

Kosko's

Greek Grill

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KOSKO'S | UVA

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Executive Summary

This report was created to examine the market opportunity, and business strategy of Kosko's Greek Grill.

The research draws attention to the fact that there is sizeable local and national demand for high quality food served in an efficient manner. According to Chipotle's Q1 2014 earnings report, the restaurant chain opened 44 new restaurants, increased net income by 8.5% and total revenue increased by 24.4% to 904.2 million in comparison to Q1 2013. Fast casual restaurants such as Chipotle, Panera Bread, and Smash Burger have posted significant increases in customer traffic over the last five years while quick service restaurants such as McDonalds and Taco Bell have decreased in 2009 and 2010, and remained flat in 2011 and 2013. Quick service restaurants like McDonalds have posted only a 1% increase in customer traffic in 2012. ¹ In other words, the low quality quick service restaurants are experiencing lesser demand, while high quality fast casual restaurants are experiencing increasing demand.

As with the increasing consumer demand to eat foods created with high quality ingredients, there is also an increased demand to try new foods from different cultures. One such cuisine is that of Greece. In the Central Virginia area, Greek cuisine is typically available only from small, family owned eateries. However, a Greek restaurant chain that focuses on affordability, high quality ingredients, and efficient service has yet to meet consumer demand in the fast casual market segment.

¹ <http://seekingalpha.com/article/2031641-chipotle-mexican-grill-explosive-growth-is-expected-to-continue>

Market Opportunity

Local Market Opportunity

There are currently no fast-casual or quick-service Greek restaurants in the Central Virginia area. Most restaurants prepare food slowly in back room kitchens and require customers to sit down for a meal.

Stella's, a Greek restaurant in Richmond, prefers customers to sit down for a pleasant Greek dining experience tailored for the middle and high income American consumer. However, this dining experience requires ample time and usually ends in a bigger bill, which severely limits the number of low and middle income consumers who also have less time to spare.

Stella's in Richmond, VA



The lack of a fast-casual Greek restaurant in Central Virginia catered towards low and middle income consumers presents an opportunity for a Greek restaurant that can provide food prepared with high quality ingredients, prepared efficiently and made available at an affordable price point.

National Market Opportunity

Similarly, there has been a proliferation of fast-casual restaurant chains that meet American demands for fast and efficient service, high quality ingredients, customizability, and affordability. Listed below are a few fast-growing restaurant chains that meet the aforementioned criteria. These restaurants are a grade above the traditional fast food restaurant chain in terms of quality.

- Chipotle – Mexican Food tailor to the American palate
- Five Guys – Cheeseburgers, Hot dogs, French fries
- Smash Burger – Burgers, Chicken Sandwiches, Salads
- Panera Bread – Bakery, Café Items

Competitive Advantage within the Market

Thus within the local and national fast-casual market segment, there has yet to exist a Greek restaurant that meets the following criteria:

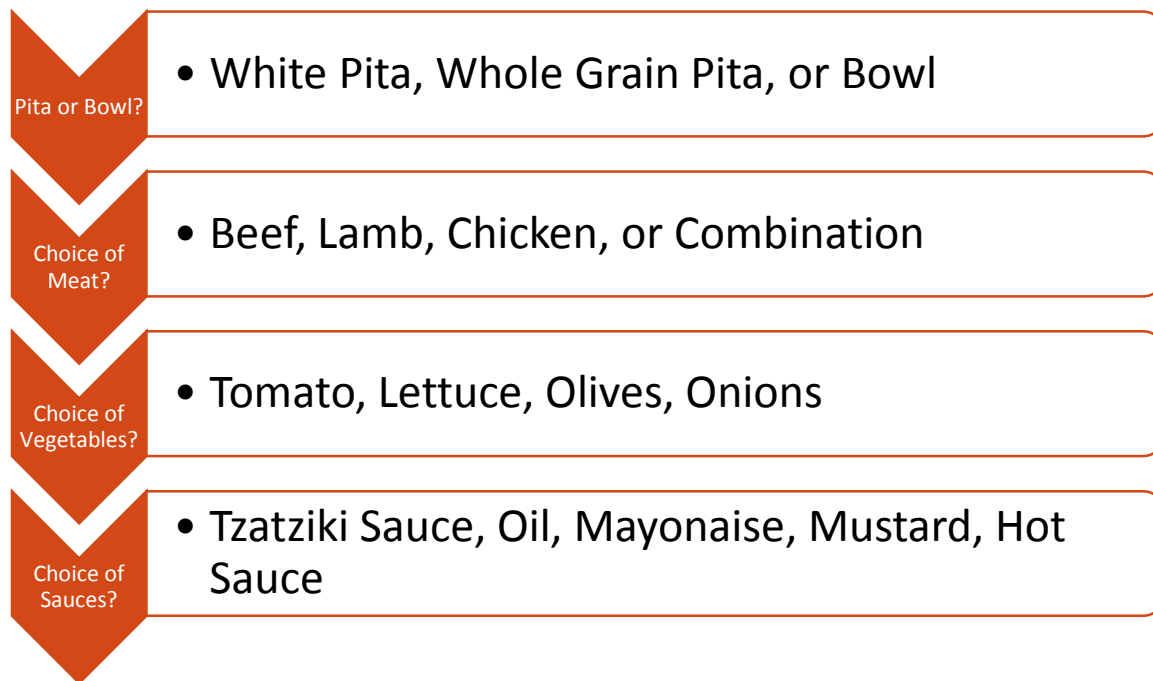
- High quality ingredients
- Affordable prices
- Fast, efficient service
- Distinguished brand

Concept Summary

Product & Process

To meet the demand for a fast casual option for Greek food, we plan to open Kosko's. Kosko's is a fast casual Greek restaurant that will allow customers the option of customizing their souvlaki, gyro, or bowl with high quality and regionally sourced wraps, sauces, vegetables, and meats. Unlike most family owned Greek eateries, Kosko's employees will efficiently prepare food along an open food preparation line, and allow customers to add or remove ingredients as they please. The ideal workflow is diagrammed below.

Customer Order Workflow



Example Finished Product



Kosko's food preparation ordering line and production workflow empowers customers to make choices about what ingredients go into their food, while also allowing Kosko's to efficiently serve a large number of customers.

The pace of production, quality of ingredients, and affordable prices help place Kosko's as the foremost Greek restaurant in the fast casual market segment.

Market Information and Strategy

Competition

The market for Greek food is populated with many family owned restaurants that target middle and high income individuals. These restaurants are not built in massive chains, and they don't specifically cater towards Kosko's target demographic.

Target Customers

Our target demographic lies in the age 16-30 bracket and consists of the following demographics.

- Students
- Blue-collar workers of all ages (Median Salary: \$35,000 - \$45,000)
- Entry-level white collar workers (Median Salary: \$50,000 – \$75,000)

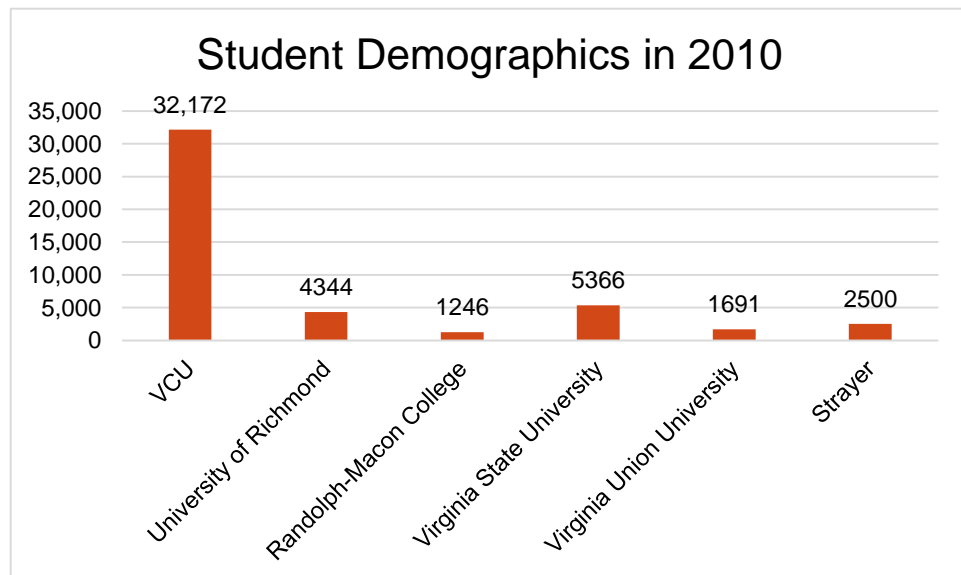
And we found that Richmond has a large population of people who meet the criteria specified in our target market.

Richmond, VA and Greater Richmond Area Demographics and Labor Data

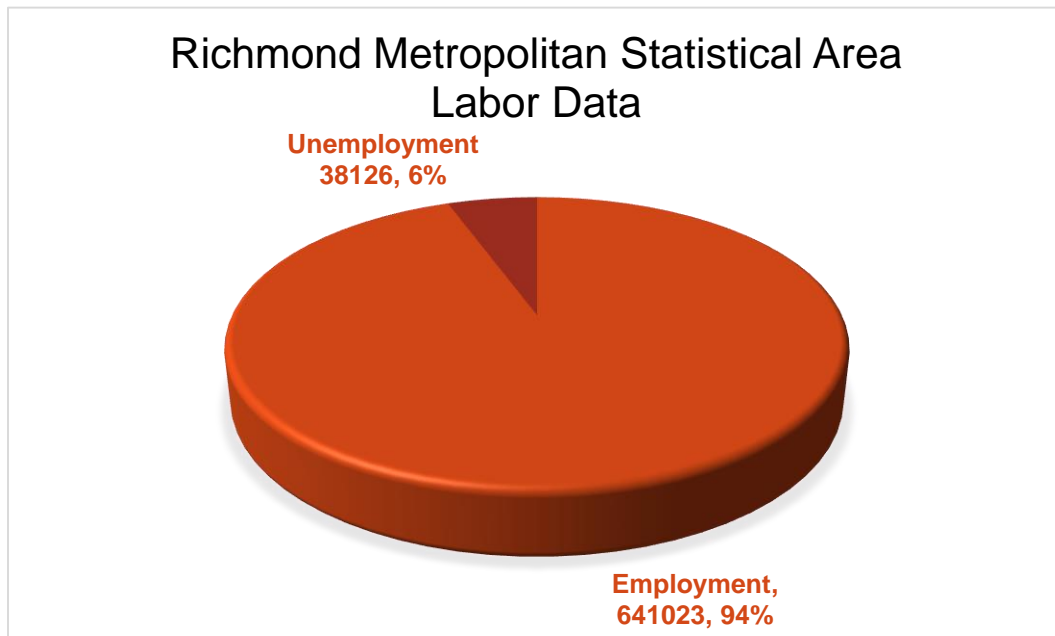
Richmond has 15 four-year institutions and 11 two-year and specialty institutions. Colleges in the area have enrollment of more than 77,500 in associate, undergraduate, and graduate degree programs.

The graph displayed below shows a few of the major institutions in the Richmond and Greater Richmond area.²

VCU has the largest number of enrolled students by far, and it serves as a major influence in the Richmond area.



² http://www.grpva.com/publications/Just_The_Facts.pdf



The Richmond Metropolitan Statistical Area has a sufficiently high rate of employment in many industries. Some of the largest industries include:³

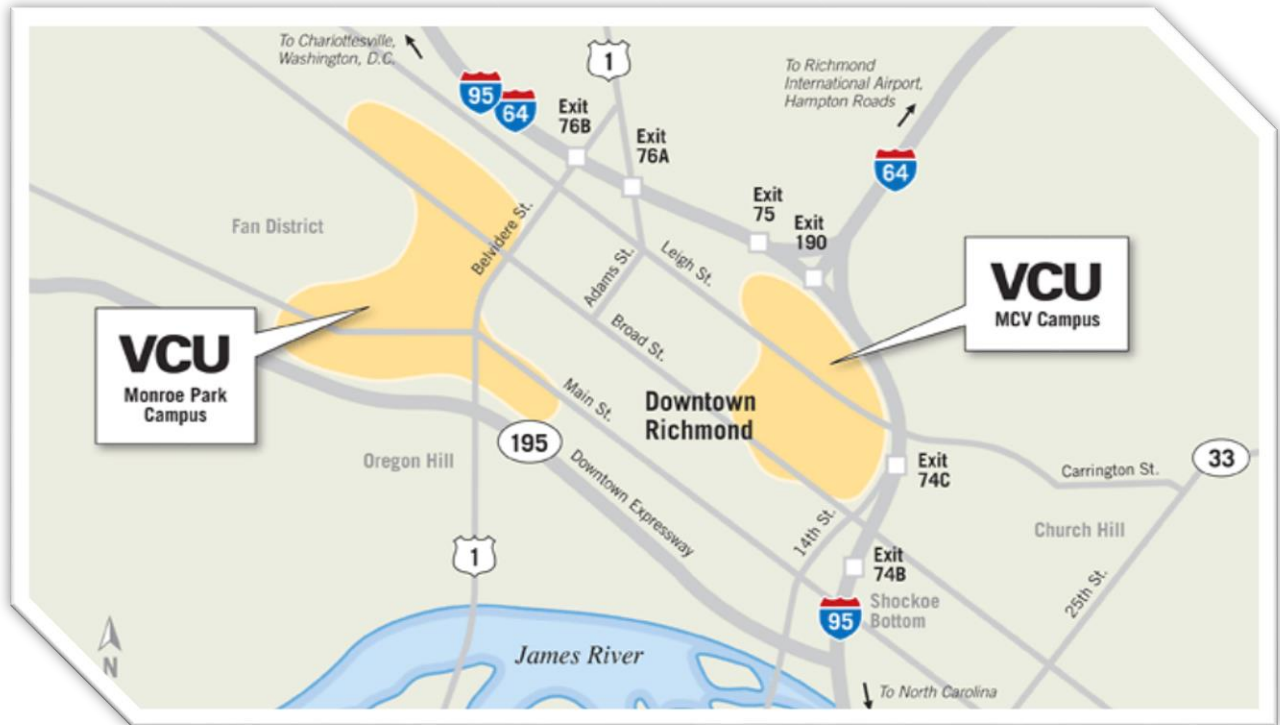
- Health Care and Social Assistance – 15% of employment
- Retail Trade – 11.3% of employment
- Educational Services – 8.5% of employment
- Public Administration – 6.8% of employment
- Administrative and Support and Waste Management – 6.6% of employment
- Finance and Insurance 6.4% of employment
- Construction – 5.9% of employment
- Professional, Scientific, and Technical Services of employment – 5.8% of employment
- Manufacturing – 5.3% of employment
- Other – 38.4%

Thus, out of 596,928 employees in the data, there is a steady balance of both blue collar and white collar jobs in the Richmond MSA.

³ www.grpva.com/doing-business/labor-workforce/labor-data/employment-by-industry

Restaurant Location

For our first location, we plan to build Kosko's at a central location nearby VCU. Building our first restaurant in the center of Richmond makes the restaurant easily accessible for commuters and people from the Greater Richmond area through I-64 and I-95.



Startup Advertising Strategy

Initially, Kosko's will market to college students through campus promotions and the use of student friendly sales channels. Some early methods during the start-up phase include:

- Free gyros for the first 50 students to show up on opening day with a valid college ID
- Online sales through OrderUp.com
- Campus promotions
- Payment with a Meal Plan or Meal Plan Dollars

Growing the Business

To start up the business, we will begin by establishing a location nearby VCU in Richmond, Virginia. The VCU location will initially be marketed towards VCU students, and once we gain traction in the college community, we will begin marketing towards local blue collar workers, and entry level white collar workers.

Once we have gained a strong base of customers, we'll expand to the surrounding Greater Richmond area, and look onwards to Northern Virginia and Charlottesville.

Management and Ownership

Ownership

Kosko's will be split evenly among the initial startup operators: Evan, John, Margaret, David, and Will. Assuming that we are granted a loan, 4% will be taken from each owner to be given to our investors.

In the future, and under the assumption that all owners agree to the future of the company, Kosko's may hold an initial public offering, during which each owner's overall stake in the company may be restructured.

Key Relationships

Kosko's will need to maintain many relationships, some of the core relationships are shown below:

- Suppliers – Healthy relationships with our suppliers will benefit our business, as well as their business. As we grow, we will be able to purchase in greater quantities and as a result purchase at a lower overall price.
- Financiers – Maintaining a healthy relationship with our financiers may give us more latitude in borrowing and repaying capital.
- Employees – Maintaining great relationships with our employees will give us a more productive workforce, and it will allow us to hire from within our company to grow our business.
- Consultant Chefs – Delivering a great meal will require us to hire great chefs who are knowledgeable about Greek food.
- Consultant Restaurateurs – To operate the business efficiently, we will have to learn the processes behind efficient restaurants.

Employee Promotion Plan

To expand our business, we will hire internally from within each Kosko's location. In most cases, we will strive to hire Kosko's employees who have spent time working in every part of the business.

Once we have selected the employee who has the best fit, we will give them a share of ownership in Kosko's as an added incentive to maintain high productivity and low costs.

Financials

Raw Financial Costs

The tables shown below are broken down into the most atomic units for making gyros. The top left table displays raw ingredient costs, and the other tables show the cost associated with making each of the main entrees.

| Raw Ingredient Costs | Cost |
|------------------------------------|--------|
| Beef (per pound) | \$4.60 |
| Lamb (per pound) | \$7.99 |
| Chicken (per pound) | \$1.39 |
| Pitas (per pita) | \$0.32 |
| Tomatoes (per pound) | \$0.72 |
| Lettuce (per pound) | \$0.11 |
| Onion (per pound) | \$0.42 |
| Tzatziki (per tablespoon) | \$0.08 |
| Bowls (per bowl) | \$0.08 |
| Cutlery (1 fork, 1 spoon, 1 knife) | \$0.03 |
| Lamb Gyro Ingredient Cost | Cost |
| Lamb (1/2 lb) | \$4.00 |
| Pita (1 pita) | \$0.32 |
| Tomatoes (1/16 lb) | \$0.04 |
| Lettuce (1/16 lb) | \$0.01 |
| Onion (1/16 lb) | \$0.02 |
| Tzatziki (2 Tablespoons) | \$0.16 |
| Bowl | \$0.08 |
| Cutlery | \$0.03 |
| Total | \$4.66 |

| Beef Gyro Ingredient Cost | Cost |
|---------------------------|--------|
| Beef (1/2 lb) | \$2.30 |
| Pita (1 pita) | \$0.32 |
| Tomatoes (1/16 lb) | \$0.04 |
| Lettuce (1/16 lb) | \$0.01 |
| Onion (1/16 lb) | \$0.02 |
| Tzatziki (2 Tablespoons) | \$0.16 |
| Bowl | \$0.08 |
| Cutlery | \$0.03 |
| Total | \$2.96 |

| Chicken Gyro Ingredient Cost | Cost |
|------------------------------|--------|
| Chicken (1/2 lb) | \$0.69 |
| Pita (1 pita) | \$0.32 |
| Tomatoes (1/16 lb) | \$0.04 |
| Lettuce (1/16 lb) | \$0.01 |
| Onion (1/16 lb) | \$0.02 |
| Tzatziki (2 Tablespoons) | \$0.16 |
| Bowl | \$0.08 |
| Cutlery | \$0.03 |
| Total | \$1.35 |

Profit per Entree

The table display below shoes the cost, sales price, and profit per main entrée. The cost value takes into account the raw ingredients used to make the entrée.

| Entree | Cost Per Unit | Sale Price Per Unit | Profit Per Unit |
|--------------|---------------|---------------------|-----------------|
| Beef Gyro | \$2.96 | \$8.50 | \$5.54 |
| Lamb Gyro | \$4.66 | \$8.50 | \$3.84 |
| Chicken Gyro | \$1.35 | \$7 | \$5.65 |

Best Case Sales Projections: 500 Daily Customers

In the ideal scenario, Kosko's would serve over 500 customers a day. To increase demand, we would have to market Kosko's very well towards our customers and also operate our restaurant efficiently to meet customer demand. In this case we would profit about \$1854.21 per day.

| Line Item | Cost Per Day | Sales Per Day | Profit Per Day |
|-------------------------|--------------|---------------|----------------|
| Chicken Gyro (166 Sold) | \$224.10 | 1162 | |
| Beef Gyro (166 Sold) | \$491.36 | 1411 | |
| Lamb Gyro (166 Sold) | \$773.56 | 1411 | |
| Employee Wages | \$580 | | |
| Bowls | \$42.60 | | |
| Cutlery | \$18.17 | | |
| Total | \$2,129.79 | 3984 | 1854.21 |

Middle Case Sales Projections: 300 Daily Customers

In a less than ideal case, we would serve about 300 customers daily. Kosko's would still profit about \$886.55 dollars per day in the less than ideal case.

| Line Item | Cost Per Day | Sales Per Day | Profit Per Day |
|-------------------------|--------------|---------------|----------------|
| Chicken Gyro (100 Sold) | \$135.00 | 700 | |
| Beef Gyro (100 Sold) | \$296.00 | 850 | |
| Lamb Gyro (100 Sold) | \$466.00 | 850 | |
| Employee Wages | \$580 | | |
| Bowls | \$25.55 | | |
| Cutlery | \$10.90 | | |
| Total | \$1,513.45 | 2400 | 886.55 |

Worst Case Sales Projections: 100 Daily Customers

In the worst case, Kosko's would lose about \$120.43 dollars per day. This case would materialize if we failed to deliver a quality product, and if we failed to market to our target customers.

| Line Item | Cost Per Day | Sales per Day | Profit Per Day |
|------------------------|--------------|---------------|----------------|
| Chicken Gyro (33 Sold) | \$44.55 | 231 | |
| Beef Gyro (33 Sold) | \$153.75 | 280.5 | |
| Lamb Gyro (33 Sold) | \$97.68 | 280.5 | |
| Employee Wages | \$580 | | |
| Bowls | \$25.55 | | |
| Cutlery | \$10.90 | | |
| Total | \$912.43 | 792 | -120.43 |

Requested Investment and Return on Investment

Estimated Startup Costs

| Item | Cost |
|---------------------------|-------------|
| 1 year lease on buildings | \$20,000 |
| 8 Tables | \$880 |
| 32 Chairs | \$1,040 |
| 2 Grills | \$5,000 |
| 1 Dishwasher | \$1,300 |
| Cooling Rack | \$390 |
| Knife Set | \$300 |
| Cutlery | \$45 |
| Bowls | \$85.19 |
| Fountain Soda Machine | \$1,400 |
| 8 Napkin Dispensers | \$56 |
| 1000 Paper Cups | \$51.99 |
| 20 Uniforms | \$236.20 |
| 2 Chef's Whites | \$50 |
| 2 Paper Towel Holders | \$28 |
| 8 Toilet Paper Holders | \$112.00 |
| Total | \$30,974.38 |

Implementation of a \$2,500 Investment

For the \$2,500 Jenner Award, we want to hire a chef to consult on developing our recipe. We need to perfect our recipe to ensure quality and deliciousness for our customers. Specifically, the chef should develop different sauces for the gyros, an easy standardized process for cooking the meat, and the different added items in the gyro that fit into the Greek style and general consumer tastes.

Implementation of a \$75,000 Investment

If we were given a \$75,000 investment to supplement our initial \$2,500 investment, we would immediately use our funds to purchase our necessary startup goods and for startup living costs.

Return on Investment

In exchange for an \$80,000 total investment, we will offer 20% equity in the company.

Initial Public Offering

Our goal is to reach 10 restaurants in Virginia and 100 restaurants on the East Coast. Once we reach over 100 restaurants, we will begin working towards an initial public offering.

Team Contributions

Evan Cohen – Coordinated group activities, worked on poster board, produced the initial idea, identified market opportunity, reviewed business report

John Tai – Organized business report, worked on poster board, organized company financials, produced sales projections, reviewed business report

David DeCarlo – researched startup costs, worked on poster board, produced estimates, reviewed business report

Margaret Furr – Coordinated group activities, worked on poster board, researched market demographics, gathered estimates, reviewed business report

Will Lane – Helped develop company financials, worked on poster board, researched management and ownership structures, reviewed business report