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# Business Plan for Room For Dessert™

*Adding Unique Ingredients to life's balancing act*

**Confidential**

Submitted to: 1997 HBS Business Plan Contest

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## A Day in the Life of Room For Dessert

It's 11:00 a.m. on a Thursday in January, and the doors open for business at the Room For Dessert™ (RFD™) restaurant on Newbury Street. The bakery phone rings, and an administrative assistant who works in the Hancock Tower places an order for a pastry tray for an afternoon meeting. As the lunch hour approaches, people working in the surrounding office buildings walk to the store to pick-up cakes and desserts they have previously ordered, to place orders, or to purchase some baking ingredients or liqueurs (for an upcoming weekend party) at the retail shop. Some of the shoppers, tourists, and locals come in from the cold for a light lunch and a small indulgence.

In the early afternoon, a business meeting is held in the special function room at the rear of the restaurant, where pastries and coffee are served. In the main dining room, shoppers and tourists stop in for a treat and a warm drink after being on their feet for hours. For some, RFD™ offers the opportunity to indulge in "afternoon tea" without the attitude that usually accompanies it.

Around 4:30, the after work traffic begins to pick-up. Once again, office workers stop by on their way to the T to bring some delightful desserts home. Business people fill some of the tables as they sip a cognac or scotch and talk shop—RFD™ provides a great alternative to a noisy bar. With the Boylston Street Green T stop only a few minutes from Copley or Arlington, some theatre-goers stop in for a quick sandwich before the show.

In the early evening, "dessert-desire" really kicks-in for many. After eating dinner at home, or at the Friday's or Joe's American Cafe up the street, people come to RFD™ for a change of scenery or a decadent dessert. John, a regular RFD™ customer, has called ahead for a reservation. His favorite table is prepared, and his personal bottle of port is readied. John has invited an old friend to meet him at RFD™ so they can catch up. To him, the restaurant provides a time and monetarily cost effective alternative to meeting for a fine-dining meal at Morton's, L'Espalier, or Sonsie, but has better atmosphere and service than Starbucks.

During the late evening, people come to RFD™ for dessert after a movie or the theatre. They watch the pastry artist put the finishing touches on each plate at the dining-room-exposed dessert station. As the store closes at midnight, the manager mentally prepares for the usual weekend rush that begins the following day...

## Executive Summary

Room For Dessert™ (RFD™) is a full service, fine dining restaurant serving desserts and beverages (coffee, tea, wine and spirits). The concept also includes a retail store featuring take-out desserts, wine, spirits, and signature ingredients. Units will be located in high foot-traffic areas in metropolitan markets and surrounding upscale communities. The management team has the following objectives:

- Secure \$600,000 funding to open a start-up unit in Boston during the third quarter of 1997
- Prove the business model generates \$1,000,000 in unit sales and 35% cash-on-cash returns
- Establish 10 units in the Northeast by the end of 1999
- Grow into a national chain, with over 40 units and \$50 million in sales by the end of 2002

RFD will offer Ritz-Carlton quality service by emphasizing a highly trained staff and information technology. This will be complemented by an unpretentiously elegant ambiance and premium quality products that are made on premise. Desserts will be available in sample sizes and individual portions, and will be prepared at a dessert station in the main dining room. This experience will be priced at \$10 per person—at the high end for desserts, but value-priced when compared to fine dining alternatives.

Dessert, coffee, wine and spirits consumption in full-service restaurants is a \$7.2 billion industry. Within this market, RFD's concept targets upscale urban singles and couples without children. Target customers are 24-54 year old college graduates and professionals, earning upwards of \$52,000 in household income. These consumers lead generally healthy lives, but also enjoy small indulgences. They seek eating experiences that are pampering and entertaining, and they search for new avenues of social interaction. A dessert-focused restaurant is uniquely suited to meeting these needs.

The business model RFD™ will use to compete in this niche emphasizes four elements: (1) multiple revenue streams, (2) high margins, (3) low investment cost, and (4) geographic expansion. Once a beach-head unit is established in a given market, the business model is further enhanced by increased economies of scale and capacity utilization in the initial unit.

The RFD founders are passionate about the food industry; experienced with service operations, public relations, and execution under pressure; and educated by Harvard Business School. They are also in the process of building a management team and board of directors with unparalleled restaurant industry experience. The resulting combination of professional management and restaurant savvy creates a team well-positioned to pursue this opportunity.

## The Concept

Room For Dessert (RFD) is a full-service, fine dining restaurant serving desserts and beverages such as coffee, tea, wine and spirits. (See **Appendix A.**) The concept also includes a retail store featuring take-out desserts, wine, spirits, and signature ingredients. The restaurant will have a 70 seat dining room, a private function room, and a small bar (See **Appendix B.**) This chart describes the essential components of the business:

	Restaurant / Bar	Retail
Primary Product Offering	<ul style="list-style-type: none"> <li>• desserts</li> <li>• coffees &amp; teas</li> <li>• wines &amp; spirits</li> <li>• lighter fare—soups, salads, sandwiches</li> </ul>	<ul style="list-style-type: none"> <li>• desserts</li> <li>• coffees &amp; teas</li> <li>• wines &amp; spirits</li> <li>• cigars</li> <li>• signature ingredients &amp; supplies</li> </ul>
Services	<ul style="list-style-type: none"> <li>• offer on-site educational classes and tastings (e.g. wines, desserts, baking)</li> <li>• host special events (e.g., baby showers, corporate events, holiday parties)</li> </ul>	<ul style="list-style-type: none"> <li>• sell made-to-order desserts and pastries (e.g. birthday cakes, wedding cakes)</li> <li>• provide recommendations for wine/dessert/food pairing &amp; gifts</li> </ul>

Like other restaurants, RFD's business will be concentrated on weekends and evenings. RFD is also likely to see a robust late night business after most traditional eating establishments close their kitchens. RFD's product offerings create an opportunity, however, to utilize the restaurant throughout the day, rather than only at the usual restaurant core business hours:

Daypart	RFD Weekday Activity	RFD Weekend Activity	Avg. Restaurant
11am-2pm	lunch, retail	lunch, retail	lunch
2pm-5pm	afternoon tea, business meetings, classes, retail	afternoon tea, bridal showers, private parties	no activity
5pm-7pm*	happy hour, after-work mtg, pre-movie dinner	pre-theater dinner, desserts	early dinner
7pm-9pm	classes, special events, dinner, desserts	pre-event dinner, desserts, private parties	core business
9pm-2am	core business, after theater dessert/drinks, bar alternative, lite dinner, occasions, private parties	core business, after theater dessert/drinks, bar alternative, lite dinner, occasions, private parties	typically close kitchen at 11:00 p.m.

\*Retail operations will close at 7pm

### *Value Proposition*

The RFD mission is to add unique ingredients to life's balancing act. RFD will use fine desserts and beverages to deliver frequent fine dining, unpretentious elegance, and a social alternative to consumers.

**Frequent Fine-Dining** A fine dining experience is an exercise of indulgence and reward. It is sometimes difficult, however, to justify spending the time and money associated with this special treat. RFD will offer the same quality food, service, and atmosphere as the nation's best restaurants, but with a time commitment and cost that makes it easy to justify more frequent indulgence.

**Unpretentious Elegance** While many fine dining restaurants offer an almost "snobbish" experience, it is harder for a dessert focused restaurant to do so. Why? Because desserts are fun! This helps RFD ensure the customer has a relaxing yet refined dining experience—a true escape from life's demands. Moreover, RFD can become a place to experience new things and satisfy curiosities. By hosting on-site educational classes and encouraging aspiring musicians/artists to share their work in the restaurant, RFD will make the so-called "finer things in life" accessible in an unpretentious environment.

**A Social Alternative** As a result of the individualistic "cocooning" trends of the 1990s (e.g. home videos, internet, grocery home delivery), consumer homes will no longer be a sanctuary from the pressures of the outside world. Instead, people will begin to search for an oasis outside of the home at which they can enjoy social interaction. RFD will be positioned as the target customers' own Cheers, where "everybody knows their name." By creating a restaurant that emphasizes service but requires a relatively low personal investment (time, money, etc.), RFD fills the gap in social options that exist between bars/cafes and full service restaurants.

### *Differentiation & Sustainability*

RFD will deliver these ingredients as a complete experience that will be difficult to replicate. Significant elements of this experience include:

**People** All RFD servers will complete a comprehensive training program, and will be encouraged to pursue relevant professional designations (e.g. barista; sommelier; associate/bachelors degree in

baking & pastry arts or restaurant & hospitality management). Pastry chefs, rather than playing the supporting role as they do in most restaurants, will be provided the space, equipment, and tools necessary to successfully showcase their artistic and baking skills. RFD's emphasis on employee development will create a competitive advantage by allowing the company to attract and retain the highest caliber people.

**Customized Service** Guest specific information, such as previous orders, favorite drinks, or dietary needs will be compiled and stored in company databases. In addition, through the use of state-of-the-art Information Technology, or through voluntary means (such as sign-up forms for the monthly RFD newsletter), RFD will develop the capability to use direct mail marketing with the follow-up telephone contact to build customer loyalty. For example, RFD will be able to notify chocolate loving guests when a new chocolate dessert is introduced. In addition RFD will seek to personalize the guests's experience to the point of allowing individuals to establish declining balance accounts or leave a bottle of liqueur at the restaurant for their future personal consumption.

**Quality** While technological advances in dessert baking have greatly improved the quality of frozen desserts, there is still nothing like the smell, presentation, and taste of a dessert baked on premise. Even if the difference is only perceived by the consumer, perception is reality. All of RFD's desserts will be "baked fresh daily." The restaurant will offer a 100% satisfaction guarantee on guests' overall experience, reinforcing RFD's quality positioning. This also allows each unit to track the sources of customer dissatisfaction and to take steps to eliminating these problems.

**Portioning** RFD will offer desserts in two portion sizes—individually plated and sample size. Sample size desserts allow the consumer to taste several desserts, and allow the RFD to manage food cost. RFD's individually plated desserts will be portioned to maximize impact while minimizing the likelihood of customers splitting a single dessert between them.

**Ambiance** Although RFD will be upscale, the interior will create a comfortable and welcoming ambiance. Guests will enter the restaurant through an elegant store-front. Furniture and place settings will be sturdy and high quality. A combination of class and casual will attract customers wearing anything from jeans to dinner jackets. This environment is critical to delivering an unpretentiously elegant RFD experience.

### *Additional Products & Services*

The management team envisions establishing RFD as the entertaining headquarters for our customers. Future opportunities for enhancing corporate revenues and same-store-sales include: catering, catalogue orders, kiosk sales, and supplying other local restaurants. For example, during an informal meeting with a group of potential investors, one woman commented, "I would be willing to pay \$20 per person for the convenience of someone coming into my house to cater the dessert portion of a dinner. It would allow me to enjoy the end of an evening with my guests, and would be much more cost effective than having the whole thing catered." In addition supplying other restaurants with RFD's fresh-baked product would increase capacity utilization for RFD and give local restaurants the ability to differentiate themselves from competitors who serve frozen desserts. Opportunities such as these will be weighed against RFD's ability to control quality and limit over-exposure of the brand.

## The Market

The RFD founders conducted a comprehensive four-month study of the dessert restaurant niche in the fall of 1996. The following is a summary of the relevant food industry trends and market factors.

### Context

There are a variety of trends in consumer tastes and behavior that create a favorable environment for the launch of a dessert-focused restaurant, including:

**Moderation** The “health craze” has subsided, as consumers lean toward more moderate eating habits. The Prevention Index, published by Prevention Magazine, shows the continuation of a downward trend over the last three years (from its peak in 1993) in 21 major health-promoting behaviors. A second study, conducted by Progressive Grocer magazine, reported a 4.4% increase in dessert and toppings sales, and a 5.0% increase in candy and gum sales, while total edible groceries grew only 2.9% in 1995. Third, Grocery Marketing magazine reported in September of 1996 in “21 Food Trends for the 21st Century” that, “People are realizing that no food is bad if consumed in moderation.” The first trend they identified in their list was “Expect A Backlash Against ‘Healthy’ Foods.” Finally, the National Restaurant Association (NRA) presents data categorizing consumers into three distinct groups:

- *Unconcerned consumers* are not concerned with health and nutrition.
- *Vacillating consumers* are concerned about health and nutrition, but are driven primarily by taste when dining out.
- *Committed consumers* exhibit behaviors and attitudes consistent with their commitment to good nutrition.

As summarized below, the number of consumers in the unconcerned category has grown significantly:

Segment	1992	1994
Unconcerned	32%	37%
Vacillating	31%	32%
Committed	37%	31%

All this evidence clearly shows consumers have brought moderation back to their food consumption.

**Personal Gratification** The appearance of premium whiskeys, cognacs, and ports on menus; the proliferation of specialty coffee, cigar, martini and microbrew concepts; the expansion of high-end steakhouses; and the increase in sales of prepared gourmet foods all show that time-starved consumers are willing to “take a time out” and pay to indulge in the best. As one noted researcher of consumer trends observed, “There’s a resurgence in people wanting to enjoy their lives. Customers are saying, ‘I want a new experience, I want a pleasant experience, and I want to be king for a little while.’”

**Convenience** Customers are willing to pay for convenience, too. Nearly two-thirds of women are in the work force. Families don't have time to prepare meals as they once did. The success of Home Meal Replacement (HMR) concepts (e.g. EatZi's, Boston Market) and home delivery (e.g. Streamline, HomeRuns, Peapod) is clear evidence of this fact. Commercial foodservice and the prepared food segment are expected to account for virtually all growth in U.S. food sales until the year 2005.

Segment	1995	2005	Annual Growth
Non-commercial foodservice	9%	8%	.2%
Commercial foodservice	35%	41%	3.4%
Prepared foods/meals	1%	3%	11.8%
Other retail	15%	12%	-1.1%
Grocery stores	40%	36%	.4%
<b>Total market</b>	<b>\$635 billion</b>	<b>\$785 billion</b>	<b>1.4%</b>

**Relaxation & Comfort** Forty-one percent of people surveyed in 1995 went out to eat as a way to relax, up from thirty-five percent in 1992. A study conducted by McKinsey & Company for the International Foodservice Distributors Association states, "Food-related activities are becoming more important sources of relaxation and comfort." The report concludes that consumers are seeking more pleasure and fun from everyday life and will demand form and function from restaurants.

**Eat-ertainment** People want an entertaining eating experience. The growth of concepts such as Planet Hollywood and Hard Rock Cafe are two prime examples. One renowned Boston chef commented, "Now we have to entertain and stimulate in other ways. Unfortunately, restaurants that don't entertain are going to have a harder time. People are looking for more open kitchens, more visuals."

### *Target Customers*

The management team believes two segments of the dessert-consuming population are the most likely to demand the eating experience offered by RFD.

**Primary Segment** The RFD target segment consists of upscale urban singles and couples without children, most of whom are college graduates with professional, managerial, or other white-collar occupations. They earn a median household income of \$52,100 and live in multi-unit housing in urban uptown areas. Their predominant age ranges are 25-34 and 35-54. They are most densely concentrated in Northern and Southern California, Minnesota, Texas and the greater metropolitan areas surrounding New York, Philadelphia, Chicago, and Boston.

There are a number of variables that provide RFD with a deeper understanding of the target customer and his/her habits. A leading targeted marketing research firm, Claritas, Inc. ([www.claritas.com](http://www.claritas.com)) has found that these target customers are more likely to go scuba diving, attend the live theater, have a gold/premium credit card, read Metropolitan Home and watch The Simpsons. This psychographic data, as well as media consumption and product/service preference data, will allow RFD to market directly to the primary segment.

Management expects these customers will come to Room For Dessert after the theater, a movie, another social event, or eating at home. They will also identify RFD as a place to catch up with an old acquaintance, or to hold a business discussion. The concept provides a cost-effective, upscale alternative to going to a bar, full-service restaurant, or other meeting place. The consumer can also take advantage of RFD's personalized services. For example, the service team can help the consumer



develop the perfect match between a dessert and a dessert wine for a special occasion in the home. More frequent customers may have a personal bottle of liqueur held in a private locker at the restaurant.

**Secondary Target Segment** The secondary segment will be in the same age ranges as the primary, but will have less disposable income. These customers will view RFD as an affordable, approachable opportunity to get a taste of life's finer things. For instance, a couple can leave their children with a baby-sitter for an hour and escape to RFD. A group of friends can choose to dine at a reasonably priced, casual dining restaurant (e.g. Chili's, Applebee's, T.G.I. Friday's), and then upgrade to RFD for dessert. These customers will also think of RFD as a place to host a special event like a birthday party or a wedding shower. The members of this secondary segment generally can not afford to spend \$50 to \$100 per person for a four-star dining experience with any regularity, but will be able to justify spending \$10 per person for an experience that is almost as good. This customer's decision process is more deliberate—RFD will be visited relatively infrequently vis a vis the primary target segment.

Boston Demographics. Boston's demographic make-up is good for RFD's initial launch

RFD™ Target Segment	Boston (vs. US Avg. Index of 100)
Single w/o Kids*	114
Couples w/o Kids*	104
Education (College +)	141
Household Income (50,000 +)	128
Occupation (Professionals)	116

\*measures 18-44 instead of 25-54

Source: Lifestyle Market Analyst 1995

Other lifestyle and demographic variables show Boston to have a higher than average levels of disposable income, interest in fine foods, and spending on food away from home. The first RFD store will be located in Boston's upscale retail and restaurant area on Newbury street. Three additional units will be added in the Boston area by the end of 1998. Site considerations are shown below:

Target Market Characteristics	Average HH Inc.	HH w/o Children (% of Trade Area)	White Collar Workers (% Trade Area)
Newbury Street Location	\$40,000	80.9%	85.4%
Lexington, MA	\$76,775	66.6%	83.2%
Newton, MA	\$71,117	76.2%	81.7%
Chestnut Hill, MA	\$55,600	81.0%	79.7%
Cambridge, MA	\$42,173	81.7%	74.3%

### Market Potential

Dessert, coffee, wine and spirits consumption nationally in full-service restaurants is a \$7.2 billion industry, with annual growth projected at 4.2%. However, it is more meaningful to analyze a restaurant opportunity by looking for a percentage of market share in an individual city rather than a national market. For instance, RFD expects to capture a 2.6% share of the Boston market by the end of 1998:

Boston, Projected Market Share	Share	Sales MM
Dessert Sales in Full-Service Restaurants	100%	\$91
RFD™ Market Share - End of 1998 (4 locations)	2.6%	\$2.4

Region	Market	Market Rank & Size		Demographics		
		US Rank Dessert Sales	Full Service Dessert Sales (\$MM)	50,000+	% Professional	Aged 25- 54 Years
New England	Boston	7	91	39.6%	28.6%	60.9%
	Hartford/New Haven	n/a	22	42.2%	28.9%	60.3%
	Fairfield County, CT	n/a	17	54.2%	26.1%	59.9%
	Providence, RI	n/a	16	29.9%	22.8%	57.3%
	New England	n/a	267	n/a	n/a	n/a
Northern, CA	San Francisco	15	59	47.8%	30.5%	64.7%
Southern, CA	Los Angeles	2	169	37.9%	27.4%	64.9%
	Orange County	14	62	47.5%	28.5%	66.3%
Midwest	Chicago	1	187	33.0%	24.8%	62.4%
	Detroit	5	105	38.3%	23.3%	61.8%
	Minneapolis - St. Paul	13	67	39.6%	25.1%	63.4%
Southwest	Houston	9	85	38.0%	30.2%	68.6%
	Dallas	11	67	33.5%	27.4%	66.7%
Southeast	Atlanta	6	93	33.5%	26.5%	67.3%
Northwest	Seattle	18	57	38.7%	28.2%	63.8%
Mid-Atlantic	Philadelphia	8	90	38.0%	26.2%	58.7%
	Washington	4	113	48.0%	35.5%	67.6%

With individual unit sales of approximately \$1 million, RFD will seek to capture between 5% and 10% of the market in smaller cities. Larger cities will support multiple units to achieve a similar share.

### Industry Analysis

The dessert restaurant industry presents ample opportunity for an upscale dessert restaurant to carve out an attractive niche. First, switching costs for buyers are relatively low, so a successful competitor must differentiate their product/service offering and build customer loyalty. Second, barriers to entry in the restaurant business are relatively low. As a result, first mover advantage in core markets is critical to success. Third, substitutes (e.g., bars, coffee-shops, full-service restaurants, other social venues/events, staying at home) do not offer any price/performance advantage. Fourth, suppliers are generally providing commodity goods, and generally position themselves as partners with the restaurants they serve. However, some companies are able to obtain exclusive arrangements with high quality branded ingredients (e.g. Godiva) to set apart their offerings from others. Finally, as discussed in greater detail in the following section, while existing rivals are intensifying competition in the quick-service and casual segments, the upscale segment is characterized by fragmented and unfocused players.

## The Competition

The analysis of dessert-niche competitors will be organized according to the three prominent service-segments of the industry: Fine Dining, Casual, and Quick-Serve. Tables following this discussion summarize our research of specific competitive concepts.

### *Fine Dining*

This segment consists of three types of competitors: (1) upscale national chains (e.g., Morton's, Capital Grille, Ruth's Chris, The Palm), (2) full-menu independents with outstanding pastry chefs, and (3) dessert-focused independent operators. However, none of the national competitors place significant emphasis on the dessert portion of their business. In fact, these competitors increasingly offer desserts that are baked in dessert "factories," frozen, and shipped to their location for decoration. In addition, most full-menu independent operators fail to allocate sufficient resources (space, equipment, etc.) to attract and retain high quality pastry chefs. Restaurants that successfully do so, such as Boston's Sonsie (pastry chef Art Welch) and Olives (Paige Retus), lack economies of scale in purchasing, production, real estate, and advertising that a dessert-focused chain competitor would possess. Finally, none of the current dessert-focused independents have any geographic expansion plans. Examples include L'Elizabeth in Providence, RI, serving six dessert selections and a variety of wine and spirits, and Side Berns in Tampa, FL (affiliated with Berns Steakhouse) offering 30 dessert selections, wine and spirits, cigars, and a retail wine shop. These operators provide proof that an RFD-type concept is viable, and minimize the risk associated with consumer acceptance of the concept. As mentioned above, however, a dessert chain would achieve economies of scale and provide a new addition to this underexploited niche.

### *Casual Dining*

The casual segment of the dessert niche is also fragmented, but poised for increased competition. Nationally, casual chain restaurants place varying degrees of emphasis on desserts. Cheesecake Factory has established themselves as a formidable player in the upscale end of the casual segment with their dessert-theme and wide selection of namesake products. Other national, full-menu chains are placing increased emphasis on desserts as a means of increasing average check. However, most of these operators, including Cheesecake Factory, serve desserts that were produced in national dessert "factories," frozen, and shipped to the restaurant. Local, dessert-focused operators are also playing an increasingly important role in the niche. Jeff's Desserts of Tampa, Florida has seven units in that area, and corporate parent Just Desserts (Toronto, Canada) is looking for partners to expand into other U.S. regions. Another operator, Cafe Intermezzo in Atlanta, has two locations and a strong local reputation. Casual European cafes, like Cafe Lalo and Cafe Edgar in New York City, or Dolce Vita and Caffe Vittoria in Boston's North End, are the classic examples of competitors in this segment—independently-owned, individual units with no plans for expansion. Many of these competitors obtain their desserts from local bakeries, and provide poor ambiance and service. For example, during an examination of eight dessert cafes in New York City, only one baked their desserts on premise, and most offered only counter service.

### *Quick-Service*

Finally, the quick service segment is the one with the greatest amount of competition. Most current quick-serve operators are bakeries. They place varying degrees of emphasis on take-out sales, restaurant supply, and on-premise consumption (but usually in that order). Local operators with growth plans include Just Desserts in San Francisco (10 units) and William Greenburg Jr. Desserts & Cafes in New York (with 3 retail locations and seven kiosk units in Macy's stores). In Boston, examples would include Rosie's Bakery (3 locations), Mike's Pastry (North End), and Sweet Endings (Watertown). In this segment, though product quality is usually quite abundant, service is not.

### *Potential Entrants & Encroaching Concepts*

In the recent past, the restaurant business has seen a proliferation of casual cafe concepts. Many of these stores follow the traditional bakery model, focusing on homemade breads. (See table of restaurant/eatery alternatives below.) Au Bon Pain, St. Louis Bread, La Madeleine and Corner Bakery are a few of the successful models that compete in this segment. While they offer cafeteria style service with a flair, none of these concepts focuses on desserts. However, they could view desserts as complementary products to be used to bolster same store sales.

In addition, it is worth noting the increase in niched, beverage-focused concepts. The market has seen growth in the number of night-time venues including bars focused on martinis, champagne, scotches, ports and cigars. Arguably, these bar concepts, however, are burdened with a short life—few faddish concepts last beyond two years. Microbrew pubs have also seen a great deal of growth over the past few years. These competitors steal share in the late night hours when RFD will be doing its core business. They could also consider adding desserts to their menus to satisfy customers' "late night munchies."

The most successful of the new beverage concepts are the premium coffee and espresso bars like Starbucks, Second Cup, and Coffee Beanery. Although most players in this category are not focused on desserts as a competitive advantage, we anticipate increasing interest in this area given the intense competitive pressures. As these competitors saturate desirable markets, growth opportunities through geographic expansion (especially in the U.S.) will decline. Once this happens, much more pressure will be placed on increasing same store sales through new product introductions and brand extensions.

Finally, restaurant chain companies like Brinker International (national) or Back Bay Restaurant Group (Northeast), who currently do not have dessert-focused concepts, could decide it was time to create one. These types of competitors have the resources (people, capital, infrastructure, alliances) and track records (management & industry experience, operational expertise) to attempt entry into a niche like desserts. They also compete with niche players by offering desserts on their current restaurant menus. These players could in fact be valuable sources of capital, or could provide RFD with an exit strategy.

All the added focus on the casual and quick-service segments described above reinforces management's assessment of them as unattractive for entry. In the underexploited dessert-focused fine dining segment, however, companies that achieve first-mover advantage in a given market will capitalize on the opportunity described in this plan.

Operators	Niche	Full Svc	Dessert Focus	Growth Plans	# of Unit	Bake on Site	Sq Ft	Invest MM	Yr Sale MM	Margin	# of Seats	Covers/day	Avg Chk	Other Comments
Corner Bakery Chicago, IL	Bistro/Cafe	No	No	Yes	13	Com-misary	500 to 4,500	0.96	1.5	4.8% op. inc.	65-100		<\$10	holidays best for sweets
Au Bon Pain Chain	Bistro/Cafe	No	No	Yes										
Starbucks Chain	Coffee	No	No	Yes	1,100	No	varies		0.84	7 to 10% op. inc.			\$3	Bakery = 12% of sales
Mortons, etc. Chain	Fine Dining	Yes	No	Yes									\$53 Dinner \$14 Lunch	
Armani Cafe Boston, MA	Fine Dining	Yes	No		1	Yes					112			fill 60 seats dessert only;\$16-6 dessert
Cheesecake Factory Chain	Casual Upscale	Yes	Yes	Yes	17	No	12,000 total	6.25*	8.5	19.5%	250-650	2000	\$13.70	275 employees per store
Side Berns Tampa, FL	Dessert Cafe	Yes	Yes	No	1	Yes	5,000 total				100	150-700	\$7	
Kaminsky's Charleston, SC	Dessert Cafe	Yes	Yes	Yes	2	Yes	1000 total				50	500	\$6	
Just Desserts San Francisco, CA	Dessert Cafe	No	Yes	Yes	10	No			0.70				\$5	
Just Desserts Toronto, CAN	Dessert Cafe	Yes	Yes	Yes	30	No							\$5	
Jeff's Desserts Tampa, FL	Dessert Cafe	Yes	Yes	Yes	5	No			0.5 to 1.0					5,000-10,000 customers/mo.
Cafe Lalo New York, NY	Dessert Cafe	Yes	Yes	No	1	No	750 total		0.45		75	400-1500	\$5-10	open 9 a.m.-4 a.m.
Cafe Intermezzo Atlanta, GA	Dessert Cafe	Yes	Yes	No	2	No			\$1.5	20% COGS	150	300-650	\$5-10	events & catering, too
Brazil Detroit, MI	Dessert Cafe	Yes	Yes		1	No	3000 total				100	600+ Sat.	\$5-10	est. 30% come after dinner elsewhere
William Greenberg Desserts & Cafes	Dessert Cafe	No	Yes	Yes	7	No	700 to 1,000	0.16 to .30	0.80	losing \$			\$5	kiosk startup cost \$50-65k
Pastiche Providence, RI	Dessert/Cafe/Bakery	Yes	Yes	No	1	Yes	1200 total			10-15% COGS	30	150-250 @ night	\$6	30+, upper middle income customers
Rosie's Bakery Boston, MA	Bakery	No	Yes	No	3	Com-misary	4000 total		<\$1.0		18-20	200-300	\$8	covers include takeout orders

\*Cheesecake Factory can get up to \$1.5 million back from landlords

Source: Industry & Corporate publications and interviews conducted by RFD management

## Marketing Strategy

The following strategic marketing tools will allow RFD to create consumer awareness of its value proposition and encourage trial:

**Location** Each RFD unit will act as a billboard for the business. Locations will have a high degree of pedestrian traffic, and a high concentration of the target customer (demographic & psychographic). The flexibility of the RFD concept allows the Company to develop successful restaurants near a variety of locations, including: (1) theatre, movie, or music venues; (2) high-end hotels; (3) high foot-traffic residential areas; (4) large universities; (5) upscale shopping centers; and (6) busy downtown areas.

**Pricing** RFD's prices are positioned at the high end of the dessert niche. Consumers in the target market are willing to pay for quality, and will therefore be tempted to try the "best dessert" in town. This pricing strategy builds on Starbucks' positioning of charging a premium for relatively low cost "feel-good" items. See the sample menu in **Appendix A** for proposed prices.

**Advertising/Promotion** The management team will work to obtain positive reviews in local papers, publications, and web sites (e.g. The Boston Phoenix, The Boston Globe, Boston.com, Zagat's Restaurant Review). In addition, influential word-of-mouth advocates (e.g. Four Seasons' concierge, executive assistants) will be reached via telephone or personally. Nationally, features in magazines read by target customers and frequent diners out (e.g. Bon Appetit, Martha Stewart Living, Conde Nast Traveler, major airline magazines) will build prestige in early markets and pull for the concept in potential markets.

**Grand Opening Events** The week prior to a location's opening RFD will host private parties for groups with a high concentration of target customers, including: graduate schools, professional services companies (consulting, banking, trading), charities, etc. These events will introduce our restaurant to opinion leaders and jump start influential word-of-mouth referrals.

**Restaurant & Hotel Alliances** Full menu restaurants might choose to refer customers to RFD for dessert to increase their table turns (as frequently occurs in Boston's North End). Hotels can use RFD's space to augment their conference facilities. As influential word-of-mouth advocates, hotel concierges will be given free trial of RFD so they can give unqualified recommendations of the restaurant to guests.

**Community Involvement** RFD will encourage local artists and musicians to display their work at the restaurant. In addition, the company will donate facilities and product worthy charities to defray costs of fund-raising dinners, etc. These activities also increase consumer awareness of the concept.

**Special Events & Meeting Space** Administrative assistants will be provided incentives (e.g. free product, free classes) to consider RFD for company "off-site" meetings. Guests will be unobtrusively informed that RFD will host wedding showers, birthday parties, and other private functions.

These strategic marketing tools are low risk and low cost, but provide significant benefits to the consumer and to RFD.

## Operations & Facilities

Though a restaurant concept may be sound and its competitive positioning may be clear, all is for naught if service is slow, food quality is poor, presentation is sloppy, and "the little things" are ignored.

**Interior Design** RFD is not about linen tablecloths or trendy fixtures, but instead is represented by timeless and classic design. Furniture will be cherry-colored wood with a matte-gloss finish. The seating arrangement, combined with a well-lit dining room, will allow customers to have a clear view of the pastry station. A prototype layout is included in **Appendix B**.

**Restaurant Operations** Before being seated, customers will be able to browse a pastry display of the chef's featured selections. Once seated, guests will also be able to review a menu and obtain recommendations about their order. Servers will have process time goals for making initial contact with a table, and for checking to ensure the customer's experience is satisfactory.

**Baking Operations** RFD's kitchen requires only 25% of the unit's space, versus an industry norm of 40%. Baking inputs will be purchased in bulk when appropriate. In some instances, RFD will negotiate exclusive arrangements with ingredient suppliers to create signature items. Initial preparation of ingredients, batters, etc. will occur prior to rush periods to facilitate short lead times. Recipes and processes will be highly standardized, which is facilitated by a dessert-focused menu. The pastry station, which is adjacent to the kitchen, will be a functional facility used to dazzle patrons with a dessert decorating show. Pastry artists will have process time goals measured from order receipt to completion.

**Retail Store Operations** One wall of the unit (and some adjacent floor space) will be dedicated to retail sales. Restaurant servers or dedicated retail staff will assist the customer in making selections. The counter at which check-out occurs is also where customers will place orders for and pick up baked-to-order cakes and other baked goods that are purchased for take-out.

**Commissary** Since desserts are conducive to being partially produced in one location and finished in another, RFD may build regional commissaries as the concept expands. This will allow units in a region to eliminate most of their baking equipment investment, and free up or reduce space. Since the baking industry is characterized by excess capacity, RFD could avoid equipment investment entirely by purchasing capacity from other producers (e.g. Boston Beer's Sam Adams production strategy). In no circumstance, however, will RFD jeopardize the fresh-baked, high quality positioning of the concept.

**Process Management** The operational elements outlined above will be integrated with a comprehensive information management system (including Efficient Food Replenishment links with suppliers). The end result will create an operation that can be standardized, measured, and managed as a single process. Even so, the creativity that is injected into the Final Decoration phase of the process will give the customer the perception that they are receiving a work of art instead of a product of science.

## Management

Two RFD founders and a store-level management team will launch the business. The board of directors will be composed of a group of accomplished industry experts. The resulting combination of professional management and restaurant savvy creates a team well-positioned to pursue this opportunity.

**Paul Conforti, President** Paul is the originator of the RFD Concept. His interest in foodservice began in 1985, when he was an ice-cream cone maker and dishwasher at Celebration! Ice Cream in Warwick, RI. Paul has over ten years of experience leading organizations, including three years of people-intensive service management in insurance claim/call centers. In June, 1997 Paul earned his MBA at Harvard Business School, where he focused his studies on entrepreneurship. He also completed a year-long research project on the restaurant industry, resulting in this business plan. He has an undergraduate degree in Management (Finance and Operations) from Rensselaer Polytechnic Institute.

**Kim Moore, Vice-President** Kim is a founding member of the RFD team. She started pursuing her lifelong interest in food at H.E. Butt Grocery of San Antonio, Texas, the nation's tenth largest grocery chain. There, Kim led an internal consulting project developing strategy, operations, and marketing for ten underperforming Houston stores. Prior to that, as an Associate Producer (journalist) at ABC News, she developed skills core to operating a successful restaurant: attention to detail, execution under pressure, and working with people to accomplish goals. Kim earned a B.A. in Journalism from the University of Texas, Austin, and an HBS MBA focused on entrepreneurship and service management.

**Unit Management Team** The individual unit management team will include a General Manager, an Assistant Manager, and two Pastry Chefs/Kitchen Managers. These employees will all have significant restaurant and baking experience. The founders have already begun using an extensive industry network developed over the last year to identify and interview potential candidates for these roles.

**Additional Corporate Management** RFD will eventually recruit additional industry experience into the management team. If necessary, the founders will hire a CEO to lead geographic expansion. A CFO/CIO will be hired to manage supplier relations, financial reporting & control, and IT. A Corporate Chef with a degree from a culinary institution and significant pastry/baking experience will be hired to develop innovative menu items that balance artistry with ease of replication. Other positions to be filled include Regional VPs, a Human Resource Manager, a Corporate Trainer, and a Purchasing Director.

**Board of Directors/Advisors** Realizing that the founders need to augment their restaurant industry experience, the board will primarily be composed of strategic members in addition to significant equity holders. Potential members of the board include:

- Jim Kern, Retired Chairman, Creative Food Management
- Mike Nardoza, General Manager - Restaurant Operations, Windy City International LTD
- Michael Roberts, CFO, Baldini's Restaurants (former HBS professor)
- Leonard A. Schlesinger, Service Management Professor, HBS (former EVP of Au Bon Pain Cafes)

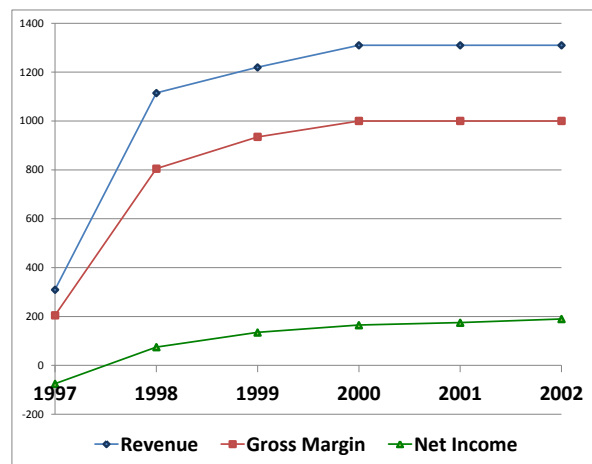
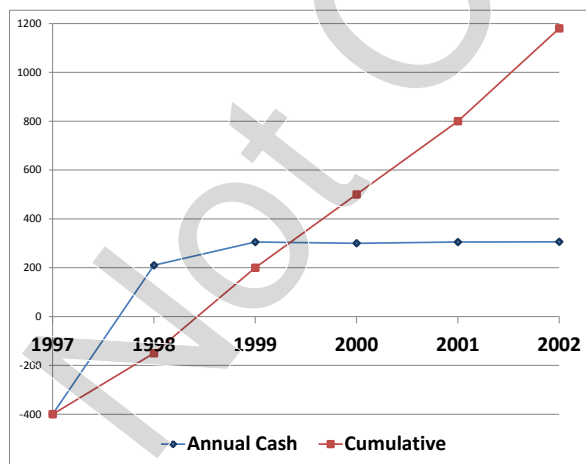


## Financials

RFD's corporate financial projections are based on the strength of the individual restaurant unit's cash-on-cash return (EBITDA / Initial Investment). Industry analysts expect chain concepts to produce returns in the 30-40% range. The following table shows RFD's unit economics compare favorably to some of the country's most successful national chains.

	Room For Dessert	Cheesecake Factory	Starbucks
Seats	70	400	60
Square Feet	2,450	12,000	1,500
Investment Cost	\$480,452	\$4,750,000	\$250,000
Sales	\$1,091,052	\$8,650,000	\$840,000
Sales/Investment	2.27	1.82	3.36
Average Check	\$10.31	\$13.75	\$3.00
Customers Per Day	210	1,724	767
Customers Per Seat	3	4	13
EBITDA	\$178,487	\$1,660,000	\$90,000
% of Sales	16.4%	19.2%	10.7%
% of Investment	37.1%	34.9%	36.0%

As the following graphs illustrate, an individual RFD unit will have "paid back" its investment within two years of beginning operations, as positive cash flow is achieved almost immediately. These projections are supported by the comments of the COO of a successful dessert-themed restaurant, "Within a few months after we opened we were able to get each store [five in the Tampa area] into the black."

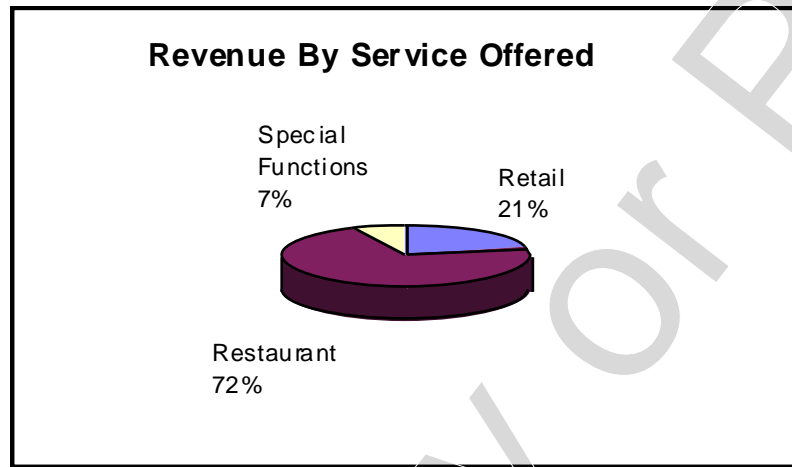


## Business Model

There are four important elements driving the economics of the RFD concept:

**Multiple Revenue Streams** RFD has three revenue streams (restaurant sales, retail sales, and special events). As the concept builds brand equity, a second tier of additional revenue streams, including

catering, kiosks, restaurant supply, and catalogue sales, could be pursued. To ensure conservative projections, the management team has excluded these second tier revenue streams from our unit analysis. Revenue is distributed between the restaurant, retail, and special functions as follows:



Restaurant	Retail	Special Function	Total
\$779,323	\$233,797	\$77,932	\$1,091,052

Proforma projections assume a unit will be able to add six percent additional sales on this total sales number after 18 months of operation. This increase is attributed to increased traffic and average check.

**High Gross Margins** Desserts and beverages are the two highest gross margin items on any restaurant menu. Most desserts require relatively low cost, commodity ingredients, and are not very labor intensive to cook or serve. Though these advantages will be somewhat offset by the concept's high quality, margins will still be more attractive than the "average" full-service restaurant:

Margin Analysis	Restaurant Sales			Retail Sales	Special Functions
	Desserts/Food	Soft Bev.	Hard Bev.		
Gross Margin	74.5%	85.0%	80.0%	65.0%	75.0%
% of Sales	50.0%	14.3%	7.1%	21.4%	7.1%
Margin Contribution	37.3%	12.1%	5.7%	13.9%	5.4%
Wt'd Avg. RFD Margin	74.4%	Nat'l Restaurant Assoc. Full Service Avg.			66.9%

Dollar margins will also be preserved with a premium pricing strategy. Relative to four-star, fine dining establishments, the RFD experience is value-priced. However, compared to other desserts offered in restaurants, the concept is positioned in the upper quartile of prices. Use of a prix fixe menu focused on sampler portions and a minimum per guest charge will ensure margin goals are achieved. The attached proformas assume production efficiencies facilitate an additional 10% reduction in COGS, spread across years 3-5.

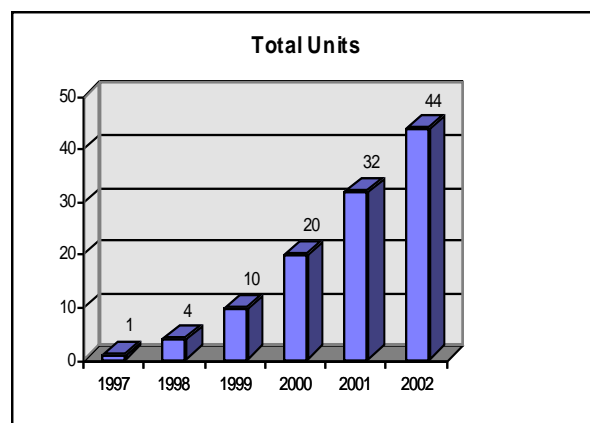
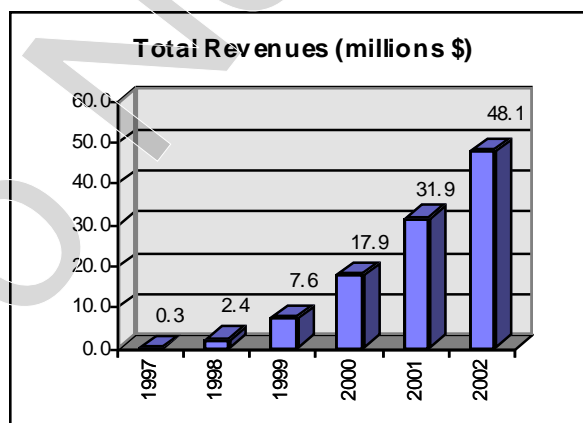
**Low Per Unit Investment Costs** RFD's lite entree menu (salads, soups, sandwiches, etc.) eliminates the need for traditional kitchen equipment and preparation space, lowering the investment required in each unit. Additionally, much of the required baking equipment can be leased, further lowering capital requirements and up-front cash investment. Working capital needs are also low given the

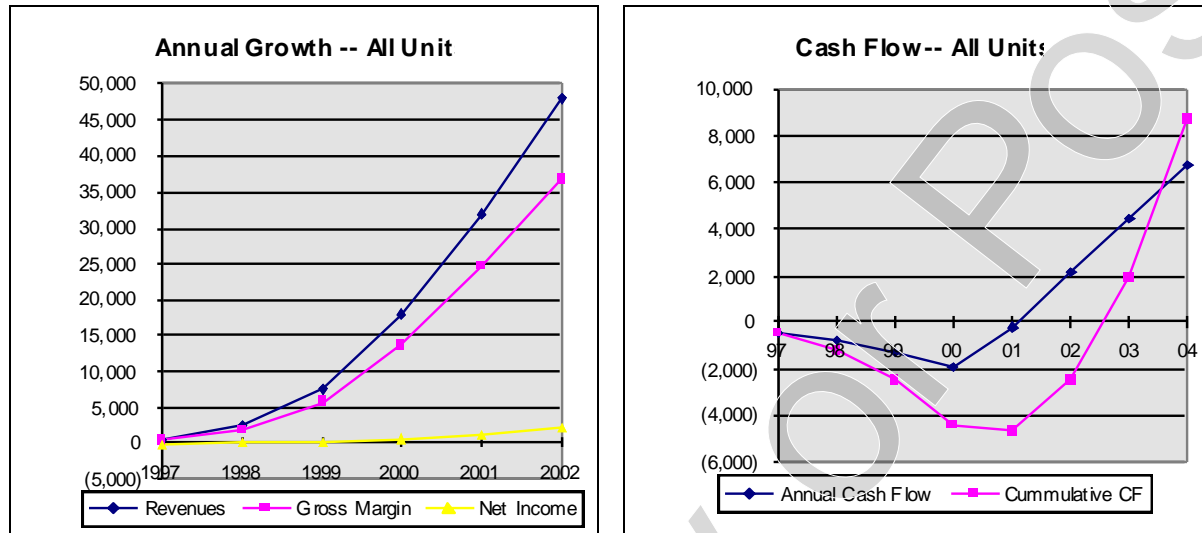
cash nature of the business. These factors combine to produce per unit investment costs below \$500,000.

<b>Property, Plant, &amp; Equip.</b>	
Furnishings	\$42,000
Baking Equipment	\$70,000
Leasehold Improvements	\$245,000
Information Systems	\$10,000
<b>Deposits &amp; Prepaids</b>	
Rent	\$20,417
Utilities	\$2,455
Insurance	\$5,000
<b>Other Capitalized Costs</b>	
Professional Services	\$25,000
Grand Opening Promotions	\$11,031
Licenses & Permits	\$50,000
<b>Total Investment</b>	<b>\$480,902</b>
Working Capital	\$58,558
Training	\$18,388
Opening Inventory	\$4,686
Contingency	\$50,000
<b>Total Start-Up Cost</b>	<b>\$612,534</b>

The attached proformas assume all units require purchase of brand new baking equipment. To the extent used equipment is acquired, equipment is lease-financed, or commissary production is used, financial projections will appear more favorable.

**Geographic Expansion** Once the economics presented above are substantiated by the performance of the first location, the company will seek to expand regionally. By the end of 1999, ten units will be opened throughout New England. Thereafter, expansion of corporate owned stores will continue in other regions of the country. By the end of year five (2002), RFD will have built national brand recognition as a fine-dining chain with 44 units and \$48 million in sales.





Although the individual unit economics are compelling, the company as a whole will not achieve significant profitability or cash flow until year five. RFD has elected to incur the expenses associated with opening locations in new geographic areas as soon as possible. Management believes the benefits that can be obtained by early market penetration and economies of scale will create critical long-term competitive advantages, such as:

- obtaining better real-state
- building brand recognition and customer loyalty before competition arrives
- reducing COGS through corporate purchasing and commissary production
- facilitating an exit strategy of an IPO or a sale to a large chain restaurant company

Following the growth strategy proposed here, by the end of 2002 the value of the company could be in the range established by previous industry transactions:

Valuation Criteria	4x Sales	14 P/E	15x EBIT	25 P/E	10x EBITDA	1.5x Sales
Enterprise Value (\$mm)	19.2	21.3	35.2	38.1	59.5	72.1

The proformas that are attached represent only the financial performance of an individual unit, as RFD's first financial stage is for the purpose of launching this unit. (See **Appendix C**.) The revenue and cash flow projections shown above assume unit growth according to the accompanying chart. Each new unit added exhibits the same characteristics as the initial unit (though RFD management will move down a learning curve for efficiency and effectiveness in opening new stores). Corporate overhead as a percent of sales is assumed to be the following (spike in 1999 is due to launch of national expansion plan):

1997	1998	1999	2000	2001	2002
12.7%	3.5%	5.4%	3.6%	2.5%	1.8%

### Revenue Assumptions

The following assumptions were used to develop the attached proforma financial statements, and reflect management's conservative estimation of each variable.

**Restaurant Sales** Restaurant sales are driven by the following formula:

$$\frac{\text{Average Check Per Person (\$10)} \times \text{Number of Seats (70)} \times \text{Number of Turns per Seat per Day (3)} \times \text{Days Open (360)}}{}$$

The \$10 average check is based on the use of a prix fixe menu options with a check minimum per person requirement. Meeting this check goal is not an unreasonable assumption. A survey of 25 individuals in the RFD target market, using the sample menu presented in **Appendix A**, yielded an average check transaction of \$10.37 per person. Eighty-five percent of respondents envisioned being on a date. Some saw the experience as a special occasion and were more willing to pay for quality products and services. Even when participants chose to share a single dessert, the average check goal was met. Below are the results:

Items Ordered	Drinks Ordered	Total Sales	Customer Count	Average Check/ Person
21	25	\$259.20	25	\$10.37

Considering retail, restaurant and back-room operations, 70 seats yields space requirements below 2,500 square feet – an upper boundary given the high cost of real estate in high traffic locations. These high traffic locations, however, are one of the drivers the turns/seats assumption of three times per day. The other driver is the ability to rapidly turn over tables with short production lead times and fast table service. The seats and turns assumptions result in customer traffic expectations of 210 per day, or approximately 1500 per week. This compares favorably with the following benchmarks:

	Side Berns	Jeff's Desserts	Pastiche
Customers/Week	1400	1700	1500

**Retail Sales** RFD will sell cakes and pies, bottled liqueurs and spirits, and the special ingredients we use in our recipes. Our proforma financial statements assume the concept sells only 12 cakes per day at \$40 per cake (versus 25 cakes per day sold at each Rosie's Bakery in the Boston area), and five bottles of wine and spirits per day at \$15 per bottle (versus 12 bottles per day of cognac sold at Martinetti's liquor store in Brighton). Any additional sales of cakes, wine and spirits, or any other signature ingredients would augment RFD's unit revenues.

**Special Events** RFD will have a special function room for meetings, showers, parties, etc. In addition, the pastry preparation station located in the main dining room will facilitate hosting special classes about baking, selecting wines, and other topics that interest our target market. We expect to offer eight classes per year of six sessions each, at \$20 per session (yielding \$120 per person per class). We assume a subscription rate of 40 people per class. These assumptions are consistent with the experience of Side Bern's in offering a similar program.

### *Cyclicalities & Seasonality*

Many restaurant analysts believe the cyclicalities of the industry will dissipate as the proportion of food dollars spent on meals eaten outside of the home exceeds 50% of the total food budget (which occurred in 1996). Management believes this concept can be positioned as even more "recession-proof" than the average restaurant, because of our emphasis on "affordable indulgences." During the great depression, movie ticket sales boomed. Historians hypothesize this occurred because people needed to find an affordable indulgence—a way to escape the hardship that surrounded them. Though this is an extreme example, it illustrates our point. If and when a full-menu fine dining experience becomes too great a luxury, a trip to RFD can be an affordable alternative.

Seasonality will also affect RFD's business to some extent, and is reflected in the Unit Proformas. Aggregate NRA data shows most retailers see a dip in sales after the traditional holiday season. After February, eating and drinking establishments have typically seen sales increase steadily throughout the warmer months. At the onset of the school year in September, sales take another dip. At year end (December and the holiday season) there is a slight jump up in restaurant activity. Understanding these chronic industry swings, we will be able to plan accordingly for labor, purchasing, inventory and other operational concerns.

### *Other Major Assumptions*

**Labor** Having a focused menu limits the need for professional chefs in each unit. In addition, though our service will be fine-dining quality, our emphasis on "one-course" will allow us to increase the utilization of our servers because they will have to make less trips to each table for which they are responsible. The following table summarizes our anticipated staff for each unit:

Position	Salary	# Req'd
General Manager	\$ 40,000	1
Assistant Manager	\$ 30,000	1
Servers (40hrs, excl. tips)	\$ 5,200	8
Bartender	\$ 16,640	1.5
Maitre D'	\$ 14,560	1.5
Pastry Artists	\$ 20,000	4
Busboys	\$ 10,400	2
Chef/Kitchen Manager	\$ 35,000	1

**Rent** RFD's concept relies upon locations that have high foot traffic and/or a high concentration of high disposable income people. This translates into relatively expensive real estate costs. Our projections assume an average cost per square foot of \$50. Super-premium areas, like Newbury Street in Boston, will cost \$60/sq. ft. or more.

**Balance Sheet Items** Required cash is assumed at 2% of sales, a relatively low number due to the cash nature of the business. Receivables are at 3 days sales, representing sales made on credit cards. Inventory turns 4 times per month, showing an average between higher perishable food turns and lower turns of merchandise for sale in the retail portion of the store. Accounts payable are estimated at 30 days COGS, an industry average. Other assumption are stated on the proformas.

### *Break-even & Sensitivity Analysis*

At the bottom of the cash flow statement for the prototype unit, a break-even analysis is presented for the first 5+ years of operation. The results are summarized here:

	1997	1998	1999	2000	2001	2002
B-E Sales Level	\$661,669	\$940,243	\$929,249	\$925,422	\$912,617	\$847,141
% of Expected Sales	208%	87%	82%	77%	76%	71%

After the initial year's ramp-up period, the unit's break-even point versus expected level of sales becomes increasingly favorable. The break-even is sensitive to numerous variables, the two most important of which are average check and table turns/ traffic. RFD's break/even average check, holding all other variables constant, is approximately \$8. RFD's break-even table turns, holding all

other variable constant, is approximately 2.25. The management team is confident that these numbers are attainable.

### *Financing*

The unit-level proformas that are attached assume the start-up capital of \$600,000 (see use of proceeds in investment section above) is financed by private placed convertible debt (70%) and equity (30%). RFD management seeks accredited investors who either (1) have restaurant experience, understand the nature of the industry, and seek an opportunity to add value to management team as advisors or (2) view this investment as an addition to their diversified portfolio of angel capital investments. Investors in the initial round will receive common stock and debt convertible into common stock based on certain investor or management triggers (described in a separate document). The initial round of financing buys the management team the ability to launch and prove the concepts viability with an initial unit. Once this is accomplished, an additional \$4,000,000 will need to be raised in two separate financing rounds that occur in 1998 and 2000. The first of these rounds will most likely be privately placed debt and equity. The second round will be presented to venture capitalists, who generally refuse to examine restaurant deals until the restaurant concept and economics are fine tuned.

### *Scenario Analysis*

If the first unit performs below expectations, management will forgo expansion plans and focus all energies on this unit. In this case, the concept and marketing mix will be modified to maximize cash flow. This could result in either (1) a simple delay in regional/national roll-out as fine-tuning occurs, (2) a decision to operate a single unit only, using cash-flow to payback investors, or (3) a decision to discontinue operations, in which case investors will receive the proceeds from liquidation of the firm's assets. If, on the other hand, performance far exceeds management's estimation, expansion capital will be sought sooner and a national roll-out will be pursued aggressively.

### *Risks*

Certain negative events can cause RFD's performance to fall below expectations. These include:

- **Economic Model doesn't work:** RFD's assumptions about average check and table turns fall far below management estimates.
- **Competition intensifies:** Other competitors seek to enter the Dessert-Focused Fine Dining segment, either in RFD's immediate market, or in other markets (limiting opportunities for expansion).
- **Consumer trends shift:** If eating in moderation is actually only a "fad," and the health craze becomes a health norm, a dessert-focused concept will have limited appeal.
- **Real Estate is difficult to obtain:** RFD's economic model assumes \$50/sq. ft. annual rent. To the extent that quality locations cost significantly more than this, RFD's economic model deteriorates.

The management team and board of directors will promptly respond to these risks should they occur.

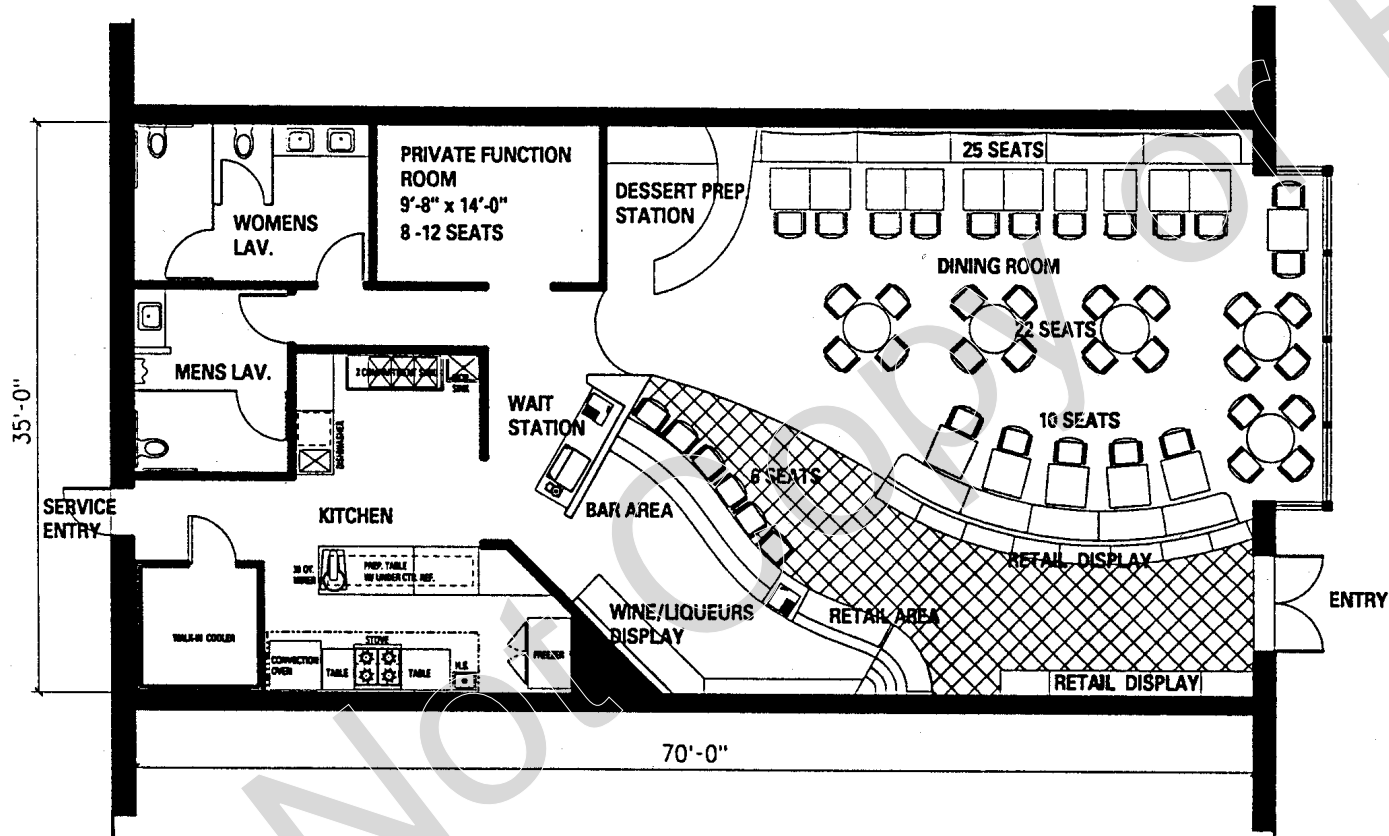
## Appendix A Sample Menu

Dessert Prix Fixe Menu	
<b>Chef's Dessert &amp; Beverage Selections</b>	
Chocolate Carnival	\$16/\$11
<i>White chocolate mousse in a cookie filo, fudge torte and chocolate tea cake filled with ganache. Plus 3/4 Cockburn Port or Espresso.</i>	
The Classic	\$17/\$11
<i>RFD's Classic Cheesecake, Espresso Truffles &amp; Seasonal Berries in a Chocolate Bag, with a tall flute of Perrier-Jouet or a Cappuccino.</i>	
Loads of Lemon	\$15/\$10
<i>Lemon filled pound cake, cheesecake, pudding and assortment of cookies. Herbal Tea or a glass of Chardonnay.</i>	
<i>Beverage substitutions available</i>	
A la Mode	
<b>RFD Signatures</b>	
Special Chocolate Fondue (for 2)	\$ 14.00
House Chocolate Mousse with Seasonal Berries	\$ 9.00
Tuxedo Truffle Torte	\$ 9.00
Chocolate Hazelnut Torte (low-fat)	\$ 8.00
Peanut Butter Cheesecake	\$ 7.00
Maple Bread Pudding	\$ 6.50
<b>Chocolate Delights</b>	
Chocolate Brownie Tart	\$ 7.50
Chocolate Almond Torte	\$ 7.50
Chocolate Terrine	\$ 7.50
White Chocolate Tartlet with Strawberry Coulis	\$ 7.00
<b>Specialty Desserts</b>	
Classic Cheesecake	\$ 7.50
Apple Crisp with Homemade Vanilla Ice Cream	\$ 7.00
Strawberry Tart	\$ 7.00
Baked Pear with Crumbled Amaretti Cookies	\$ 6.50
Rice Pudding Cake with Cherry-Apricot Compote	\$ 6.50
<b>Ices &amp; Cremes</b>	
Raspberry Sorbet in Champagne	\$ 6.50
Gelati du Jour	\$ 6.00
Homemade Ice Cream	\$ 5.50
<b>Potpourri</b>	
Petit Four Assortment or Hand-Dipped Chocolates	\$ 7.00
Decorated Cookies or Assorted Biscotti	\$ 5.00
Lite Entrees	
Fruit & Cheese Plate	\$ 7.00
Soups, Salads, Quiche, Sandwiches	n/a
<i>Ask for daily specials</i>	
Coffees	
<b>Espresso</b>	
Espresso	\$ 2.75
La Creme de Cafe	
Espresso Doppio	\$ 2.75
<b>Double Espresso</b>	
Espresso Extra	\$ 5.00
<i>Add any liquor. Espresso &amp; Sambuca is a traditional combination.</i>	
Caffe Noccioia	\$ 4.50
<i>Espresso creme de cafe with steamed Hazelnut milk</i>	
<b>Cappuccino</b>	
Cappuccino	\$ 2.75
<i>Espresso, the Essence of Coffee, steamed cream, sugar, cocoa, topped with schlag</i>	
Cappuccino Minus	\$ 2.75
<i>Traditional Cappuccino made with skim milk.</i>	
Olympia	
<i>Traditional European Cappuccino.</i>	
Cappuccino L'Amore	\$ 2.95
<i>With extracts of brandy and rum, plus fresh schlag and shaved chocolate</i>	
Mocha	\$ 2.95
<i>Espresso, steamed milk, Swiss Chocolate and schlag, crowned with chocolate.</i>	
<b>Coffee</b>	
RFD House-Roasted Blend	\$ 1.60
Cafe Con Leche	\$ 2.60
<i>Just like they drink it in Havana.</i>	
Turkish Coffee	\$ 2.65
<i>As served throughout the Arab and Greek nations.</i>	
Cafe Au Lait	
<i>With steamed milk</i>	
<i>Special requests available</i>	
Teas & Herbal Beverages	
<b>Teas</b>	
Orange Pekoe, Earl Grey, Irish Times, English Breakfast	\$ 2.00
<i>Russian, Oolong, Darjeeling</i>	
<b>Herbals</b>	
Chamomile, Lavender, Jasmine, Lemon Grass, Ceylon	\$ 2.00
<i>Decaf Apricot, Mango, Decaf Pekoe</i>	

Wines & Spirits	
<b>Dessert Wines (8 oz pour)</b>	
Marques de Caceres Saninella (5 oz pour)	\$ 4.00
<b>Muscat de Revesaltes, Domaine de la Casenove</b>	
1983er Trittenheimer Apotheke Auslese Riesling	\$ 4.00
	\$ 5.50
<b>Champagne</b>	
Napa Rhine Reserve	\$ 8.50
<b>Veuve Clicquot Brut N.V.</b>	
Perrier Jouet	\$ 12.00
	\$ 13.00
<b>Ports</b>	
Quinta do Noval Tawny	\$ 4.00
Taylor-Fladgate Special Ruby	\$ 7.00
1963 Sandeman Vintage	\$ 14.00
<b>Sherries</b>	
Harvey's Bristol Cream	\$ 3.00
Emilio Lustau Pedro Ximenez, Solara Reserva "San Emilio"	\$ 3.00
<b>Cognacs &amp; Brandies</b>	
Remy Martin Cognac VSOP	\$ 6.50
Metaxa 5 Star Brandy	\$ 5.50
Cardenal Mendoza Brandy	\$ 5.50
Courvoisier Grande Fine Cognac	\$ 21.00
Hennessy Paradis Cognac	\$ 30.00
<b>Armagnacs</b>	
Baron de Sigognac XO	\$ 7.00
1970 Domaine de St. Aubin Bas	\$ 15.50
<b>White Wine</b>	
Bourgogne Blanc, Bernard Morey, Vichon Chardonnay,	
Napa, Flora Springs Barrel Fermented Chardonnay, Lagaria	
Pino Grigio, Italy; Guntrum Riesling, Germany	
<b>Red Wine</b>	
Los Vascos Cabernet Sauvignon, Chile; Mezzacorona Merlot,	\$ 7.50
Italy; Gluhwein, Switzerland; Morgon 1992 Pinot Noir, Reserve	
<b>Scotches</b>	
12 Year Old Singleton	\$ 5.00
10 Year Old Abekour	\$ 5.50
18 Year Old Glenlivet	\$ 10.00
25 Year Old Macellan	\$ 25.00
<b>Bourbons &amp; Whiskies</b>	
Makers Mark	\$ 5.00
Knob Creek 9 Year Old Small Batch	\$ 6.00
<b>International &amp; Craft Brews</b>	
Allagash, Maine; Ybor Gold; Shiner Bock; Nut Brown Ale,	\$ 5.00
Belhaven Scottish Ale, Efes, Cider and Others	
<i>Ask for Full and Half-Bottle prices</i>	
Specialty Drinks	
<b>Coffees With Spirit</b>	
Godiva Cappuccino RFD	\$ 5.50
<i>With Godiva Liqueur</i>	
Beantown Mint	\$ 5.50
<i>Coffee, mint and chocolate liquors topped with chocolate shavings and whipped cream.</i>	
Frozen Praline Coffee	\$ 5.50
<i>Blend of coffee and vanilla ice cream with cappuccino and Texas praline liquors.</i>	
Hot Nutty Irishman	\$ 5.50
<i>With Bailey's and Frangelico, cream and chocolate</i>	
Irish Coffee	\$ 5.25
<i>With Bushmill's and Schlag</i>	
Haute Chocolate	\$ 3.00
<i>Traditional Dutch chocolate and shaved Swiss chocolate</i>	
Make Your Own Drink	\$ 6/7.00
<i>Any Coffee &amp; Liqueur plus extras</i>	
<b>Chilled Delights</b>	
Very Berrie Smoothie (low-fat)	\$ 4.50
<b>Seasonal berries</b>	
Paul's Iced Cappuccino	\$ 5.00
<i>Paul's recipe with secret ingredient</i>	
The Ultimate Milkshake	\$4.5/6.5
<i>Thickest shake this side of the Mississippi, 3 flavors</i>	
Cafe Verdi	
<i>Espresso over ice with milk and brandy</i>	
	\$ 4.25
Water, Juice and Other Beverages	
<b>Sparkling Water</b>	
San Pelligrino	\$ 2.50
Perrier	
<b>Spring Water</b>	
Evian	\$ 2.00
<b>Fresh Juices, Aguas Frescas</b>	
Orange, Strawberry, Kiwi, Lemon-Ade, Cranberry	\$ 3.50
<i>Grapefruit, Tomato, Carrot</i>	
<b>Carbonated Beverages</b>	
	\$ 1.75
<i>Feel free to ask for special requests</i>	

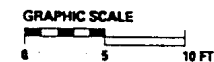


# Appendix B Concept Floor Plan and Artist Rendering



## ROOM FOR DESSERT

CONCEPT PLAN  
2,500 SQ. FT. • 70 SEATS



## Appendix C

Assumptions		97Q2	97Q3	97Q4	98Q1	98Q2	98Q3	98Q4	99Q1	99Q2	99Q3	99Q4
Ramp up—restaurant	8 mos. to reach target sales	0%	37%	78%	95%	100%	100%	100%	101%	103%	104%	106%
Seasonality	Taken from NRA averages	25.5%	26.0%	25.2%	23.2%	25.5%	26.0%	25.2%	23.2%	25.5%	26.0%	25.2%
COGS/labor efficiency	6 mos. to reach target levels	0%	145%	120%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Income Statement</b>												
Revenues	See business plan	-	103,116	215,657	240,836	278,587	283,988	275,465	256,447	286,043	296,252	291,056
-COGS	26.6% of sales	-	38,217	65,922	61,671	71,338	72,721	70,539	65,669	73,247	75,862	74,531
<b>Gross margin</b>	74.4%	-	<b>64,899</b>	<b>149,735</b>	<b>179,165</b>	<b>207,249</b>	<b>211,266</b>	<b>204,926</b>	<b>190,779</b>	<b>212,795</b>	<b>220,391</b>	<b>216,525</b>
Salary, wages, & benefits	See business plan	-	92,038	89,151	68,224	75,121	76,577	74,278	68,224	75,121	76,577	74,278
OpEx and G&A	17.4% of sales	-	31,640	47,461	47,461	47,461	47,461	47,461	47,461	47,461	47,461	47,461
Occupancy	\$50/sq. ft * 2,500 ft.	-	20,417	30,625	30,625	30,625	30,625	30,625	30,625	30,625	30,625	30,625
Depreciation & amortization	5 depreciation life	-	13,434	20,152	20,152	20,152	20,152	20,152	20,152	20,152	20,152	20,152
<b>Operating income</b>		-	<b>(92,630)</b>	<b>(37,653)</b>	<b>12,703</b>	<b>33,891</b>	<b>36,452</b>	<b>32,410</b>	<b>24,317</b>	<b>39,438</b>	<b>45,577</b>	<b>44,009</b>
Interest income	4.0% of market sec.	-	2,027	424	528	879	1,361	1,862	2,331	2,771	3,312	3,895
Interest on bank debt	10.0% on balance	-	-	-	-	-	-	-	-	-	-	-
Interest on sub. debt	12.0% on balance	-	10,638	13,115	13,514	13,926	14,350	14,787	15,237	15,702	16,180	16,672
<b>Income B4 taxes</b>		-	<b>(101,241)</b>	<b>(50,344)</b>	<b>(283)</b>	<b>20,844</b>	<b>23,463</b>	<b>19,485</b>	<b>11,411</b>	<b>26,507</b>	<b>32,709</b>	<b>31,231</b>
Tax provision (benefit)	35.0% tax rate	-	(35,434)	(17,621)	(99)	7,296	212	6,820	3,994	9,277	11,448	10,931
<b>Net income</b>		-	<b>(65,807)</b>	<b>(32,724)</b>	<b>(184)</b>	<b>13,549</b>	<b>15,251</b>	<b>12,665</b>	<b>7,417</b>	<b>17,229</b>	<b>21,261</b>	<b>20,300</b>
<b>Balance Sheet</b>												
<b>Current Assets</b>												
Cash		-	119,127	134,169	174,030	223,729	217,417	320,774	363,071	418,916	475,634	536,113
Req'd	10.0% of sales	-	65,181	94,923	108,619	112,214	108,634	111,674	110,791	115,580	114,066	118,375
Marketable securities		-	53,946	39,245	65,411	111,515	62,783	209,100	252,280	303,335	361,568	417,739
Receivables	3 days sales	-	5,432	7,910	9,052	9,351	9,053	9,306	9,233	9,632	9,506	9,865
Inventories	4 turns/mo.	-	4,868	5,570	5,795	5,986	5,795	5,958	5,911	6,166	6,085	6,315
Other current assets	Deposits & prepaids	-	27,872	27,872	27,872	27,872	27,872	27,872	27,872	27,872	27,872	27,872
<b>Total current assets</b>		-	<b>157,298</b>	<b>175,521</b>	<b>216,747</b>	<b>266,938</b>	<b>314,137</b>	<b>363,910</b>	<b>406,086</b>	<b>462,585</b>	<b>519,096</b>	<b>580,165</b>
Gross PPE	See business plan	-	403,031	403,031	403,031	403,031	403,031	403,031	403,031	403,031	403,031	403,031
Accumulated depreciated		-	13,434	33,586	53,737	73,889	94,040	114,192	134,344	154,495	174,647	194,798
Net PPE		-	389,596	369,445	349,293	329,142	308,990	228,839	268,687	248,535	228,384	208,232
Other assets	Licenses & permits	-	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
<b>Total assets</b>		-	<b>596,894</b>	<b>594,965</b>	<b>616,040</b>	<b>646,080</b>	<b>673,127</b>	<b>702,748</b>	<b>724,773</b>	<b>761,120</b>	<b>797,480</b>	<b>838,397</b>
<b>Current Liabilities</b>												
Accounts payable	30 days sales	-	19,473	22,282	23,179	23,946	23,182	23,830	23,642	24,664	24,341	25,260
Other current liabilities	50.0% of sales	-	32,590	46,462	54,309	56,107	54,317	55,837	55,396	57,790	57,033	59,187
Income taxes payable	NOL carried	-	-	-	-	-	-	-	-	-	-	870
<b>Total current liabilities</b>		-	<b>52,063</b>	<b>69,743</b>	<b>77,488</b>	<b>80,053</b>	<b>77,499</b>	<b>79,668</b>	<b>79,038</b>	<b>82,454</b>	<b>81,374</b>	<b>85,318</b>
Bank debt		-	-	-	-	-	-	-	-	-	-	-
Subordinated debt		-	430,638	443,753	457,267	471,193	485,543	500,330	515,568	531,269	547,449	564,122
<b>Total liabilities</b>		-	<b>482,701</b>	<b>513,496</b>	<b>534,755</b>	<b>551,246</b>	<b>563,042</b>	<b>579,998</b>	<b>594,606</b>	<b>613,724</b>	<b>628,823</b>	<b>649,439</b>
Paid-in capital		-	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000
Retained earnings		-	(65,807)	(98,530)	(98,715)	(85,166)	(69,915)	(57,250)	(49,833)	(32,603)	(11,343)	8,958
<b>Total equity</b>		-	<b>114,193</b>	<b>81,470</b>	<b>81,285</b>	<b>94,834</b>	<b>110,085</b>	<b>122,750</b>	<b>130,167</b>	<b>147,397</b>	<b>168,657</b>	<b>188,958</b>
<b>Total liabilities &amp; equity</b>		-	<b>596,894</b>	<b>594,965</b>	<b>616,040</b>	<b>646,080</b>	<b>673,127</b>	<b>702,748</b>	<b>724,773</b>	<b>761,120</b>	<b>797,480</b>	<b>838,397</b>

## Appendix C (continued)

Assumptions	97Q2	97Q3	97Q4	98Q1	98Q2	98Q3	98Q4	99Q1	99Q2	99Q3	99Q4
<b>Statement of Cash Flows</b>											
<b>Cash Flow From Operating Activities</b>											
Net income	-	(65,807)	(32,724)	(184)	13,549	15,251	12,665	7,417	17,229	21,261	20,300
+ Depreciation	-	13,434	20,152	20,152	20,152	20,152	20,152	20,152	20,152	20,152	20,152
+ Decrease in accounts receivable	-	(5,432)	(2,479)	(1,141)	(300)	298	(253)	74	(399)	126	(359)
+ Decrease in inventory	-	(4,868)	(702)	(224)	(192)	191	(162)	47	(255)	81	(230)
+ Decrease in other current assets	-	(27,872)	-	-	-	-	-	-	-	-	-
+ Increase in accounts payable	-	19,473	2,809	897	767	(764)	649	(188)	1,022	(323)	919
+ Increase in other current liabilities	-	32,590	14,871	6,484	1,798	(1,790)	1,520	(441)	2,395	(757)	2,154
+ Increase in income tax payable	-	-	-	-	-	-	-	-	-	-	870
+ Change in NWC	-	13,892	14,499	6,379	2,073	(2,064)	1,753	(509)	2,762	(873)	3,355
+ Accrued bank interest	-	-	-	-	-	-	-	-	-	-	-
+ Accrued sub interest	-	10,638	13,115	13,514	13,926	14,350	14,787	15,237	15,702	16,180	16,672
<b>Cash Flow from Operating Activities</b>	-	<b>(27,843)</b>	<b>15,042</b>	<b>39,861</b>	<b>49,700</b>	<b>47,688</b>	<b>49,357</b>	<b>42,297</b>	<b>55,844</b>	<b>56,719</b>	<b>60,479</b>
<b>Cash Flow from Investing Activities</b>											
- Capital expenditures	-	(403,031)	-	-	-	-	-	-	-	-	-
- Other assets	-	950,000	-	-	-	-	-	-	-	-	-
<b>Cash Flow from Investing Activities</b>	-	<b>(453,031)</b>	-	-	-	-	-	-	-	-	-
<b>Cash Flow from Financing Activities</b>											
+ Additional borrowing—bank debt	-	-	-	-	-	-	-	-	-	-	-
- Principal payments—bank debt	-	-	-	-	-	-	-	-	-	-	-
+ Additional borrowing—sub debt	-	420,000	-	-	-	-	-	-	-	-	-
- Principal payments—sub debt	-	-	-	-	-	-	-	-	-	-	-
+ Proceeds from equity issues	-	180,000	-	-	-	-	-	-	-	-	-
<b>Cash Flow from Financing Activities</b>	-	<b>600,000</b>	-	-	-	-	-	-	-	-	-
Cash & equivalent @ beg. period	-	-	119,127	134,169	174,030	217,417	271,417	302,774	363,071	418,916	475,634
Cash flow	-	119,127	15,042	39,861	49,700	47,688	49,357	42,297	55,844	56,719	60,479
Cash & equivalent @ end period	-	119,127	134,169	174,030	223,729	217,417	320,774	363,071	418,916	475,634	536,113
<b>Free Cash Flow</b>											
Net income	-	(65,807)	(32,724)	(184)	13,549	15,251	12,665	7,417	17,229	21,261	20,300
+ Depreciation	-	13,434	20,152	20,152	20,152	20,152	20,152	20,152	20,152	20,152	20,152
+ Accrued interest	-	10,638	13,115	13,514	13,926	14,350	14,787	15,237	15,702	16,180	16,672
+ Change in NWC	-	13,892	14,499	6,379	2,073	(2,064)	1,753	(509)	2,762	(873)	3,355
- Capex	-	(453,031)	-	-	-	-	-	-	-	-	-
<b>Free cash flow</b>	-	<b>(480,873)</b>	<b>15,042</b>	<b>39,861</b>	<b>49,700</b>	<b>47,688</b>	<b>49,357</b>	<b>42,297</b>	<b>55,844</b>	<b>56,719</b>	<b>60,479</b>
Accumulated surplus (deficit)	-	(480,873)	(465,831)	(425,970)	(376,271)	(328,583)	(279,226)	(236,929)	(181,084)	(124,366)	(63,887)
Break-even											
Fixed costs											
Gross margin (%)											
B-E sales level											
% Of expected sales											

## Appendix C (continued)

Assumptions		1997	1998	1999	2000	2001	2002	
Ramp up—restaurant	8 mos. to reach target sales	38%	99%	104%	110%	110%	110%	⇐ Sales enhanced via traffic increase, price increase, etc.
Seasonality	Taken from NRA averages							
COGS/labor efficiency	6 mos. to reach target levels	133%	100%	100%	97%	94%	90%	⇐ Efficiencies achieved in production techniques
<b>Income Statement</b>								
Revenues	See business plan	318,772	1,078,875	1,129,798	1,200,157	1,200,157	1,200,157	
-COGS	25.6% of sales	104,138	276,269	289,309	298,106	288,886	276,593	
Gross margin	74.4%	214,634	802,606	840,489	902,051	911,270	923,564	
Salary, wages, & benefits	See business plan	181,189	294,200	294,200	308,910	308,910	308,910	⇐ Labor increase by 5% to compensate for sales increase
OpEx and G&A	17.4% of sales	79,101	189,843	189,843	189,843	189,843	189,843	
Occupancy	\$ 50/sq.ft.*2,500 ft.	51,042	122,500	122,500	122,500	122,500	122,500	⇐ 5 year lease
Depreciation & amortization	5 depreciation life	33,586	80,606	80,606	80,606	80,606	47,020	
Operating income		(130,284)	115,457	153,340	200,192	209,411	255,290	
Interest income	4.0% of marketable securities	2,451	4,629	12,309	21,756	32,117	42,901	
Interest on bank debt	10.0% on balance	-	-	-	-	-	-	
Interest on sub. debt	12.0% on balance	23,753	56,578	63,791	72,016	81,209	91,576	⇐ No conversion of debt until end of 2002
Income B4 Taxes		(151,585)	63,509	101,857	149,932	160,319	206,616	
Tax provision (benefit)	35.0% tax rate	(53,055)	22,228	35,650	52,476	56,112	72,315	
Net income		(98,530)	41,281	66,207	97,456	104,208	134,300	
<b>Balance Sheet</b>								
<b>Current Assets</b>								
Cash		134,169	320,774	356,113	790,064	1,055,813	1,329,292	
Rec'd	10.0% of sales	94,923	111,674	118,375	120,016	120,016	120,016	
Marketable securities		39,245	209,100	417,739	670,048	935,979	1,209,276	
Receivables	3 days sales	7,910	9,306	9,865	10,001	10,001	10,001	
Inventories	4 turns/mo.	5,570	5,958	6,315	6,211	6,018	5,762	
Other current assets	Deposits & prepaids	27,872	27,872	27,872	27,872	27,872	27,872	⇐ Rent, utilities, insurance
Total current assets		175,521	363,910	580,165	834,147	1,099,704	1,372,927	
Gross PPE	See business plan	403,031	403,031	403,031	403,031	403,031	403,031	
Accumulated depreciation		33,586	114,192	194,798	275,404	356,010	403,031	
Net PPE		369,445	288,839	208,232	127,626	47,020	-	
Other assets	Licenses & permits	50,000	50,000	50,000	50,000	50,000	50,000	⇐ MA liquor license
Total assets		594,965	702,748	838,397	1,011,773	1,196,725	1,422,927	
<b>Current Liabilities</b>								
Accounts payable	30 days COGS	22,282	23,830	25,260	24,842	24,074	23,049	
Other current liabilities	5.0% of sales	47,462	55,837	59,187	60,008	60,008	60,008	⇐ Deposits from employees & customers
Income taxes payable	NOL carried	-	-	870	4,373	4,676	6,026	⇐ Estimated taxes paid quarterly
Total current liabilities		69,743	79,668	85,318	89,223	88,758	89,084	
Bank debt		-	-	-	-	-	-	
Subordinated debt		443,753	500,330	564,122	636,137	717,346	808,922	
Total liabilities		513,496	579,998	649,439	725,360	806,104	898,006	
Paid-in capital		180,000	180,000	180,000	180,000	180,000	180,000	
Retained earnings		(98,530)	(57,250)	8,958	106,413	310,621	344,921	
Total equity		81,470	122,750	188,958	286,413	390,621	524,921	
Total liabilities & equity		594,965	702,748	838,397	1,011,773	1,196,725	1,422,927	

## Appendix C (continued)

Assumptions	1997	1998	1999	2000	2001	2002
<b>Statement of Cash Flows</b>						
<b>Cash Flow From Operating Activities</b>						
Net income	(98,530)	41,281	66,207	96,456	104,208	134,300
+ Depreciation	33,586	80,606	80,606	80,606	80,606	47,020
+ Decrease in accounts receivable	(7,910)	(1,396)	(558)	(137)	-	-
+ Decrease in inventory	(5,570)	(387)	(357)	105	192	256
+ Decrease in other current assets	(27,872)	-	-	-	-	-
+ Increase in accounts payable	22,282	1,549	1,430	(418)	(768)	(1,024)
+ Increase in other current liabilities	47,462	8,376	3,350	820	-	-
+ Increase in income tax payable	-	-	870	3,503	303	1,350
+ Change in NWC	28,391	8,141	4,734	3,873	(273)	582
+ Accrued bank interest	-	-	-	-	-	-
+ Accrued sub interest	23,753	56,578	63,791	72,016	81,209	91,576
<b>Cash Flow from Operating Activities</b>	<b>(12,801)</b>	<b>186,606</b>	<b>215,339</b>	<b>253,950</b>	<b>265,749</b>	<b>273,479</b>
<b>Cash Flow from Investing Activities</b>						
- Capital expenditures	(403,031)	-	-	-	-	-
- Other assets	(50,000)	-	-	-	-	-
<b>Cash Flow from Investing Activities</b>	<b>(453,031)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash Flow from Financing Activities</b>						
+ Additional borrowing—bank debt	-	-	-	-	-	-
- Principal payments—bank debt	-	-	-	-	-	-
+ Additional borrowing—sub debt	420,000	-	-	-	-	-
- Principal payments—sub debt	-	-	-	-	-	-
+ Proceeds from equity issues	180,000	-	-	-	-	-
<b>Cash Flow from Financing Activities</b>	<b>600,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash & equivalent @ beg. period	-	134,169	320,774	536,113	790,064	1,055,813
Cash flow	134,169	186,606	215,339	253,950	265,749	273,479
Cash & equivalent @ end period	134,169	320,774	536,113	790,064	1,055,813	1,329,292
<b>Free Cash Flow</b>						
Net income	(98,530)	41,281	66,207	97,456	104,208	134,300
+ Depreciation	33,586	80,606	80,606	80,606	80,606	47,020
+ Accrued interest	23,753	56,578	63,791	72,016	81,209	91,576
+ Change in NWC	28,391	8,141	4,734	3,873	(273)	582
- Capex	(453,031)	-	-	-	-	-
<b>Free cash flow</b>	<b>(465,831)</b>	<b>186,606</b>	<b>215,339</b>	<b>253,950</b>	<b>265,749</b>	<b>273,479</b>
Accumulated surplus (deficit)	(465,831)	(279,226)	(63,887)	190,064	455,813	729,292
<b>Break-even</b>						
Fixed costs	\$275,625	\$591,997	\$591,532	\$597,664	\$596,496	\$562,493
Gross margin (%)	38.9%	60.8%	61.4%	62.3%	63.1%	64.1%
B-E sales level	\$708,335	\$974,348	\$963,833	\$959,463	\$945,923	\$877,743
% Of expected sales	222.2%	90.3%	85.3%	79.9%	78.8%	73.1%

## Appendix D Team Member Resumes

**PAUL D. CONFORTI**  
 50 Adamson Street  
 Allston, MA 02134  
 (617) 787-7814  
 pconforti@mba97.hbs.edu

**education**  
 1995-1997

**HARVARD UNIVERSITY GRADUATE SCHOOL  
 OF BUSINESS ADMINISTRATION**

**BOSTON, MA**

Candidate for Master in Business Administration degree, June 1997. Entrepreneurial Management Emphasis. Awarded First Year Honors. Elected Section President. Appointed Co-Chair of HBS Ventures' Board of Directors (overseeing Student Association campus businesses). Member of the Small Business & New Enterprise Club, Venture Capital Club, and Food Industry Club.

Organized and led a year-long field study analyzing the dessert niche of the restaurant industry. Completed a feasibility study, and writing a business plan for a concept focused on this niche.

1988-1992

**RENSSELAER POLYTECHNIC INSTITUTE**

**TROY, NY**

Bachelor of Science Degree, summa cum laude, in Management. Concentrations in Finance and Operations. Awarded the Willie Stanton Award as the senior who "contributed the most in the service of the student body."

Elected Student Union President, responsible for overseeing \$6.5 million annual budget, chairing a 12 member Executive Board, and representing the student body to the Administration, Faculty, Staff, and outside community.

**experience**  
 1996

**THE TOPOL GROUP, INC.**

**BOSTON, MA**

*Assistant to the President, Summer Internship*

Coordinated the summer activities of this growing, privately-held consulting and investment management company.

- Investigated angel capital investment opportunities. Performed strategic and financial analyses of five business plans. Worked with entrepreneurs and principal to structure initial investment deals.
- Developed allocation strategy for \$8 million investment portfolio. Integrated investor preferences, market forecasts, and investment vehicle research into executable recommendations. Identified opportunities to reduce management fees by 25% and increase expected returns from 8% to 10% annually.
- Facilitated continued growth of the firm. Identified additional consulting and speaking engagement opportunities for the principal. Acquired space, furniture, equipment, etc., in order to relocate business offices.

1995

**METROPOLITAN LIFE INSURANCE COMPANY**

**UTICA, NY**

*Manager, Dental Insurance Claim Customer Service Center*

Reorganized this \$12 million, 250 employee business to improve operating performance and prepare for significant growth due to consolidations. Created office mission and vision, and focused the organization on three critical areas:

- Customers: Conceived and established MS Excel based customer-specific performance summary reports. Obtained customer feedback and implemented appropriate changes in service delivery.
- Processes and Goals: Improved ten business day claim turnaround time from 70% to 90% processed. Improved customer service response time from 60% to 90% of calls answered within 30 seconds.
- People: Created and delivered supervisor performance appraisals. Initiated management development workshops. Developed employee appreciation and motivation programs tied to performance. Designed and introduced MS Excel based individual performance feedback report.

1992-1994

**THE TRAVELERS INSURANCE COMPANY, Managed Care & Employee Benefits Organization**

1994

*Business Manager, Dental Insurance Claim Customer Service Center*

**ALBANY, NY**

Managed \$2 million, 40 person production and customer service team. Led transition to cross-functional, customer-focused units. Developed and implemented initiatives resulting in 10% customer approval rating increase, 50% improvement in operating performance, and 25% reduction in operating costs.

1992-1993

*Project Manager, Office Consolidations and Process Improvements*

**HARTFORD, CT**

Managed national projects to consolidate claim service centers. Developed strategies with senior management, and coordinated efforts of 20 member cross-functional team. Project resulted in 20% reduction in annual operating costs.

**personal**

Keynote speaker at the Rensselaer Class of 1998 convocation. Enjoy listening to music, running, and traveling.

## Appendix D Team Member Resumes (continued)

**KRISTEN E. KRZYZEWSKI**  
 205 Mount Auburn Street, 4B  
 Cambridge, MA 02138  
 kristenk@mba97.hbs.edu  
 (617)864-2763

**education**  
 1995-1997

**HARVARD UNIVERSITY GRADUATE SCHOOL  
 OF BUSINESS ADMINISTRATION**

**BOSTON, MA**

Candidate for Master in Business Administration degree, June 1997. Appointed Director of Finance, Project Outreach Volunteer Program. Co-Chairperson of Health Care Panel, Women's Student Association Annual Conference. Member of Small Business & Entrepreneurship and Health Industry Clubs.

1989-1991

**CORNELL UNIVERSITY**

**ITHACA, NY**

Bachelor of Arts degree in Economics, with distinction in all subjects. Elected *Phi Beta Kappa*. Awarded IBM Watson Memorial Scholarship. Selected by faculty as Teaching Assistant for Insurance & Risk Management course at Cornell's School of Hotel Administration. Resident Advisor. Dean's List.

1987-1989

**BOSTON COLLEGE**

**CHESTNUT HILL, MA**

Honors Program, School of Arts and Sciences. Campus tour guide. Minority recruitment volunteer. Dean's List.

**experience**

1991-1995

**CROWN STERLING SUITES**

**SAN FRANCISCO, CA**

*Director of Employee Benefits and Risk Management Systems*

Structured and managed employee benefit plans, worker's compensation, risk management programs, payroll, personnel policy, and \$10 million budget for hotel management company with 24 hotels and 3,500 employees.

*General Management & Administration*

- Assessed organizational needs regarding risk exposure and focused management attention and resources on highest priorities. Researched loss prevention and financing options. Accountable to senior management.
- Designed strategy to minimize risk and manage costs. Implemented policy, procedure, and training which reduced insurance losses by 67% and annual insurance premiums by \$2.5 million.
- Created systems resulting in proprietary claims management process, standardized performance measurements, and billing review procedure.
- Negotiated insurance contracts and costs.
- Managed external relationships with 12 insurance carriers, 5 brokers, and hotel customers.

*Employee Benefits and Personnel*

- Hired and supervised corporate administrative employees. Directed activities of 24 benefit administrators.
- Evaluated medical, dental, and 401(k) benefit plans, researched viable alternatives, and implemented programs which resulted in annual savings of \$1 million and increased coverage for employees.
- Developed first corporate safety policy and revised employee handbook for operations in 6 states.

1991-1993

*Insurance Administrator*

**DALLAS, TX**

Developed corporate procedure to report and handle guest related incidents at hotels. Analyzed claim experience to identify trends. Monitored reserves and developed strategies to minimize losses.

summer 1996

**THE CITIBANK PRIVATE BANK**

**NEW YORK, NY**

*Summer Management Associate*

Assumed project management responsibilities as member of internal consulting team on portfolio of global performance improvement initiatives.

- Designed analytical model to prioritize re-engineering projects. Directed creation of user-friendly database and documentation used by global staff. Submitted by bank for patent protection.
- Led project to rationalize global deployment of bank resources in 33 countries. Framed analysis, researched global wealth market, collected and analyzed internal data.

**personal**

Rotary International Exchange Student to West Germany from 1986-1987. Proficient in German. Enjoy skiing, ballroom dancing, and travel.

## Appendix D Team Member Resumes (continued)

	<p style="text-align: center;"><b>KIM MOORE</b>  One Soldiers Field Park, Apt. 602  Boston, MA 02163  (617) 661-1558</p>	
<b>education</b>		
1995-1997	<b>HARVARD UNIVERSITY GRADUATE SCHOOL OF BUSINESS ADMINISTRATION</b> Candidate for Master in Business Administration degree, June 1997. Elected to <i>Harbus News</i> Board of Directors. Active in Marketing Club, Women's Student Association and Texas Club.	<b>BOSTON, MA</b>
1985-1989	<b>THE UNIVERSITY OF TEXAS</b> Awarded Bachelor of Journalism degree. Received Texas Achievement Award (scholarship). Appointed Director of 30-member news staff at student radio station, responsible for hourly newscasts. Active member of Student Issues Committee, La Amistad (mentor program), Women in Communications.	<b>AUSTIN, TX</b>
<b>experience</b>		
summer 1996	<b>H.E.BUTT GROCERY COMPANY</b> Summer Associate, Special Projects. Structured and led comprehensive examination of stores for nation's 10th largest grocery chain with goals of improving profitability and increasing sales. Presented findings and store-specific recommendations, projected to result in a 12% increase above expected growth in a no-growth industry. <ul style="list-style-type: none"> <li>• <i>Strategy.</i> Performed industry analysis to determine market position. Conducted competitive study. Created metrics for continually monitoring level of competitive intensity. Devised advertising strategy to combat entrenched competition and to foster long-term growth.</li> <li>• <i>Marketing.</i> Examined trade area demographics. Identified key variables having impact on sales and profitability. Produced communication strategy to reach large ethnic population. Recommended innovative shuttle service to address concerns created by high percentage of pedestrian shoppers.</li> <li>• <i>Operations.</i> Developed objective measures to quantify store director performance. Recommended creative methods to attract and retain quality employees. Suggested information sharing program designed to promote store-level efficiencies and continuous improvement.</li> </ul>	<b>HOUSTON, TX</b>
1992-1995	<b>CAPITAL CITIES/ABC, INC.</b> Associate Producer, ABC News <i>Day One</i> . Project coordinator for start-up, network television program. <ul style="list-style-type: none"> <li>• Initiated, structured and co-supervised development and execution of story projects, from proposal to broadcast, budgets up to \$100,000. Supervised 5-15 member teams on location.</li> <li>• Researched, analyzed and presented relevant data and background information. Developed ideas on project content and framework, resulting in more effective story presentation. Assembled and coordinated teams of experts to evaluate ethical and legal concerns on individual projects.</li> <li>• Developed strategic plans for optimal news coverage. Responsible for coverage of breaking news events (David Koresh, State vs. OJ Simpson, Oklahoma City Bombing).</li> <li>• Awarded Emmy for story on Ross Perot and his relationship with EDS and GM. Received Casey Medal for Meritorious Journalism for story on HCA and fraudulent insurance practices.</li> </ul>	<b>NEW YORK, NY</b>
1990-1992	<b>Senior Production Associate, ABC News <i>This Week With David Brinkley</i>.</b> Managed production-area team of 15 producers and editors for Washington-based weekly program. Coordinated union schedules, identified newsworthy clips to seniors and trained junior staff members.	
1990	<b>Desk Assistant, ABC News <i>World News Tonight with Peter Jennings</i>.</b> Identified and relayed news stories to international bureaus. Assisted editors in coordinating schedules of producers and news correspondents. Led team in delivery of broadcast materials.	
summer 1988	<b>CNN (CABLE NEWS NETWORK)</b> <b>Intern, CNN Political Unit.</b> Covered 1988 Presidential campaign. Selected to work on Republican and Democratic conventions.	<b>WASHINGTON, DC</b>
<b>personal</b>	Created, published and edited alumni newsletter for University of Texas (New York Chapter). Self-described cook of obscure Texas cuisine. Enjoy traditional Mexican, American, ballroom and Latin dance.	