restaurant team will be held accountable for its customer service and success. By empowering our

employees to be responsible for the individual restaurant, the employees will share a common interest in providing the best service to our customers.

#### COMPENSATION

Although the restaurant industry is highly competitive, Xasia Grill will compensate its employees above industry averages. At the same time, Xasia Grill would expect its employees to provide a higher level of individual customer service.

In order to distinguish itself from competitors as a good place to work, Xasia Grill would provide the following additional items as additional compensation:

- Language classes for employees, particularly those employees for which English is not a primary language.
- Enhanced retirement benefits, paid vacation and medical benefits
- Profit-sharing and other performance-based incentives

#### TRAINING

Xasia Grill will hold extensive training programs in restaurant management to cover basic restaurant management. We believe that many of our employees could graduate over time to restaurant managers as more sites are opened. Those with an entrepreneurial bent could rise to be likely franchisees for us, as we look to continue our expansion.

#### REDUCTION OF STATUS DIFFERENCES

Xasia Grill believes that reducing status differences in each restaurant would lead to an increased feeling of employee value and responsibility. As mentioned above, each Xasia Grill site would be treated as its own team, with one restaurant manager and group of employees. This would allow for a flatter organizational structure with a minimal amount of hierarchy. A standard shirt would be required for all employees to minimize differences and to enhance the team feeling.

#### INFORMATION - SHARING

“Information sharing is an essential component of high performance work systems. The sharing of information on such things as financial performance, strategy, and operational measures conveys to the organization’s people that they are trusted.”<sup>24</sup>

Xasia Grill intends to develop a culture of trust; employees would be given information on the monetary success of its restaurant on a weekly basis. Additionally, individual’s salary information would be made available to everyone. Xasia Grill believes this is an important component in order to provide a trusting environment in which employees strive to support each other in the continued success of Xasia Grill.

## *Building A Service-Oriented Culture*

Xasia Grill intends to create a corporate culture that is service-oriented. The chain's success depends heavily on customer satisfaction, which can be developed as follows:

### EMPLOYEE SATISFACTION

Many of the steps listed above to retain employees will automatically result in higher employee satisfaction. Employees who are challenged, motivated, fairly compensated, and so on are more likely to provide quality customer service.<sup>25</sup>

### CUSTOMER FEEDBACK

It is critical that Xasia Grill stay in touch with customers' opinions on the restaurants' food offerings, service, and atmosphere. Customers will be able to provide the company with feedback by filling out feedback forms and dropping them in a box placed near the entrance. Alternatively customers can fill out an online feedback form. Customer complaints would need to be addressed immediately and respectfully.

### BUILDING CUSTOMER LOYALTY

Xasia Grill will make an effort to identify and cultivate loyal customers with its Xasia Valued Customer program. A Valued Customer would be offered discounts and would receive information about new menu items, new store locations and hours, and other services.

Xasia Grill will particularly target corporate customers as a steady source of business by providing free samples to corporations. Firms would also be able to set up convenient meal accounts.

### CONVENIENCE IN ORDERING

Customers that choose to order their food can do so either over the phone, or over the Internet through the on-line ordering system. Customers could pick up from next to the cashier's desk, the standardized menu that is common to all the Xasia Grill restaurants in the city. The standardized menu would also be available on Xasia Grill's website, with featured description and imagery.

# Financial Analysis and Projections

## Assumptions

The following financial projections are based on an average of 385 customers per day per store. This figure is based on comparable restaurants in high-traffic urban neighborhoods with price points and target markets similar to Xasia Grill's. (An analysis of alternative daily traffic scenarios is on page 32).

It is worth pointing out that this financial model bases projections on the following simplifications:

- Per-store traffic (and consequently per-store revenues) is assumed to remain at a constant level from the day a store opens until the fifth year. In reality, per-store traffic will probably exhibit a certain amount of growth during the store's first years in operation. The estimated average used is for a store in its sixth month of operation.
- No adjustments are made for differences in real estate or labor costs from market to market. In reality, these costs will vary widely. The estimated averages used are for a city the size of Washington, D.C.
- Corporate overhead is set at a fixed amount, and does not grow as stores are added. The estimate used is based on 15 stores. Since corporate overhead is expected to be relatively small, this simplification does not have a substantial impact on the accuracy of the projections.

Other costs used are based on the estimates detailed in pages 21-23.

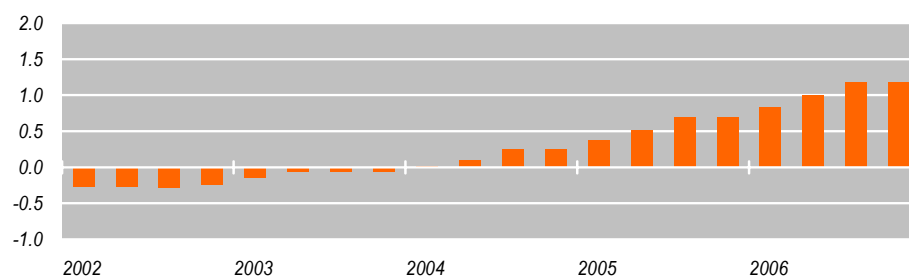
**Table 12: Summary of Projections  
(per Restaurant)**

Startup costs	\$320,500
Daily traffic	385
Average check	\$7.97
Annual revenues	\$1,105,196
Cost of goods sold	26.9%
Labor costs	32.7%
Operating expenses	53.6%

## Financial Projections

As Figure 25 shows, Xasia Grill 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.

**Figure 25: Projected Net Income by Quarter (\$ millions)**





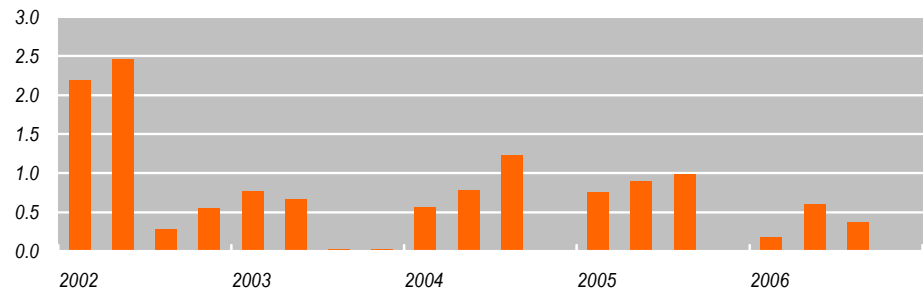
**Table 13: Summary of Projections (corporate)**

Corporate startup costs	\$331,000
Annual corporate overhead	\$1,037,800
Annual net income at year 5	\$4,191,012
Profit margin at year 5	10.0%
ROE at year 5	18.9%

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. Annual per-store operating expenses are estimated at \$592,792.

The investment required to build a single store is \$320,500. 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.

**Figure 26: Projected Capital Requirements (Quarterly)**



All of these projections are provided in quarter-by-quarter detail for the first five years of operation in Appendix B.

Calculations of cash flows and capital requirements are based on a target debt-equity ratio of 25% (similar to the average debt-equity ratio of selected competitors) and minimum cash requirements of \$1,600,000 (roughly 90 days' worth of expenses).

**Table 14: Net Profit Margins and ROE Compared with Selected Rivals**

	Net Margins	ROE
Industry	2.1%	7%
Panera Bread Company	5.3%	10%
Tricon Corp. (KFC, Taco Bell)	5.6%	n/a
McDonald's Corp.	12.5%	20%
P.F. Chang's	4.5%	13%
Brinker International (Chili's, etc.)	5.9%	18%
<b>Xasia Grill (projected)</b>	<b>9.8%</b>	<b>15.4%</b>

## Ratio Analysis

As Table 3 (page 5) shows, there is a great deal of variability in performance within the restaurant industry. Margins are low on average at 2.1%, but there are restaurant chains with margins in the 7%-13% range. Xasia Grill's profit margins are considerably higher than the industry's, at 9.8%, but are not outside of the range at which some rivals are performing. Similarly, 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%, but is not unrealistic.

These optimistic projections are primarily based on the lower cost of goods sold as a proportion of total sales. Cost of goods sold is projected to be 26.9% of revenues, which is lower than the industry average of 30.1%.<sup>26</sup>

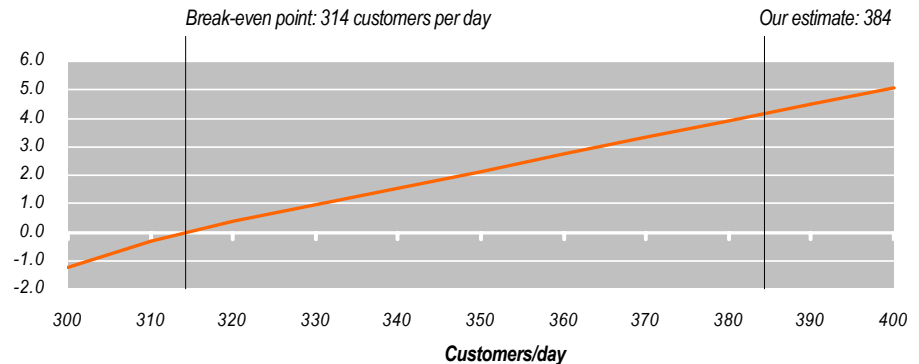
Per-seat revenues (based on an average of 85 seats per restaurant) are \$13,002, which is also higher than the industry average; limited-service restaurants have, on average, sales of \$10,169.<sup>27</sup> This high ratio is based on a number of factors, including the above-average daily restaurant traffic gained by positioning the stores in high-traffic urban areas, and the higher use of take-out and faxed-in orders.

## Sensitivity Analysis

Of all the inputs to this financial model, clearly the one with the most impact on profitability is daily per-store customer flow. The figure of 385 used in these projections is on the conservative side; Chipotle Mexican Grill, for example, has daily customer flows of over 400 per store.

As Figure 27 shows, Xasia Grill will need to maintain average customer traffic of at least 314 in order to remain profitable.

**Figure 27: Net Income at Year 5 as a Function of Daily Traffic per Store (\$ million)**



## Exit Strategy

The most promising option for returning the original investors' capital would be to sell the concept to a quick-service chain with a national presence and distribution network, such as McDonald's or Tricon. 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.

# Appendix A: Marketing Survey Instrument

DEMOGRAPHICS	
Age	_____
Gender	_____
	<input type="checkbox"/> Male <input type="checkbox"/> Female
Annual Household Income	_____
	<input type="checkbox"/> < \$20k <input type="checkbox"/> \$20-29k <input type="checkbox"/> \$30-39k <input type="checkbox"/> \$40-49k <input type="checkbox"/> \$50-59k <input type="checkbox"/> \$60k +
Occupation	_____
Ethnicity	_____
Marital Status	_____
	<input type="checkbox"/> Married <input type="checkbox"/> Living w/ partner <input type="checkbox"/> Single
Number of kids	_____
SURVEY QUESTIONS	
<b>1. In an average month, how many times do you: (please put a number in each box)</b>	
_____	Order delivery
_____	Do take-out (not drive-thru)
_____	Use a drive-thru
_____	Eat <u>at</u> a restaurant
<b>2. Please rank the following aspects of a restaurant in order of importance (1=most important to 5=least important)</b>	
_____	Location
_____	Food Type (i.e., burgers, Mexican, pizza)
_____	Food Quality
_____	Price
_____	Atmosphere
<b>3. How much, on average, do you spend going out for lunch (for just you)?</b>	
\$ _____	
<b>4. How many times a month do you eat Asian food (from a restaurant)?</b>	
_____	
<b>5. What types of Asian food do you like best (i.e., Chinese, Vietnamese, Thai, Mongolian BBQ, Sushi)?</b>	
1) _____	2) _____ 3) _____
<b>6. What are your three <i>favorite</i> things about Asian Food?</b>	
1) _____	2) _____ 3) _____
<b>7. What are your three <i>least</i> favorite things about Asian Food?</b>	
1) _____	2) _____ 3) _____
<b>8. What are your three favorite Asian dishes (i.e., General Tsao's chicken/Sesame chicken)?</b>	
1) _____	2) _____ 3) _____
<b>9. Please rate your likelihood of eating at the following restaurant:</b>	
<p>XASIA Grill: An Asian fast-casual dining experience. You walk in, order one of 10 pan-Asian dishes, and your order is prepared with fresh ingredients behind the counter as you watch (similar to Chipotle Mexican Grill). You can sit down or take out the food. The average price is \$6-\$7. The food is high quality and healthy, the atmosphere stylish. The dining concept is food higher in quality than traditional fast food, but with quicker service than a full service restaurant. Xasia Grill is a chain restaurant with several locations in each city.</p>	
Definitely would eat there	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> Definitely would NOT eat there

# Appendix B. Detailed Financial Projections

Income Statement	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales from restaurants	\$0	\$0	\$0	\$276,299	\$828,897	\$1,381,496	\$1,381,496	\$1,381,496	\$1,934,094	\$2,762,991	\$4,144,487	\$4,144,487
Cost of sales	-	-	-	(74,220)	(222,661)	(371,102)	(371,102)	(371,102)	(519,542)	(742,203)	(1,113,305)	(1,113,305)
Restaurant expenses	-	-	-	(148,198)	(444,594)	(740,990)	(740,990)	(740,990)	(1,037,386)	(1,481,980)	(2,222,969)	(2,222,969)
Corporate expenses	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)
<b>Income before interest &amp; depreciation</b>	<b>(259,450)</b>	<b>(259,450)</b>	<b>(259,450)</b>	<b>(205,569)</b>	<b>(97,807)</b>	<b>9,954</b>	<b>9,954</b>	<b>9,954</b>	<b>117,716</b>	<b>279,359</b>	<b>548,763</b>	<b>548,763</b>
Depreciation on restaurant assets	-	-	-	(7,893)	(23,679)	(39,464)	(39,464)	(39,464)	(55,250)	(78,929)	(118,393)	(118,393)
Depreciation on corporate assets	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)
Interest expenses	-	(10,952)	(23,257)	(24,670)	(27,424)	(31,255)	(34,566)	(34,689)	(34,813)	(32,928)	(35,183)	(38,103)
<b>Profit</b>	<b>(\$265,689)</b>	<b>(\$276,642)</b>	<b>(\$288,946)</b>	<b>(\$244,371)</b>	<b>(\$155,149)</b>	<b>(\$67,004)</b>	<b>(\$70,316)</b>	<b>(\$70,439)</b>	<b>\$21,414</b>	<b>\$161,263</b>	<b>\$388,948</b>	<b>\$386,027</b>
Income taxes	-	-	-	-	-	-	-	-	(7,495)	(56,442)	(136,132)	(135,110)
<b>Net Income</b>	<b>(\$265,689)</b>	<b>(\$276,642)</b>	<b>(\$288,946)</b>	<b>(\$244,371)</b>	<b>(\$155,149)</b>	<b>(\$67,004)</b>	<b>(\$70,316)</b>	<b>(\$70,439)</b>	<b>\$13,919</b>	<b>\$104,821</b>	<b>\$252,816</b>	<b>\$250,918</b>

## Statement of Cash Flows

Cash Flows from Operating Activities												
From customers	\$0	\$0	\$0	\$276,299	\$828,897	\$1,381,496	\$1,381,496	\$1,381,496	\$1,934,094	\$2,762,991	\$4,144,487	\$4,144,487
To suppliers (restaurant)	-	-	-	(131,945)	(395,836)	(659,727)	(659,727)	(659,727)	(923,617)	(1,319,453)	(1,979,180)	(1,979,180)
To suppliers (corporate)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)
To employees (restaurant)	-	-	-	(90,473)	(271,419)	(452,365)	(452,365)	(452,365)	(633,311)	(904,730)	(1,357,094)	(1,357,094)
To employees (corporate)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)
To bank for interest	-	(10,952)	(23,257)	(24,670)	(27,424)	(31,255)	(34,566)	(34,689)	(34,813)	(32,928)	(35,183)	(38,103)
To IRS for taxes	-	-	-	-	-	-	-	-	(7,495)	(56,442)	(136,132)	(135,110)
Net cash flow from operations	(\$259,450)	(\$270,402)	(\$282,707)	(\$230,239)	(\$125,231)	(\$21,301)	(\$24,612)	(\$24,735)	\$75,408	\$189,989	\$377,448	\$375,550
Cash Flows from Investing Activities												
Startup costs (new stores)	-	-	-	(320,500)	(641,000)	(641,000)	-	-	-	(641,000)	(961,500)	(1,602,500)
Corporate startup costs	(331,000)	-	-	-	-	-	-	-	-	-	-	-
Net cash flow from investing activities	(\$331,000)	\$0	\$0	(\$320,500)	(\$641,000)	(\$641,000)	\$0	\$0	\$0	(\$641,000)	(\$961,500)	(\$1,602,500)
Cash Flows from Financing Activities												
From sale of stock	1,752,360	1,968,682	226,165	440,591	612,985	529,841	19,690	19,788	-	360,809	467,242	981,560
To/from bank loan	438,090	492,170	56,541	110,148	153,246	132,460	4,922	4,947	(75,408)	90,202	116,810	245,390
Net cash flow from financing activities	\$0	\$2,460,852	\$282,707	\$550,739	\$766,231	\$662,301	\$24,612	\$24,735	(\$75,408)	\$451,011	\$584,052	\$1,226,950
Net Change in Cash	(590,450)	2,190,450	-	-	-	-	0	0	-	-	-	-
Beginning of Period Cash Balance	-	(590,450)	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Ending Cash Balance	(\$590,450)	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000

## Expansion schedule

Stores built during quarter	-	-	-	1	2	2	-	-	2	3	5	#REF!
Total stores operational	-	-	-	1	3	5	5	5	7	10	15	15

DETAILED FINANCIAL PROJECTIONS, CONTINUED

35

Income Statement	2005				2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales from restaurants	\$4,420,786	\$4,697,085	\$5,802,281	\$6,907,478	\$8,012,674	\$8,288,973	\$8,288,973	\$8,288,973	\$10,499,366	\$12,709,759	\$14,920,151	\$17,130,544
Cost of sales	(1,187,525)	(1,261,745)	(1,558,626)	(1,855,508)	(2,152,389)	(2,226,609)	(2,226,609)	(2,226,609)	(2,820,371)	(3,414,134)	(4,007,896)	(4,601,659)
Restaurant expenses	(2,371,167)	(2,519,365)	(3,112,157)	(3,704,949)	(4,297,741)	(4,445,939)	(4,445,939)	(4,445,939)	(5,631,522)	(6,817,106)	(8,002,689)	(9,188,273)
Corporate expenses	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)	(259,450)
Income before interest & depreciation	602,644	656,524	872,048	1,087,571	1,303,095	1,356,976	1,356,976	1,356,976	1,788,022	2,219,069	2,650,116	3,081,163
Depreciation on restaurant assets	(126,286)	(134,179)	(165,750)	(197,321)	(228,893)	(236,786)	(236,786)	(236,786)	(299,929)	(363,071)	(426,214)	(489,357)
Depreciation on corporate assets	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)	(6,239)
Interest expenses	(44,238)	(42,017)	(38,815)	(42,216)	(44,872)	(46,782)	(31,377)	(7,710)	-	(3,205)	(8,177)	(11,654)
Profit	\$425,881	\$474,090	\$661,244	\$841,795	\$1,023,090	\$1,067,169	\$1,082,574	\$1,106,241	\$1,481,854	\$1,846,554	\$2,209,486	\$2,573,913
Income taxes	(149,058)	(165,931)	(231,435)	(294,628)	(358,082)	(373,509)	(378,901)	(387,184)	(518,649)	(646,294)	(773,320)	(900,869)
Net Income	\$276,822	\$308,158	\$429,808	\$547,166	\$665,009	\$693,660	\$703,673	\$719,057	\$963,205	\$1,200,260	\$1,436,166	\$1,673,043

Statement of Cash Flows

Cash Flows from Operating Activities												
From customers	\$4,420,786	\$4,697,085	\$5,802,281	\$6,907,478	\$8,012,674	\$8,288,973	\$8,288,973	\$8,288,973	\$10,499,366	\$12,709,759	\$14,920,151	\$17,130,544
To suppliers (restaurant)	(2,111,125)	(2,243,070)	(2,770,851)	(3,298,633)	(3,826,414)	(3,958,359)	(3,958,359)	(3,958,359)	(5,013,921)	(6,069,484)	(7,125,046)	(8,180,609)
To suppliers (corporate)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)	(34,450)
To employees (restaurant)	(1,447,567)	(1,538,040)	(1,899,932)	(2,261,824)	(2,623,716)	(2,714,189)	(2,714,189)	(2,714,189)	(3,437,972)	(4,161,756)	(4,885,539)	(5,609,323)
To employees (corporate)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)
To bank for interest	(44,238)	(42,017)	(38,815)	(42,216)	(44,872)	(46,782)	(31,377)	(7,710)	-	(3,205)	(8,177)	(11,654)
To IRS for taxes	(149,058)	(165,931)	(231,435)	(294,628)	(358,082)	(373,509)	(378,901)	(387,184)	(518,649)	(646,294)	(773,320)	(900,869)
Net cash flow from operations	\$409,347	\$448,576	\$601,798	\$750,727	\$900,141	\$936,685	\$946,698	\$962,082	\$1,269,373	\$1,569,571	\$1,868,619	\$2,168,640
Cash Flows from Investing Activities												
Startup costs (new stores)	(320,500)	(320,500)	(1,282,000)	(1,282,000)	(1,282,000)	(320,500)	-	-	(2,564,000)	(2,564,000)	(2,564,000)	(2,564,000)
Corporate startup costs	-	-	-	-	-	-	-	-	-	-	-	-
Net cash flow from investing activities	(\$320,500)	(\$320,500)	(\$1,282,000)	(\$1,282,000)	(\$1,282,000)	(\$320,500)	\$0	\$0	(\$2,564,000)	(\$2,564,000)	(\$2,564,000)	(\$2,564,000)

Cash Flows from Financing Activities												
From sale of stock	-	-	544,162	425,018	305,487	-	-	-	512,741	795,543	556,305	316,288
Tolfrom bank loan	(88,847)	(128,076)	136,040	106,255	76,372	(616,185)	(946,698)	(308,381)	128,185	198,886	139,076	79,072
Net cash flow from financing activities	(\$88,847)	(\$128,076)	\$680,202	\$531,273	\$381,859	(\$616,185)	(\$946,698)	(\$308,381)	\$640,926	\$994,429	\$695,381	\$395,360
Net Change in Cash	-	0	-	-	-	-	-	653,701	(653,701)	-	-	-
Beginning of Period Cash Balance	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	2,253,701	1,600,000	1,600,000	1,600,000
Ending Cash Balance	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$2,253,701	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000

Expansion schedule

Stores built during quarter	1	1	4	4	4	1	-	-	8	8	8	8
Total stores operational	16	17	21	25	29	30	30	30	38	46	54	62

# Notes

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<sup>1</sup> Standard & Poor's Industry Surveys, "Restaurants," February 22, 2001. p. 7.

<sup>2</sup> Kalorama information, LLC June 2000 section 1-4.

<sup>3</sup> Standard & Poor's.

<sup>4</sup> National Restaurant Association.

<sup>5</sup> Standard & Poor's.

<sup>6</sup> Prewitt, Milford (2001). "Instant Gratification: Fast-Casual Niche Serves Best of Both Worlds, Study Says." *Nation's Restaurant News*, 35 (15).

<sup>7</sup> Standard & Poor's, p. 5.

<sup>8</sup> Standard & Poor's, p. 3.

<sup>9</sup> National Restaurant Association, cited by Standard & Poor's.

<sup>10</sup> Standard & Poor's, p. 11.

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Zuber, Amy (2001). "Chipotle Upgrades Menu Items, Will Drop 'Mexican Grill' Name," *Nation's Restaurant News*, 35: (31)

<sup>14</sup> Ruggless, Ron (2000). "P.F Chang's Debuts Pei Wei Fast-Casual Brand," *Nation's Restaurant News*, 34 (36)

<sup>15</sup> Spector, Amy (2000). "2000 Golden Chain." *Nation's Restaurant News*, 34: (39)

<sup>16</sup> Demographics USA, MSA Demographics (9/28/2001)

<sup>17</sup> National Restaurant Association.

<sup>18</sup> National Restaurant Association.

<sup>19</sup> U.S. Census 2000 ([www.census.gov](http://www.census.gov))

<sup>20</sup> Cappelli, Peter, "A market-driven approach to retaining talent", *Harvard Business Review*, January-February 2000.

<sup>21</sup> National Restaurant Association, "Restaurant Industry Pocket Factbook", [www.restaurant.org/research/product](http://www.restaurant.org/research/product), April 15, 1999.

<sup>22</sup> Pfeffer, Jeffrey and Veiga, John, "Putting people first for organizational success", *Academy of Management Executive*, 1999, Vol. 13, No.2.

<sup>23</sup> Standard & Poor's, p. 7

<sup>24</sup> Pfeffer & Veiga.

<sup>25</sup> Ibid.

<sup>26</sup> National Restaurant Association.

<sup>27</sup> National Restaurant Association.