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Business Plan for 1st Street Diner and Nightclub

by

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A professional paper in partial fulfillment of the requirements for the

Master of Hospitality Administration
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Graduate College
University of Nevada, Las Vegas
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ABSTRACT

A business plan was created for a diner and nightclub located in downtown Des Moines, Iowa, and the concept was found to be unique to the Des Moines area. The downtown community is home to sixty-six American-cuisine eateries, is under continued development, and looking to house more restaurant and entertainment establishments. Des Moines has a five-county metropolitan area with a population of 562,000 and Des Moines alone is home to 200,000 people. The downtown community is growing, and with the projected employment outlook to rise 11%, downtown's 77,000 employees will also increase. These findings suggest that there is a market in downtown Des Moines for a restaurant and live music establishment. With proper business planning, restaurant development, web design, and a strong knowledge and understanding of hospitality law, a restaurateur can succeed in the downtown Des Moines area.

PART ONE

Introduction

From start to finish this paper will develop a business plan for a diner and nightclub concept. The concept will serve diner delectable's in a classic diner atmosphere, but with a hidden live entertainment room. It will be open seven days/nights a week in a high-traffic location, yet to be determined, but that is in the downtown Des Moines, Iowa area. The goal is to complete a business plan that can be taken to a bank in order to secure a loan. Later, emphasis will be made in developing a simple yet creative menu that maintains uniqueness and variety. Along with the menu the music venue will be a focus and must be simple yet creative as well. Both of these will be developed with overhead in mind. The concept shall be simple with low overhead and the menu and layout will be crucial to this recipe for success. This is the agreed upon option from my committee chair, Dr. Clark Kincaid. The overall business plan will discuss the following:

Purpose

The purpose of this professional paper is to develop a business plan for a diner and nightclub concept that can ultimately come to fruition and be opened in the downtown Des Moines, IA area. This paper will result in a final product that can be taken into a bank in order to secure a small-business loan.

Objectives

- to achieve a satisfactory and passing grade for this professional paper
- to secure a small-business loan within the Greater Des Moines area secured through the U.S. Department of Veterans (VA) or the U.S. Small Business Administration (SBA), and

- to open a restaurant within in downtown Des Moines.

Justification

Without developing a business plan a small-business loan is virtually impossible to gain unless large amounts of cash are on-hand, and even then a bank loan may get denied. The first step in securing a loan, especially in the hospitality industry, is experience. The applicant has this step complete, well documented, was successful in the industry and has outstanding references. The next step is education. Two bachelor's degrees with one in Advertising and the other in Hotel, Restaurant and Institution Management have been completed, and a Master's of Hospitality Administration is in its final stages for the applicant. A lender will look positively on these necessary tools and then look at the product (the business plan) that is placed in front of them and see if it will yield results. These results must project financial success and ensure the lender that their loan will be paid-in-full plus interest. If this business plan can layout a framework for success, and the applicant can go to the lender with an ample amount of start-up cash, it is more likely that a small-business loan can be secured.

Constraints

Constraints that are environmental or that are without control in this process will be as follows:

- economy
- local economic conditions
- size and location (to be determined), and

- competition (depending on location).

Below is a list of self-imposed constraints and problems that currently exist in opening a restaurant:

- details vs. vagueness
- start-up cash and working capital
- time for proper planning vs. deadlines to meet for this project, and
- first-time writing a business plan.

All of the constraints listed above are simply “considerations” throughout the planning process and can play a vital role in the positive or negative outcome of this business plan. The self-imposed constraints are very critical but controllable with proper planning, research, and focus.

PART TWO

Literature Review

Introduction

When opening a restaurant there is a 60% probability that one might fail within the first three years (Zagat & Zagat, 2011). Though this is true and most restaurant consultants will say “Don’t do it!”, the odds get better with more preparation, planning, and experience. A restaurant that can be opened properly can succeed regardless of the challenges it will face, and it all starts with having a plan. Furthermore, knowing and understanding the restaurant business as a whole is very important, and one must also understand and be able to grasp new technologies, including website design, and be able to utilize it in marketing and sales. Along with this, general knowledge of the financial and legal aspects that go with opening and operating a restaurant is a must. While location may be seen as the most important determinant, there are also other factors that contribute to a restaurant’s success, like time commitment, attention to the business, and passion. In their first year, 26.16 % of independent restaurants fail, and how well an owner juggles the demands of the business with family life is actually one of the most critical factors contributing to a restaurant's success rate (Parsa, Self, King, & Njite, 2005). Even though there are many failures, some of them are profitable and simply cannot handle the workload of owning and operating a restaurant. As long as a restaurateur’s passion can mesh with knowing and understanding the mechanics of the business, the odds are in favor of a successful and long-lasting restaurant business.

Restaurant Operations

Standard Operating Procedures (SOP's). In order to run a successful restaurant business it is important to have standard operating procedures in place. These procedures are necessary for both the front-of-house and the back-of-house to work in a coordinated effort, and effectively and efficiently service guests. Operationally, these procedures cover everything from how to open the restaurant, how to greet a guest, how to serve a guest, how to run the point-of-sale, how to prepare and cook the food, what to do in case of a fire, what to do if an incident occurs, and much, much more. Ultimately, these procedures will help increase the service performance that is provided. Without a proper restaurant SOP, a restaurant business will not be able to satisfy and meet a guest's expectations.

The first step to success is having a restaurant SOP (Rashwan, 2009).

Principles of Food, Beverage, and Labor Cost Controls. In 2006, Dittmer & Keefe III's book, "Food, Beverage, and Labor Cost Controls", states the importance of having a working knowledge of ingredients and portion sizes, the production method, and the quantity of food and beverages that go into menu items, and how it is necessary to develop standards and standard procedures for menu items. Understanding food production control and foodservice operational costs is of critical importance when opening and operating a restaurant. It will aid in keeping costs down, overhead low, waste at a minimum, and offering quality products consistently. Additionally, engineering and analyzing a menu benefits the restaurateur as it allows them to understand the costs and percentages, contribution margins, and what works on a menu and what does not. Menu engineering provides information about a menu item's profitability, as well as popularity, so that proactive planning, recipe design and customer pricing decisions can be made (Nessel, 2011).

Dittmer and Keefe III also examine beverage control and go into detail about the different types of beverage offerings, setting prices, purchasing and storing, inventory control, and again standards and standard procedures. Like food, excessive costs can develop with beverages and lots of revenue can be lost if not paid attention to. Revenue can also be gained though by understanding and paying attention to beverage control and costs.

It is essential that a restaurateur understands labor, equipment needed, training, preparation, hours of operation, etc. These will then reveal labor considerations such as compensation, and the implications of turnover. Labor issues are still the No. 1 concern of most restaurant owners and managers (Pavesic, 2011). Though it can be controlled through sound scheduling and improved employee productivity, staff positions can be minimized through proper food and beverage control, and menu engineering. Keeping things fundamentally simple will help produce lower labor costs.

Business Planning

Business Research. In 2008, Zikmund, Babin, Carr and Griffin, discuss in their book, “Business Research Methods”, the importance of research, and how to effectively conduct and gather research. The process of research includes asking the right questions in order to achieve results that have the right answers. After sifting through the information, understanding it, and using it, both businesses and customers will be better off. Most of the time research is done to identify customers, and design the business around those customers. The more that is known about the business industry one is going into and the type of people that will use the business, the more chance one has of being successful (Cox, 2008).

There is a variety of ways to gather useful information when starting a business, or in this case, opening a restaurant. “Business Research Methods” reviews how to communicate with

respondents, and it can be in-depth or very simple, it can be through day-to-day activities and informal, or it can be formal. Regardless, useful data and feedback can be obtained through text messaging, phone conversations, emails, interviews, or surveys and questionnaires. Cost and time are always factors when conducting research. Though paper surveys are cheap in restaurants, they are often time consuming and get a poor response rate, so usually if feasible, online surveys can be more beneficial as the answers provided offer the business a more complete picture (Black & Wilborn, 2003). Observation research methods will also benefit a restaurateur as they can witness and document behavioral methods of both people and physical objects. When starting a restaurant, research can be conducted by visiting the competition and observing what works and what does not, along with things like the space, inside and out, the point-of-sale systems, staff, restrooms, the menu, and even a website can be observed. Whether or not results bring numbers and statistics or they bring quality answers, both are beneficial. Quantitative research is generally better for confirming and clarifying, while qualitative research is usually better for exploring, understanding and uncovering (Dengler, 2010). Qualitative research can be extremely vital in opening a restaurant, in order to better understand the target market's needs and wants.

Business Planning Software. Creating a successful business starts with having a plan. A plan, through well-organized thoughts, needs to be transferred to paper, and “Business Plan Pro” software helps businesses do just that. The software is fast, easy, and helps businesses avoid costly mistakes. Entrepreneur magazine recommends it as number one and says it is “the leader in business planning software”.

This software is easily customizable for any business and after answering a few simple questions when getting started, an outline is generated. Step-by-step guidance makes the process

very easy and businesses can even choose from over 500 sample plans to utilize in meeting their needs. Along the way numerous calculations will need to be done and the software will do this and also explain every financial term. Ultimately, detailed spreadsheets and financials will be created, including tables and charts that further highlight business financials. A Plan Review section will check the plan for completeness, accuracy, and inspect financials against standard accounting and planning rules. To complete the plan, free industry data is included to help businesses further their financial research and compare it against others in the industry. Legal advice through various resources is also available to answer most legal questions. Lastly, online resources are available to help businesses get information on things like how to present the plan, get funding, marketing advice, and business operations advice and tools.

This software is a one-stop-shop when creating a business plan and CNNmoney.com says it is “An easy way to get started.” So easy there are over a million Business Plan Pro users.

Why Go into Business? People start their own businesses for various reasons, and according to Dun and Bradstreet (2000), 41% joined the family business, 36% wanted more control over their future, 27% are tired of working for someone else, or 5% were downsized or laid off. Regardless of why though, a person should dig further into their reasoning, and look into the feasibility of beginning a new venture. In 1995, Paulson and Layton in their book, “The Complete Idiot’s Guide to Starting Your Own Business”, asks the question, “Why go into Business?”. They ask the reader their personal and financial goals, and motivations for starting a business. Answering these questions allows a person to put organized thoughts down on paper, which is the initial stage in displaying a commitment to the business, and which then lays the foundation for beginning a business plan. Answering these questions will additionally help in determining the business structure.

Business Law. Labor and employment law is essential to any business owner or restaurateur and understanding the Employment-At-Will Doctrine is just the beginning. Only Montana does not apply this doctrine, but it states that either party may terminate an employment contract at any time and for any reason, unless the contract specifically provides to the contrary. Furthermore it reviews wage-hour laws, federal labor laws, electronic monitoring, email and ethics.

Google “labor law violations in restaurants” and there will not be a shortage of articles discussing labor and employment law violations. In a sweep of 43 randomly picked restaurants in Korea-town Los Angeles in 1998, investigators found that 200 workers were underpaid by \$250,000. All but two of the restaurants had violated the labor laws, said regional spokesman Tino Serrano of the U.S. Labor Department (Kang, 1998). "Restaurant workers are some of the nation's lowest paid and most vulnerable workers," Labor Secretary Alexis M. Herman said in a statement. This statement was made in reference to the Korea-town violations.

A restaurateur should also be familiar with Article 2 of the Uniform Commercial Code that is known as the “sales law”, which applies to persons in the hospitality industry. Other labor and employment laws of vital importance that need to be understood Employment are the Fair Labor Standards Act, Equal Pay Act, workers compensation, the Equal Employment Opportunity Act, and discrimination. There is much more in business and hospitality law than what is discussed above, and any business owner should reference law resources or seek legal counsel for guidance.

Vendors

The vendors that are primarily utilized when opening a restaurant in the Des Moines, IA market are Sysco and Farner-Bocken for food, and Iowa Beverage Systems and Doll Distributing

for beer. There are numerous wine and liquor distributors, and in most cases, they all will earn the business of every restaurateur. Many restaurant start-ups seem to seek out auctions for the purchase of restaurant equipment, but Hockenburg-Rubin is a local, convenient, and quality provider of new equipment.

Sysco. Sysco is the global leader in selling, marketing and distributing food products to restaurants, healthcare and educational facilities, lodging establishments and other customers who prepare meals away from home. Its family of products also includes equipment and suppliers for the food service and hospitality industries (Sysco, 2011). Their warehouse is located just a few miles north of Des Moines in Ankeny, Iowa. They are a quality supplier of meats, poultry, fresh produce, soups, spices, coffees and more, and they also offer a wide selection of food and restaurant supply products.

Farner-Bocken. According to their website, Farner-Bocken Company is a family owned and operated distributor of convenience and broadline food service products, serving Iowa, Minnesota, Wisconsin, Illinois, Missouri, Kansas, Oklahoma, Arkansas, Nebraska, Colorado, North Dakota, South Dakota, Wyoming, and Montana. They supply over 14,000 items in the categories of cigarettes, candy, snacks, tobacco, groceries, automotive, beverages, health and beauty, paper, ice cream, chemicals, supplies, and convenience foods. To their full-service restaurants and institutional foodservice customers they deliver produce, fresh and frozen meats, dairy, dry goods, appetizers, breads, pastries, desserts, canned goods, chemicals, paper, supplies, and smallwares. Their warehouse and distributing center is located in Carroll, located in northern Iowa. They are seen throughout the Des Moines hospitality and service industry as a top provider of quality products, they have outstanding sales people, and they do not require products to be purchased by the case.

Iowa Beverage Systems. Iowa Beverage Systems primarily deals with Miller Brands and they have a warehouse and distribution center located in Des Moines, IA. They have over 100 years of beer-industry experience and offer a very large variety of beer brands, which include Heineken, Guinness, and Boulevard. They are viewed in Des Moines as a superb distributor with exceptional sales people and quality beer offerings. Additionally, they service beer systems regularly and rotate stock to ensure their products are of the highest quality. They encourage the owners and managers to do these things, but if it does not get done, they will take care of this service at no charge.

Doll Distributing. Doll Distributing primarily deals with Anheuser-Busch products and Budweiser brands. Despite offerings such as Bud, Bud Light, they sell Samuel Adams, Goose Island, Michelob, and Corona products. They also specialize in the distribution and sales of Monster energy drinks. They are also centrally located out of Des Moines, IA.

Equipment. Hockenburg-Rubin is a restaurant equipment and supply company located in Des Moines and has been in business since 1938. They are a one-stop-shop for any restaurateur hoping to purchase new equipment and supplies.

Other notable equipment companies in the Des Moines area are Bolton & Hay, and Martin Bro's. Larger companies such as Edward Don & Company, and Dot products have salesman in the area, but price sometimes does not outweigh convenience, or the quality of the sales person. Local suppliers take pride in having excellent sales men and women that work hard to maintain great relationships and keep the businesses buying local.

Marketing and Website Design

Marketing. To maximize potential for restaurant success a restaurateur must execute vast marketing efforts. They must advertise their business through public relations activities,

newspaper ads, television, radio ads, in-house, and online. Marketing must be done in-house on the menus, in the restrooms, the parking lot, or wherever there are opportunities to increase patronage.

The marketing plan is mainly an outline of the basic and the most important part of the business. A marketing plan will detail the way in which a business owner is going to promote their business, and also how to promote high standards of customer service. It is very important to have a marketing plan in place, as this will enable one to stay focused (Hansen, 2010).

Website Design. When designing for the web it is important to first understand that companies and software these days make it easy for business owners to create cost-efficient, simple websites that can market their product or service effectively. When hiring a company, owners should fully understand what they want from a website and what the users/viewers want. McClelland, Eismann, Stone, and Broback, (2000) discuss the importance of understanding layout, speed, ease of operation, buttons, viewing and designing left to right or up or down, and most importantly the ease of navigation.

Much like planning and preparation for a restaurant, web design needs planning and preparation in order to put out a successful product. Making a website easy to navigate by maximizing access and minimizing clicks will ensure happy users. By always thinking about how a user will react to change or addition, one can design a site that appeals to them, and get feedback in the early stages from family and friends to test out how well the website is designed (Spjut, 2010). Beyond this, if a company is utilized in creating a website, proper communication is necessary in order to eliminate any problems that may take place in the production of the site, which could eventually lead to a delay in launching an extremely vital marketing tool such as a website. Proper communication should lead to a timely launch, and then announcement of the

website through emailing friends, creating a Facebook page, having a Twitter account, and distributing old fashion business cards with a URL address, will ensure more eyes get to the website (Lilley, 2011).

A website needs to be created and designed attractive enough to keep customers/users coming back. An effective website is going to have great layout and design, the right amount of text, pictures and sound, user-to-user communication (e.g. chat rooms, blogs), other links, and E-commerce capable. Additionally, revenue can be generated through online advertisements but this is a slippery-slope, as this may deter users from further navigating or ever coming back.

Summary

Restaurants and restaurateurs come and go, but through proper planning and preparation and the drive and commitment to the business, success is almost certain.

Like anything else, a person gets out of it what they put into it, and knowledge is power. An educated restaurateur with ample resources on-hand to utilize and reference, can more easily put thoughts to paper, create a great business plan, open a restaurant that is sure to succeed, and will own and operate an ethically sound and thriving business.

PART THREE

1st Street Diner and Nightclub

(tentative name based on location)

by

Ardor Hospitality Management, LLC

Address to be determined

Des Moines, Iowa

Phone number to be determined

www.1ststreetdandn.com (tentative)

Brian Deets, Founder

Plan Prepared July 2011

by the Founder

Copy 2 of 6

This confidential summary has been prepared for those wishing to establish a business relationship with Ardor Hospitality Management, LLC. By accepting a copy of this document, the recipient agrees not to reproduce it in whole or in part, not to use it for any other purpose, and not to disclose any of its contents to third parties without written permission of Ardor Hospitality Management, LLC. This document is a summary. It is furnished for information purposes only. No representation or warranty is made by Ardor Hospitality Management, LLC or any other entity as to the accuracy or completeness of such information, and nothing contained in the summary is, or shall be, relied on as a promise or representation to the future.

EXECUTIVE SUMMARY

1st Street Diner and Nightclub

Founded by Brian Deets, a respected member in the central Iowa hospitality community, Ardor Hospitality Management is a new hospitality management firm that will open its first concept, 1st Street Diner and Nightclub, in the spring of 2012. It will provide hospitality services in the areas of food, beverage, and live entertainment. 1st Street Diner and Nightclub will be located within the growing downtown Des Moines community at a location yet to be determined.

The business plan is available from the author.

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