

The Hobbit's Choice Restaurant Study

Prepared for
Jeff Dean, CEO

Prepared by
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Executive Summary

The primary purpose of this study is to determine The Hobbit's Choice Restaurant potential customer base. The demographic characteristics of potential Hobbit's Choice customers are provided. The influence of the potential customers' preferences such as: driving distance, location, décor, entertainment and food preference is also reviewed. In addition, the best promotion strategy is considered and provided.

Highlights from the Hobbit's Choice study

400 respondents to a telephone survey; 34 identified as a sample of potential customers

Customers were generally:

- Above 50 years old.
- College educated.
- Have incomes greater than \$75,000.
- Married Couples with no young children

All respondents that claimed to be "Very Likely", "Somewhat Likely", "Neither Likely or Not Likely" to patronize a new upscale restaurant and had a before tax household income of \$50,000 or more:

- 97.4% of the 236 respondents listens to the radio at some point during the day.
- 100% described themselves as a viewer of TV local news (Most viable promotion avenue)
- 94.9% claimed to read the paper
- Only 43% of respondents are subscribed to City Magazine

Hobbit's Choice customers prefer unusual entrees, unusual desserts, and a large variation of food

Most potential customers are likely to live in zip code 3

Elegant décor and string quartet are preferred

CMG Research
11011 Abercorn Street
Savannah, GA

May 2, 2016.

Jeff Dean, CEO
The Hobbit's Choice Restaurant

Dear Mr. Dean,

With your letter of authorization dated January 11, 2016, you authorized CMG to conduct a research report for Hobbit's Choice entitled "The Hobbit's Choice Restaurant Study" The methods used to generate the findings of this report is described in detail in the report.

My colleagues and I have been pleased to work with you on this project, especially my marketing intern and I. Please don't hesitate to contact us if you have any questions or concerns.

Best regards
Rachel A. Lewis

Table of Contents

1. Introduction.....	1
2. Customer Demographics.....	1
3. Promotion.....	4
4. Location.....	6
5. Atmosphere.....	6
6. Food Preferences.....	8
7. Increasing the Target Market.....	9
8. Conclusion.....	10

List of Tables

1. Ages and Gender of Customers	2
2. Radio Programming Most Often Listened to.....	5
3. Newscast Watch Most Frequently.....	5
4. Section of the Local Newspaper Read Most Frequently.....	5
5. Zip Code	6
6. Wait Staff Preference.....	6
7. Music Preference	8
8. Unusual Food Preference.....	8
9. Variables Correlated With a Large Variety of Entrees Preference	9
10. Significant Regression Results.....	9

List of Figures

1. Education of Customers.....	2
2. Income of Customers.....	3
3. Income of All Respondents.....	3
4. Family Size	3
5. Marital Status of Customers.....	4
6. Décor Preference.....	7

1. Introduction

According to a frequently cited study by Ohio State University on failed restaurants, 60% do not make it past the first year, and 80% go under in five years. Therefore, it's not much of a surprise, Jeff Dean, prospective owner of the Hobbit's choice, desired readily available information on his target market before he goes into business. The primary purpose of this study is to determine Hobbit's Choice potential customer base, where they live, and their wants and needs that other prospective restaurant competitors don't fulfill. In addition, potential customers were surveyed about dining expectations at the Hobbit's Choice Restaurant, how often they would patronize the restaurant and how much they were willing to pay for a meal. Demographics characteristics were collected for all respondents to define the target market for the restaurant. Primarily, the information was collected to understand the overall makeup of the city and how it differs from the customer base. Another distinguishing feature of this study is the analysis of how to advertise to Hobbit's Choice customer base.

Before starting the analytical work, CMG Research used exploratory research to gain background information. Experience surveys and case analyses to examine existing information about restaurant norms and focus groups to get a feel about what patrons want in décor, atmosphere, entrees and other aspects of the restaurant's operations. Data for the report was collected from 400 individuals in the greater metropolitan area. The questionnaire used included 30 questions and was administered using telephone surveys. When relevant comparisons are possible, emerging trends in dining preferences, demographics, and price are highlighted.

2. Customer Demographics

As indicated above, 400 individuals were contacted to participate in the telephone surveys in the greater metropolitan area. CMG Research estimates that of those 400 individuals, those who claimed that they were "Somewhat Likely" or "Very Likely" to patronize a new upscale restaurant, claimed to spend an average of \$200 per month in a restaurant, and were willing to pay an average of \$18 for a la carte entrée, were the Hobbit's Choice potential customers. None of the individuals who were "Somewhat Likely" to patronize the restaurant were willing to pay over \$17 for an entrée, so they are not counted as potential customers. Of the 400 individuals surveyed, 34 are identified as potential customers of Hobbit's Choice.

The demographic characteristics of potential Hobbit's Choice customers leaned toward older and better educated individuals. As indicated in Figure 1, hundred percent have at least an Associate degree, and 11 percent have a master's.

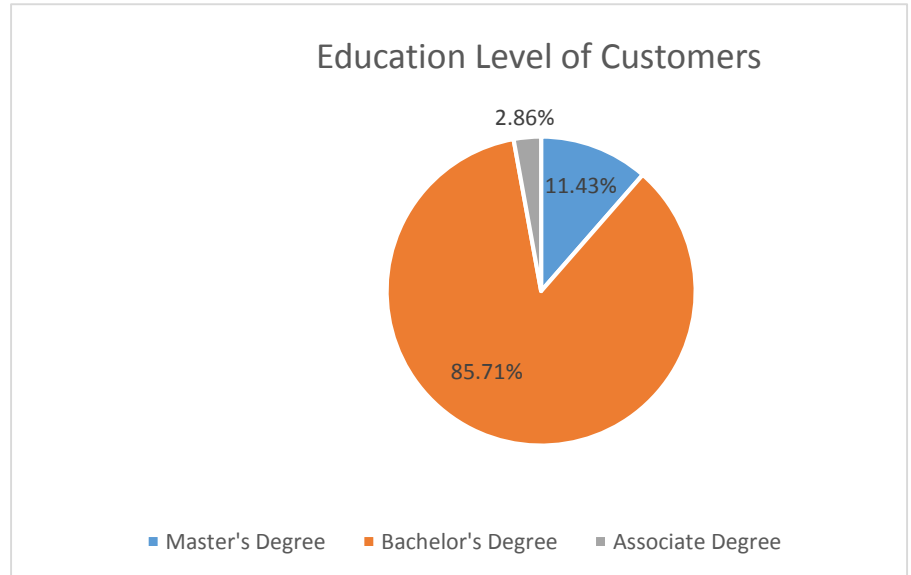


Figure 1

Respondents were asked to provide their birth year to determine the ranges of age in the customer base and the general sample. The age and gender distribution of Hobbit's Choice likely customers is provided in Table 1. As seen in the table, all of the restaurant's identified

Gender and Age of Customer Base	Percentage
Females from age 54 to 61	47%
Males from age 50 to 62	53%

Table 1

customers are between the ages of 50 and 62. Compared to all the survey participants, the age of the potential customers are middle aged with less variation in their ages and an average age of 56. The lack of variation in age indicates that most of the ages are very close to the average of 56. While the range of all respondents is from 41 to 88 and an average of 62. From these results, it can be implied that Hobbit's Choice target market will be mature adults that may wither have older children or no children at all looking for a nice on the town. Younger people did not take the survey. With regards to gender, the ratio of female to male customers are almost identical to the survey population with the majority of respondents being male. Nevertheless, it is statistical significant that males found the idea of Hobbit's Choice more appealing than women.

Because Hobbit's Choice will be an upscale restaurant, it is presumed that the restaurant will appeal mostly to high income consumers. Jeff Dean, owner of Hobbit's Choice, hypothesized that at least 25% of the consumers will have an income of \$100,000 or higher. However, using the results of the sample, the data rejected that assumption because it falls outside of our income population estimates for the \$100, 000 or more income level.

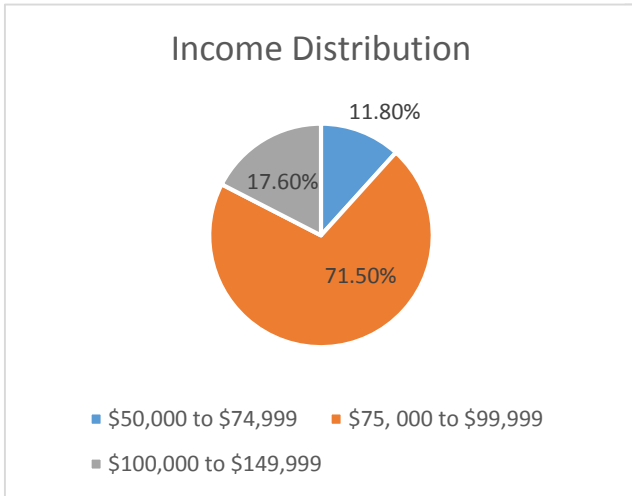


Figure 2

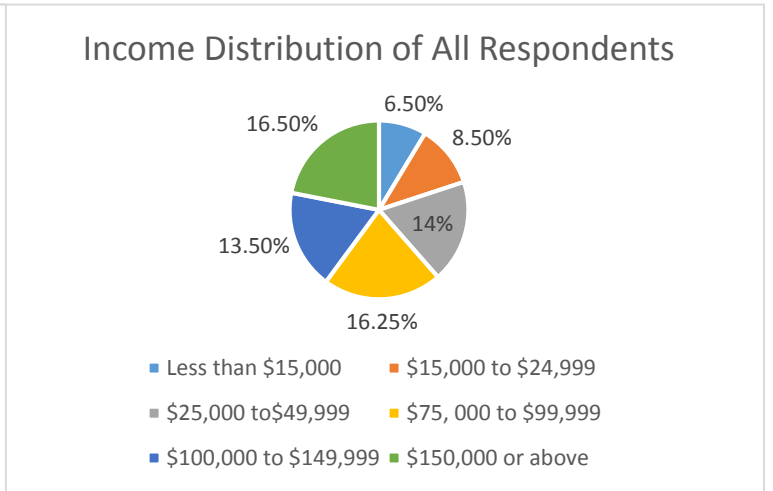


Figure 3

Fewer than one-fifth of potential customers had household income above \$100,000. As indicated by Figure 2, Individuals with a before tax household income between \$75,000 to \$99,000 will be large source of the restaurant's revenue, although respondents with incomes of \$75,000 to \$99,000 only comprise 8.5% in the sample population. This is a strong indicator that Hobbit's Choice target market income level includes the \$75,000 to \$99,000 bracket.

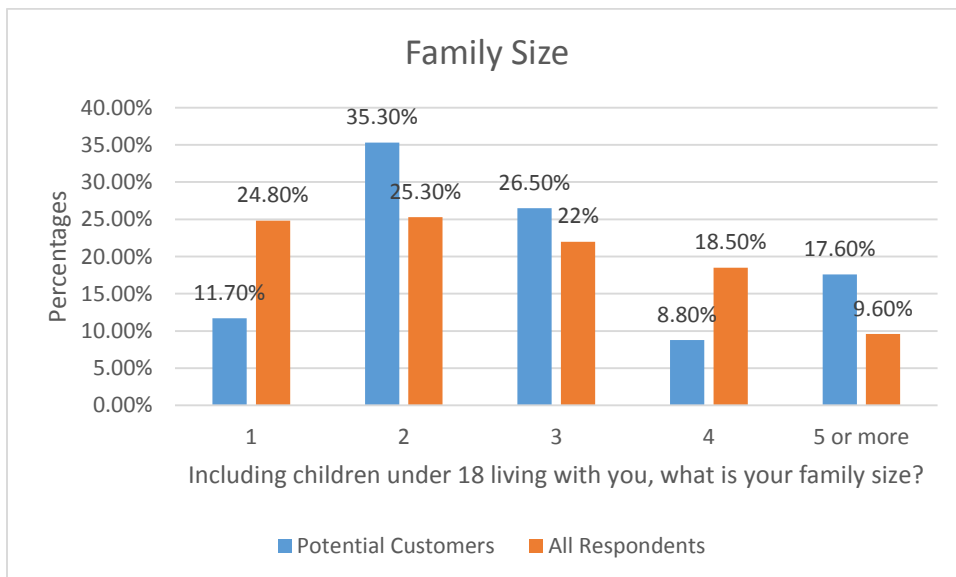


Figure 4

Figure 4 suggests that thirty-five percent of the potential customer base has a 2-person family. This statistical significant result suggest that the majority of the customers are couples with no children or a single parent. Also, more than 25% of the customer base has a 3-person family size.

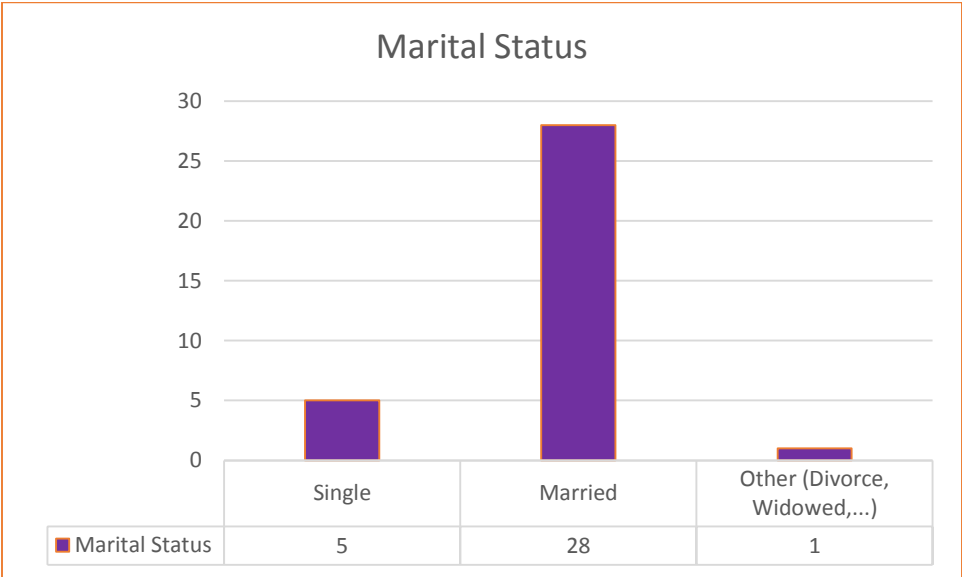


Figure 5

The results show a correlation between marital status and family size. This could mean that the majority of the potential customers are couples with no children at all. There is no meaningful difference between the sample population and the customer base group. The sample population may just have an overrepresentation of married couples or there is a high rate of married couples in the metro area.

3. Promotion

Promotion is very important to opening a new restaurant, thus discovering which promotional avenue will best hit their target market is essential. For advertising purposes, CMG Research analyzed the individuals in the survey sample population that claimed to be “Very Likely”, “Somewhat Likely”, “Neither Likely or Not Likely” to patronize a new upscale restaurant and had a before tax household income of \$50,000 or more. Of the 400 respondents, 236 respondents were used to explore Hobbit’s Choice promotion strategy.

Radio

The radio stations are categorized into these radio formats: country and western, easy listening, and talk radio. 97.4% of the 236 respondents listens to the radio at some point during the day.

To which type of radio programming do you most often listen?	Percentage
Country and Western	.08%
Easy Listening	23.8%
Rock	45.5%
Talk Radio	26.3%
No Preference	0%
Doesn't Listen to Radio	1.7%

Table 2

Television

Jeff Dean hypothesized that news broadcast advertising would likely be the most appealing. Using a paired sample t test to compared TV to each of the other 3 forms of advertising, our results found the TV the most appealing. 100% of the 236 selected respondents described themselves as a viewer of TV local news.

The local news broadcast runs the news in a morning (7:00am) time slot, noon time slot, early evening (6:00pm), and late evening (10:00pm) time slot. The sample statistic for the late evening broadcast is 57.4%. Performing a 95% confidence interval, the population estimates is between 47.2% and 67.4%. This means the CMG researchers are 95% sure that the true population mean of the all potential customers in the metro area that watch the 10pm new time slot is between those two values. Thus, the most appropriate advertising strategy is promoting Hobbit's Choice.

Which newscast time slot do you watch most frequently?	
Morning (7:00am)	6.7%
Noon	0%
Early Evening (6:00pm)	35.3%
Late Evening (10:00pm)	57.4%

Table 3

Newspaper

Of the 236 respondents, 224 claimed to read the paper, while 12 claimed to not

Which section of the local newspaper would you say you read most frequently?	Percentage
Editorial	11.4%
Business	15.7%
Local	31.2%
Classified	2.1%
Life, Health & Entertainment	34.3%
Doesn't Read the Newspaper	5.1%

Table 4

City Magazine

Less than one half of the sample subscribed to City Magazine and compared to the other promotion vehicles, promoting in the City Magazine is not as viable.

4. Location

The most important three factors for a successful restaurant are: location, location, location!

Zip Codes

Please check the letter that includes the Zip Code in which you live (coded by letter)	Percentage
A(1&2)	3%
B(3, 4,& 5)	97%
C(6, 7, 8,& 9)	0%
D(10, 11, &12)	0%

Table 5

As indicated in table 5, Hobbit's Choice potential customers overwhelming live within area B, more specifically zip code 3. All 97% of those who checked area B lived in zip code 3. Therefore, zip code 2 is a great place for Hobbit's Choice.

Drive vs Water View

With respect to the location of the Hobbit's choice Restaurant, there was no statistical difference found that suggests that a waterfront view preferred more than a drive less than 30mins or vice versa. An overwhelming number of potential customers would like to drive less than 30 minutes and have a waterfront view.

5. Atmosphere

The value of using specific design and operating characteristics is most appropriately measured by surveying the local greater metro area. Simply because, it is nearly impossible to measure the marginal value of the right atmosphere for the potential customers without the personal opinions. CMG Research analyzed décor and musical preference using the identified group of potential customers.

Wait Staff

Prefer Formally Dressed Wait Staff	Percentage
Very Strongly Prefer	43%
Somewhat Prefer	25.8%

Neither Prefer Nor Not Prefer	.3%
Atmosphere Variables Significantly Correlated With a Formal Wait Staff Preference	
String Quartet Preference	.369*
Jazz Combo Preference	-.440**
**Correlations is significant at the .05 level *Correlations is significant at the .10 level	

Table 6

For those preferring a formally dressed wait staff, they also prefer a string quartet. The sign for jazz combo is negative, so they do not prefer this feature. 68.8% of the potential customers at least somewhat prefer a formal wait staff. The results suggests formal waiters would be a good investment.

Décor

34.5% of potential customers very strongly prefer the elegant décor and 34.3% somewhat strongly prefer simple decor. Since the sample statistic are so close, it is hard to defer which décor is preferred. However, compared to those who very strongly prefer simple décor, elegant is more preferred. To confirm this, CMG ran an association analysis comparing the variables of preference for simple décor and elegant décor. As indicated by Figure 6, 61.90% of those who strongly preferred elegant décor also somewhat disliked the simple décor design. Also, 69.20% of those who somewhat preferred the elegant décor strongly disliked the simple. This is strong statistical significant evidence that elegant décor is more preferred than simple décor by the Hobbit's Choice customers.

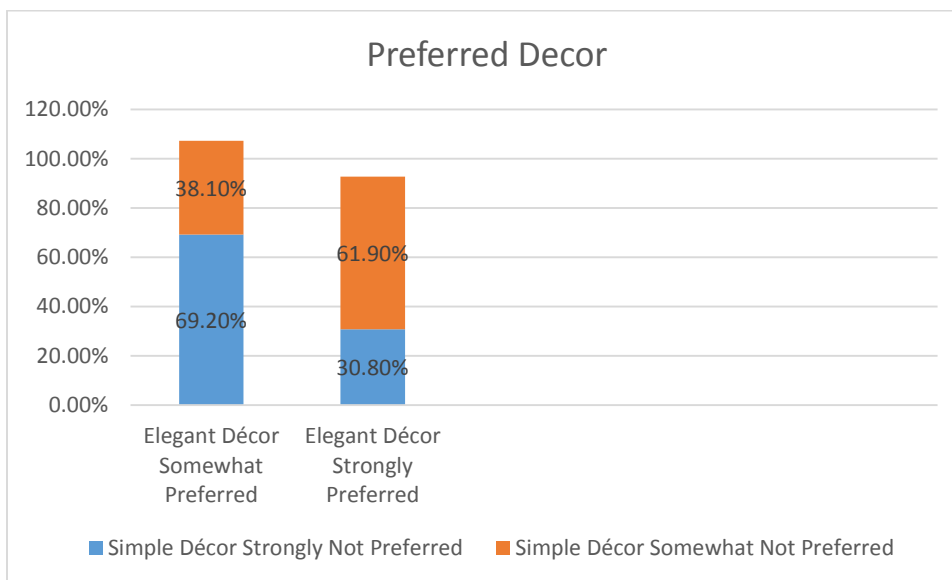


Figure 6

Music

A significant consideration in choosing design characteristics is what type of entertainment is most suitable for Hobbit's Choice consumers, if any entertainment is needed at all. In the questionnaire, we used two scales to estimate if the potential customers preferred a jazz combo as entertainment, a string quartet or no entertainment. The results shows that people who prefer a jazz combo are somewhat unlikely to prefer a string quartet. However, given that there is not a great amount of people who very strongly prefer a jazz combo and a large percentage of people who neither prefer nor not prefer both the jazz combo and the string quartet, no entertainment at all should be considered.

Prefer Jazz Combo	Percentage
Very Strongly Prefer	5.9%
Somewhat Prefer	38.2%
Neither Prefer Nor Not Prefer	55.9%
Prefer String Quartet	Percentage
Very Strongly Not Prefer	20.6%
Somewhat Not Prefer	58.8%
Neither Prefer Nor Not Prefer	20.6%

Table 7

6. Food Preferences

An analysis to determine if the Hobbit's Choice customers favor unusual desserts over unusual entrees or vice versa showed that potential customers' preference for desserts and entrees are statistical indistinguishable. There is no correlation between those who favor the unusual desserts and unusual entrees variables. However, as seen in Table 8, 100% of Hobbit's Choice customers at least somewhat prefer both unusual desserts and entrees. This very strongly suggests that both unusual desserts and entrees should be on the Hobbit's Choice menu.

Prefer Unusual Entrees	Percentage
Very Strongly Prefer	64.7%
Somewhat Prefer	35.3%
Prefer Unusual Desserts	Percentage
Very Strongly Prefer	52.9%
Somewhat Prefer	47.1%
Prefer Large Variety of Entrees	Percentage
Very Strongly Prefer	32.0%
Somewhat Prefer	36.8%

Table 8

Food Variables Correlated With a Large Variety of Entrees Preference	Correlation
Unusual Entrees Preference	.84***
Unusual Desserts Preference	.848***
***Correlations is significant at the .01 level	

Table 9

For those preferring a large variation of food choice, they also prefer unusual entrees and unusual desserts. Furthermore, 68.8% of potential customers at least somewhat prefer a large variation of entrees, so CMG suggest a large variation of food be on the menu.

7. Increasing the Target Market

Dependent Variable: Likely to patronize The Hobbit's Choice Restaurant	Beta ***Correlations is significant at the .01 level **Correlations is significant at the .05 level *Correlations is significant at the .10 level
Demographic Factors	
Education	.101**
Income	.478***
Total Dollars spent per month on dining	.005***
Hobbit's Choice Design and Operating Characteristics	
Prefer Water View	.674***
Prefer Drive Less Than 30 minutes	.107*
Prefer Formal Wait Staff	-.149*
Prefer Unusual Entrees	.168*
Prefer Simple Decor	.191**
Prefer Jazz Combo	.114**

Table 10

Lastly, CMG Research ran a regression with the dependent variable being the likely to patronize The Hobbit's Choice Restaurant. The purpose of the regression is to understand the statistical significant factors that affect the likely of the general sample (the 400 respondents) becoming a potential customer. The results indicate that the regression has a R^2 of .819, which means that the regression explains 81.9% of the variation in the likelihood of people patronized Hobbit's Choice.

As seen in Table 10, people who prefer driving less than 30 minutes, prefer a water view and prefer unusual entrees are more likely to patronize Hobbit's Choice. This suggests that if Hobbit's Choice has these features, then Hobbit's Choice can increase the customer base. Also, people who have higher incomes and a higher education level are more likely to patronize Hobbit's Choice.

8. Conclusion

This survey found that Hobbit's Choice main target market are highly educated married individuals with income above \$75, 000 and no young children. The best location for The Hobbit's Choice Restaurant is area B, specific zip code 3 near a water view and a drive less than 30 minutes for the identified target customers. Bare décor with a string quartet or no entertainment at all seems to be the preference among potential customers. Lastly, the best promotion vehicle is the 10pm time slot of the local news broadcast. Management should take all suggestion and results in considering knowing that all results are estimates with sample data, not facts.