QUALITY CUISINE TO GO

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The main character in the case decided to leave a secure position in the investment field to pursue the dream of owning a restaurant. She moved to a much smaller town to escape the noise and congestion of a large city. She thought the combination of a unique restaurant in that location and an emphasis on healthy low calorie food would ensure the success of her business. Unfortunately, after almost two years of operation the restaurant was still not profitable. She is faced with the question of what to do to make the business a success.

INTRODUCTION

Maria pushed the chair back from her desk and sighed. Her restaurant's income statement was not good. She had started her own business with high expectations, a unique approach, and enthusiastic reviews from friends. How had she come to this point?

Maria operated a unique restaurant, which offered customers the opportunity to prepare gourmet meals they could take home to their families. They could prepare a meal for just one sitting or several meals, which could be taken home and placed in the freezer. No other restaurant of this type existed in the town where she lived so she had thought it would be very successful.

Maria had no previous experience in the food preparation business. Her background was in the field of investments. She had worked for more than 15 years for a large investment firm and had been quite successful. She enjoyed working with numbers and had received several promotions at her company because of her hard work. Maria had been very happy in her career until the past two years. At that time she began to grow weary of the corporate world. Also she no longer found the hustle and bustle of Washington, DC, where she lived, attractive. Maria wanted to move to a smaller, less congested city and start her own business. She had always enjoyed cooking and became fascinated with the idea of owning her own restaurant. She explored several different formats before she settled on a concept she thought would be unique. She would open a restaurant where patrons could prepare their own meals, package them, and take them home to eat or freeze. If preferred, the meals would be assembled for the customer with an additional charge.

THE CONCEPT

The idea for the restaurant came from cooking parties with her friends. On Friday or Saturday nights they would get together, prepare a meal and unwind from the pressures of the workweek. After several of these evenings together she had suggested that they prepare extra meals to take home and cook later in the week, when they had far less time for food preparation. That had worked so well that Maria decided to expand the idea to the public. She would open a restaurant that provided this service and emphasized high-quality, low-fat food. She had become much more health conscious in her eating habits and she found most of her friends also were more aware of the fat and calorie content in their meals. If she offered these types of meals to her customers she reasoned it was a sure formula for success.

She discussed the idea with several of her friends and they all thought it had great possibilities. Maria decided to offer only top quality ingredients and that her target market would be affluent singles and dual income families who were too busy to prepare meals every evening, liked to eat at home and would find her restaurant an attractive alternative to fast food or delivered pizza. She estimated her restaurant would appeal to singles with an income over $45,000 and families with a household income of $80,000 and above.

Maria planned to use the Internet to schedule each customer at least 48 hours ahead. They would also have the option to make a reservation in person or by telephone. When the customer arrived for the session, the kitchen would already be stocked with all the ingredients to create the meals. Each customer would select preferred meals from a list of fourteen different options. The customer would prepare six to twelve meals for her/his family.

The reservation system would be crucial to the success of the business. With it she could control the customer flow to insure that there would be freshly purchased food on hand and minimize the amount of waste. High quality food would be one of her competitive advantages so it had to be fresh. Also, by controlling the flow of customers, she would have enough employees on hand to properly serve them. Customers would rotate through each workstation and follow prominently displayed assembly instructions for each recipe. They would have the option to tailor the recipe to suit their preferences. Maria would provide the containers and the cooking instructions, the customer would bring a cooler to take the meals home.

The menu would change monthly, but typical offerings would include beef, pasta, poultry, pork, seafood and a vegetarian option. Dinners would be cooked at home by baking in the oven, on the stovetop, or by grilling. Each meal would include cooking instructions. Low-fat and low-carbohydrate options would always be available. The price of an average portion meal would be approximately $5.00 for the customer.

Maria decided to emphasize the concept of preparing the meals with friends. Since she had enjoyed the evenings when she and her friends had prepared meals together she thought it would appeal to her customers too. She would create a festive atmosphere and promote it as a social event with a useful by-product. A group could fulfill their dinner needs when they came to the restaurant and also enjoy the company of their friends. If a group of ten or more reserved her store a week in advance she would close the restaurant to all other business during that session. As an additional incentive to attract groups she offered a free meal to one individual in every group of ten or more customers.

With her restaurant concept well defined, the next question was where to locate. She wanted a location with a slower pace than Washington, DC. She needed to escape its noise and traffic congestion, which she had grown to hate. Maria had grown up in a town of approximately 15,000 residents and she had been frustrated by the lack of shops, restaurants and entertainment options available there. She disliked living in a community so small that everyone knew each other. Fifteen years in Washington, DC, however, made her reexamine the benefits of a smaller town. She liked the idea of walking down the street and people saying good morning to her rather than rushing by stone faced on their way to work or their next appointment. She relished the thought of being able to drive fifteen minutes to work rather than an hour and a half in bumper-to-bumper traffic. Although Maria had grown tired of these aspects of city life she still wanted to be able to on occasion visit the many friends she had made in the Washington area. Therefore, she wanted a location within a few hours drive from her previous home.
Maria explored numerous towns within a two to three hour drive of Washington, D.C. Several had possibilities, but she finally chose the town of Rosman, Virginia. A major factor in the selection was that her mother lived there. Maria had been very happy with the decision of fifteen years ago to move away from her mother. She had reveled in her freedom and the many entertainment and shopping opportunities which the nation's capital offered. But in recent years, Maria had decided she would enjoy being close to her mother again. She had become quite excited about Maria's business idea and volunteered to help her financially and in the day-to-day operation of the business. Her mother had moved back to this town in the western

portion of Virginia after the death of her husband. Maria's mother had grown up in the town and had left reluctantly when her husband's job had required that he move to the northeast. She had many friends and relatives in the vicinity, which made the location attractive to her.

Maria resigned from her position with the investment firm, sold her house in Washington, and moved to an apartment in Rosman. Her seed capital for the restaurant came from two sources: 1) her savings which included her 401k plan; and 2) a loan from her mother. Maria had been reluctant to take money from her mother. She had planned instead to use her own funds and secure a bank loan for the remainder needed. When she totaled the costs to start the restaurant, however, she was shocked. Her savings would cover only about one fourth of the start –up costs.

She found that she had been very naïve about securing a loan from a bank. She had virtually no collateral for the loan other than her savings, which were already being used for the start –up. To her surprise she found that no banks in the town where she wanted to open the business would loan her money without more collateral than she had. She tried several banks in Washington, D.C., and received the same response. This puzzled her and after talking with the fourth banker, Maria asked why she kept receiving such an unenthusiastic reaction. The bank official explained to her that restaurants had a notoriously high failure rate among new businesses. This fact, along with her lack of any experience in the restaurant business, made it virtually impossible for her to secure the level of financing she thought was necessary.

Maria's mother had sensed her frustration and offered to provide the rest of the seed capital. Maria did not like the idea of taking this money from her mother. Although one of the reasons she wanted to leave Washington was to be closer to her mother, she also wanted to maintain a certain level of independence from her. Maria was her mother's only child and she had never liked the fact that Maria had moved away to a large city. If Maria accepted the money, she would relinquish some of the independence she had gained when she left home. Also she did not want to risk losing a portion of her mother's retirement income, but she saw no other alternative. Because Maria wanted the restaurant to project an air of quality, the location and the fixtures would be quite expensive. Since financing from the local banks was not an option, this was the only other alternative if she wanted to operate her business in the manner she had envisioned.

THE TOWN

Maria's decision to start her own business was due partly to her dissatisfaction with the traffic and hectic pace of living in a large city. The decision was also based on her belief that the type of restaurant she would operate would appeal to consumers who wanted quality cuisine but did not have the time to prepare it. Before she selected the town of Rosman, she checked to see if any other restaurant with the same format existed there. To her delight she found that there were none. Because it was a city of approximately 28,000 residents and a major interstate highway was located just four miles east of town, there were a large number of restaurants located in the area. National chain restaurants such as Shoney's and CrackerBarrel, joined the major fast food chains, at the interstate exits. In the town itself there was a variety of independently owned restaurants. The north side of town, which was the least affluent, had several fast food restaurants, three pizza parlors and a few inexpensive diners. The downtown retail area, dominated by a two block long pedestrian mall, had several locally owned eateries with the standard steaks, chicken and seafood. The south side of town had the major fast food franchises like McDonald's, Burger King and Kentucky Fried Chicken and several locally owned restaurants with a more extensive menu and better cuisine.

This portion of town had experienced a building boom in the past five years. Several of the housing developments, which had been built, were priced to appeal to upper middle-income families. The homeowners were professionals, worked in one of the numerous small to medium sized factories located in the town or commuted 60 to 70 miles to the east to the Washington, DC area with its high salaried federal government jobs. Many of these households had both parents working with combined incomes over $100,000. This meant their discretionary income was high but they often had a limited amount of time during the week to prepare a quality evening meal. These families were just the type of customers to whom Maria wanted to appeal.

SITE SELECTION

Maria determined the location of her restaurant was crucial to its success. Because her target market was the upscale portion of the dining market she had to be careful to select the proper area of the city. On several previous visits to see her mother, Maria had spent time exploring the town. The downtown shopping area, with its cluster of small locally owned stores, interested her at first. After closer examination she decided it would be too inconvenient for her target market with its limited parking. Also she determined it was too far from the suburban areas where the majority of her potential customers lived.

The north and east sides of Rosman did not have enough of the type of households she thought were crucial to the success of her restaurant. The west side of town had several upscale housing developments that could afford her meals but there were no business locations that she really liked. That left the south side of town. After several fruitless days of searching she finally located a small well-landscaped shopping center, still partially under construction. It had several spaces available for rent. It was close to two large and very affluent housing developments and situated just off a state highway that ran south of town. Her location was not visible from this highway due to some stores which were located directly on the highway. She thought it would not be a problem because once a vehicle turned off the main highway and drove back to the shopping center her location would be visible.

The tenants, currently in the shopping center, would be excellent complements for the restaurant she had in mind. One was Talbot's an upscale women's clothing chain and a second was a national men's suit chain that appealed to upper middle and upper income males. The center was very attractively landscaped and she was sure its store mix would complement her business perfectly.

Sixty feet long and thirty-five feet wide, the space rented for more than the other locations she had examined. The building was brand new with large windows across the front and an attractive terra cotta roof. Also, since the interior of the building was not completely finished, the landlord agreed to make a few adjustments in the unfinished lighting and plumbing to accommodate the layout of the restaurant. Maria wanted to project the right image for her business and this shopping center with its attractive mix of upscale stores was just what she desired.

PROBLEMS

Maria's restaurant, *Quality Cuisine to Go* opened in the spring of 2005 to an initial flurry of business. She found herself working sixty to seventy hours a week with very little time for anything else. Almost two years after the opening, the restaurant's sales still did not cover her costs. With rent, wages, and the costs of the food sold she was losing approximately $300 a month. She drew a salary of $3000 a month initially, which was less than half what she had made with the investment firm. However, since her living costs were less than in Washington, DC and she wanted the business to succeed, she was content with that amount. Recently she had reduced her salary to $1500 a month and moved into her mother's home to decrease her living costs. Would *Quality Cuisine to Go* ever turn a profit, she wondered?

Maria decided she needed help to make her business profitable. She scheduled an appointment with the Small Business Development Director in her area. He studied her financial statements made a few suggestions that would allow her to lower her costs, then asked what type of market research she had done before starting the business and selecting its location. Maria was totally surprised. She had expected recommendations about the internal operations of the restaurant. Instead he said he thought the problem was she was not attracting enough customers.

The director said he would like to visit the restaurant before he made any final recommendations. A week later Maria went back to his office and he gave her the results of his business analysis. He asked if she had done any type of market research prior to starting the business. Maria said she had not. She had a concept of the type of customer she wanted to appeal to and had assumed she located her business within easy driving distance of a large concentration of these customers. The director told her she had overestimated the number of people in Rosman with a household income of $80,000 or more. He also asked how much research she had done before she selected the site for her restaurant. Maria stoutly defended that decision. Her reasoning was if she wanted to attract upscale customers she needed to be in an upscale location. He told her there was some truth to her statement but that she could have selected a site located directly on a main highway visible to passing traffic. Due to the layout of the shopping center *Quality Cuisine to Go* was not visible from the highway, which meant it got very little drop - in business and many people did not realize it existed.

The director told her to analyze her expenses and decide how to reduce them to survive. Maria left his office confused and somewhat discouraged. Her dream of running her own restaurant had become more of a nightmare than a dream.

Her single biggest expense was the rent for her building. She had carefully chosen the location because of its proximity to higher income households and the mix of upscale stores already located there. If she moved to a lower rent location, it would be farther from the high-income subdivisions. Reducing her staff was not a solution since she only employed two others and one of those was part time. If she reduced the number of hours her business was open, it could cut her costs but she would not be able to service as many customers.

Maria wondered if she had overestimated the existing demand in Rosman. Perhaps her idea of appealing to households who wanted healthy meals was a mistake. Every day as she drove to her restaurant she passed several all-you-can-eat style restaurants that appeared to be quite successful. Could she have been wrong about people's preferences for food? Maybe there were too few people who wanted to prepare their meals and take them home to be eaten later. She was not sure what the answers were, but she knew something needed to change. *Quality Cuisine to Go* had to make a profit or she would have to close the restaurant.

APPENDIX

Table 1 **Monthly Income Statements ~ 2005**

	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Total Net Sales	6250	8400	8800	12600	9700	8300	12200	9900	9600	17500	103250
Operating Exp.:											
Cost: Food Sold	1875	2520	2640	3780	2910	2490	3660	2970	2880	5250	30975
Salaries / Wages	4000	3600	3600	3600	3600	3600	3600	3600	3600	5600	38400
Rent	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	20000
Utilities	400	350	360	340	420	470	420	390	350	380	3880
Insurance	135	135	135	135	135	135	135	135	135	135	1350
Advertising	165	165	165	165	165	165	165	165	165	165	1650
Other Expenses	650	85	50	125	45	60	25	20	40	180	1280
Equip. Depr	1125	1125	1125	1125	1125	1125	1125	1125	1125	1125	11250
Total Expenses	10350	9980	10075	11270	10400	10045	11130	10405	10295	14835	108785
NET INCOME/Loss	(4100)	(1580)	(1275)	1330	(700)	(1745)	1070	(505)	(695)	2665	(5535)

Table 2

	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Cash from Operations:											
– Net Monthly Income	(4100)	(1580)	(1275)	1330	(700)	(1745)	$1070	(505)	(695)	2665	(5535)
+Add back depr.	1125	1125	1125	1125	1125	1125	1125	1125	1125	1125	11250
Purchases/ ΔPayable	1875	645	120	1140	(870)	(420)	1170	(690)	(90)	2370	5250
Other Operating	(50)	0	(100)	0	0	(400)	(150)	(100)	0	(200)	(1000)
Operating Cash Flows	(1150)	190	(130)	3595	(445)	(1440)	3215	(170)	340	5960	9965
Equipment Purchasing	0	0	0	0	0	0	0	0	0	0	0
Cash/Financing Activity:	0	0	0	0	0	0	0	0	0	0	0
– Borrowing	0	0	0	0	0	0	0	0	0	0	0
+ Additional Investment	0	0	0	0	0	0	0	0	0	0	0
Financing Cash Flows	0	0	0	0	0	0	0	0	0	0	0
Cash Increase /(Decrease)	(1150)	190	(130)	3595	(445)	(1440)	3215	(170)	340	5960	9965
Cash Beginning Month	15000	13850	14040	13910	17505	17060	15620	18835	18665	19005	↓↓↓
Cash End Month	13850	14040	13910	17505	17060	15620	18835	18665	19005	24965	24965

Table 3

Balance Sheet: March 1, 2005 (Start-up)		
ASSETS:		
Current Assets:		
Cash	15,000	
Accounts Receivable	0	
Food & Other Inventory	2,500	
Other Current Assets	2,000	
Total Current Assets		19,500
Equipment, Long-Term Assets		
Kitchen Equipment	100,000	
Freezers	4,400	
Tables & Chairs	1,100	
Office Equipment	2,500	
Accum. Depreciation	0	
Net Long-Term Assets		**108,000**
TOTAL ASSETS		**127,500**
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts Payable	0	
Accrued Expense & Other	0	
Total Liabilities		0
Owners Equity:		
Common Stock	5,000	
Additional Paid in Capital	122,500	
Accum. Earnings/(Deficit)	0	
Net Owners Equity		127,500
TOTAL LIABILITIES AND EQUITY		**127,500**

Table 4

Balance Sheet: Dec. 31, 2005 (First Year)		
ASSETS:		
Current Assets:		
Cash	24,965	
Accounts Receivable	0	
Food & Other Inventory	2,500	
Other Current Assets	3,500	
Total Current Assets		**30,965**
Equipment, Long-Term Assets		
Kitchen Equipment	100,000	
Freezers	4,400	
Tables & Chairs	1,100	
Office Equipment	2,500	
Accum. Depreciation	(11,250)	
Net Long-Term Assets		**96,750**
TOTAL ASSETS		**127,715**
LIABILITIES AND EQUITY		
Current Liabilities	5,250	
Accounts Payable	500	
Accrued Expense & Other		**5,750**
Total Liabilities		
Owners Equity:		
Common Stock	5,000	
Additional Paid in Capital	122,500	
Accum. Earnings/(Deficit)	(5,535)	
Net Owners Equity		**121,965**
TOTAL LIABILITIES AND EQUITY		**127,715**

Table 5: Monthly Income Statements ~ 2006

	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Net Sales	6600	7600	7400	8900	9800	13600	10100	9100	13200	10600	9800	21200	127,900
Expenses:													
Cost: Food	1980	2280	2220	2670	2940	4080	3030	2730	3960	3180	2940	6360	38,370
Salaries / Wages	3600	3600	3600	3600	3600	3600	3600	3600	3600	3600	3600	3600	45,800
Rent	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	24,000
Utilities	420	450	400	370	360	360	440	510	500	430	410	400	5,050
Insurance			135	135	135	135	135	135	135	135	135	135	135
Advertising	175	175	175	175	175	175	175	175	175	175	175	175	2,100
Other Exp.	50	70	80	40	80	150	110	80	40	60	50	250	1,060
Depr.	1125	1125	1125	1125	1125	1125	1125	1125	1125	1125	1125	1125	13,500
Total Expenses	9,486	9,835	9,735	10,115	10,415	11,625	10,615	10,355	11,535	10,705	10,435	16,645	131,500
Net Income/ Loss	(2885)	(2235)	(2335)	(1215)	(615)	1975	(515)	(1255)	1665	(105)	(635)	4555	(3600)

Table 6: Simplified Monthly Cash Flows ~2006

Cash from Operations													
+ Net Income	(2885)	(2235)	(2335)	(1215)	(615)	1975	(515)	(1255)	1665	(105)	(635)	4555	(3600)
+ Add back depr.	1125	1125	1125	1125	1125	1125	1125	1125	1125	1125	1125	1125	13,500
-Purchases /ΔPayable	(3270)	300	(60)	450	270	1140	(1050)	(300)	1230	(780)	(240)	3420	1110
- Other Operating	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(1200)
Operating Cash Flows	(5130)	(910)	(1370)	260	680	4140	(540)	(530)	3920	140	150	9000	9810
- Equip Purchase	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash/ Financing Activ.:													
Borrowing	0	0	0	0	0	0	0	0	0	0	0	0	0
Additional Investment	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing Cash Flows	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash Increase/ (Decrease)	(5130)	(910)	(1370)	260	680	4140	(540)	(530)	3920	140	150	9000	9810
Cash Bal., Begining Month	24,965	19,835	18,925	17,555	17,815	18,495	22,635	22,095	21,565	25,485	25,485	25,625	↓↓↓
Cash Bal., End Month	19,835	18,925	17,555	17,815	18,495	22,635	22,095	21,565	25,485	25,485	25,625	34,775	34,775

Table 7

Balance Sheet: Jan. 1, 2006 (Begin. of Year)		
ASSETS:		
Current Assets:		
Cash	24,965	
Accounts Receivable	0	
Food & Other Inventory	2,500	
Other Current Assets	3500	
Total Current Assets		30,965
Equipment, Long-Term Assets		
Kitchen Equipment	100,000	
Freezers	4,400	
Tables & Chairs	1,100	
Office Equipment	2,500	
Accum. Depreciation	(11,250)	
Net Long-Term Assets		96,750
TOTAL ASSETS		127,715
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts Payable	5,250	
Accrued Expense & Other	500	
Total Liabilities		5,750
Owners Equity:		
Common Stock	5,000	
Additional Paid in Capital	122,500	
Accum. Earnings (Deficit)	(5,535)	
Net Owners Equity		121,965
TOTAL LIABILITIES AND EQUITY		127,715

Table 8

Balance Sheet: Dec. 31, 2006 (Second Year)		
ASSETS:		
Current Assets:		
Cash	34,775	
Accounts Receivable	0	
Food & Other Inventory	2,500	
Other Current Assets	4,700	
Total Current Assets		41,975
Equipment, Long-Term Assets		
Kitchen Equipment	100,000	
Freezers	4,400	
Tables & Chairs	1,100	
Office Equipment	2,500	
Accum. Depreciation	(24,750)	
Net Long-Term Assets		83,250
TOTAL ASSETS		125,225
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts Payable	6,360	
Accrued Expense & Other	500	
Total Liabilities		6,860
Owners Equity:		
Common Stock	5,000	
Additional Paid in Capital	122,500	
Accum. Earnings (Deficit)	(9,135)	
Net Owners Equity		118,365
TOTAL LIABILITIES AND EQUITY		125,2255