The opening of a new restaurant concept in South Africa

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Wits Business School
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Declaration

I, Hylton Sonnenberg, declare that this business venture proposal is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Hylton Sonnenberg

Signed at Wits Business School, Johannesburg

On the 27th day of March 2019

Dedication

At the beginning of my MBA I lost my uncle to a fight against cancer. My uncle was a man of virtue, dignity, selflessness, leadership and family. My mentor, inspiration and motivation for always striving to be a better version of myself and pushing myself to my limits. I have completed my entire MBA with him in mind and therefore dedicate this to the memory of him. I know if it wasn’t for him steering me on the road he did I would never have ended up here.

I would also like to make special mention of the friends that I have made through the journey and thank them for always being there and wish them nothing but success in the future.

Acknowledgements

I would like to thank my supervisor Laurence Beder for being a beacon of light in the dark times that all MBA candidates experience. His help, mentorship and advise has been truly amazing and I would not have been able to finish this without his help and guidance.

To my family, thank you from the bottom of my heart. You have been nothing more than supportive to me during this process. You help, and love is always apricated and I cannot thank you enough!

To my classmates, in particular, Justin, Codey, Doron, and Darren. Thank you for helping me, enduring my questions, always being there for a conversation and the help but most of all thank you for being amazing friends!

Finally, thank you to WBS for the years of studying I have put in. It has truly been an accomplishment I will never forget.

Supplementary Information

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Table of Contents

Table of Figures

Executive Summary

This new business venture proposal focuses on the restaurant industry. The proposal evaluates the notion of introducing a new restaurant concept into the restaurant market. The restaurant's name will be "The Residency" and will be referred to as 'the restaurant' throughout the proposal. Within the market chefs either open their own restaurants or work within a restaurant. This idea looks to change the conventional way of thinking buy inviting chefs from around the world to take up 'residency' within the restaurant for a predetermined amount of time. A conclusion was found through the below research, that a 6-month period is the optimal period for this tenner.

During a chef's tenner at the restaurant they will have full creative licence to create a menu that both resembles and inspires them, while educating the market about the country and cuisine that they cook. The entire restaurant will be focussed around the chefs from the menu to the décor and waiters' outfits.

A literature review has been completed that looks at what a restaurant requires in order to be successful. This includes the likes of the innovation process, various models that evaluate the performance of a restaurant, the innovation process that relates directly towards restaurants, lean start-up methodology, and the 3-p's of service marketing. All of the mentioned literature has been compiled to identify whether or not the idea is feasible and provide an insight into what is required when opening a restaurant.

Quantitative research will be conducted through the use of an online survey, in order to further the understanding of the market and whether or not the idea is viable. The research was conducted though a cross-sectional methodology, and the population was chosen at random.

Furthermore, analysis was conducted on the collected data and represented in descriptive and inferential statistics. This was done in order to make educated decisions regarding, the market is prepared to adopt and further gain an insight into the feasibility of the restaurant.

The restaurant will be opened by the founder, Hylton Sonnenberg. The team will comprise of strategic individuals that will help the restaurant quickly find efficiencies

and help maximise profits. While, a lead start-up methodology will be employed the need of staff within a restaurant will be imperative towards the success. However, all staff will be trained within all the aspects of the restaurant in order to ensure continuity and a unique dining experience.

It is concluded that through the different models used to evaluate the market, a new restaurant can be introduced if certain criteria are met. Through the understanding of all the below analysis and market understanding, it is clear to see that the market is ready to be disturbed and the relevant criteria for the introduction of “The Residency” are in fact met.

FThe Residency will require an investment of R5, 000, 000. Of this R1, 000 ,000 will be put up by the founder. The balance will be raised through the likes of investors and venture capitalists. It is clear though the financials below that the restaurant is a feasible idea, making profits and paying dividends within the first year. Furthermore, through the analysis of the NPV conducted the discounted cashflow of the business returns at more than R12, 000, 000. This further proves the sustainability, profitability and feasibility of the proposed business venture.

Section 1: Introduction

1.1 The launch of a new restaurant concept in South Africa

The idea behind this proposal stems from a conceptual restaurant in which different chefs from around the world serve as resident (head) chefs for a pre-determined amount of time, such as, one, two or three months. The idea stemmed from my love of the restaurant industry as well as my understanding that patrons easily become bored of the same food. The competitive advantage of the restaurant will lie within its ability to change quickly between different styles of food as well as ambiance, and how agile the staff are with the uptake of a new menu and chef.

The vision of the new restaurant concept is to become a global brand starting in Johannesburg, South Africa. The long-term goal will be to successfully roll the idea out in other major cities worldwide. This will allow the restaurant to realise economies of scale, as it will be able to sign chefs onto longer-term contracts and have them circulate diverse restaurants around the world. The value proposition for the new restaurant concept would be to taste of the world by a foreign chef. The chefs chosen would not be ‘celebrity chefs’, but rather chefs from different countries and regions who would come to South Africa and cook the way they do ‘back home’. This will allow the restaurant to be continuously innovative in terms of the food it produces and attract new patrons while keeping existing patrons interested in the business.

1.2 Challenges within the restaurant industry

An entrepreneur faces many challenges and issues in the restaurant industry, thus these hurdles must be overcome to realise the potential of a business idea. Crandall, Vozikis and Sparks, (1996) explains that the success of a restaurant is dependent on the formal education and vocational training the entrepreneur has received. “This is different to experience, which is important as in this case the entrepreneur does not have much experience within the restaurant industry but is a Master of Business Administration (MBA) candidate so he has a developed understanding of what is involved in running a business.

As mentioned above, the menu of the restaurant will be constantly changing, which poses another major problem as it will not be able to fully capitalise on economies of scale. Crandall et al, (1996) highlights that the larger the variety of the menu, the more expenses the restaurant will have. This will be taken into consideration when I approach the financial feasibility stage of this proposed venture.

Crandall et al, (1996) further elaborate, that the biggest expenses within this business includes the labour as well as needed materials.". This is especially important within the higher end cuisine industry. The labour employed in terms of the foreign chefs as well as the waiters will be costly. The chefs will need to be flown from their home countries and put up in South Africa for the entire duration of their stays, as well as be paid a salary. The waiters will be the biggest touch point to the consumer and as such need to be of a high calibre. It is clear that "the service provided to customers by a restaurant has a huge and immediate impact on the company's profits since it is directly related to customers' perceptions of services rendered and to general satisfaction" (Nicolaides, 2014, p.1384). Additionally, the waiters will need to be able to change quickly between menus, so their level of education I will need to be higher than the average server. This is fundamental because returning customers and customer loyalty are the basis of effective productivity and success (Alan Wilson, VA Zeithaml, MJ Bitner, 2012 and Nicolaides 2014,). Due to the restaurant continuously changing the material costs will always be high, whether it be the actual raw materials of the food being prepared or the different décor used within the restaurant. This will prove to be a challenge that will need to be thought through and addressed utilising a variety of business partnerships. It will be key for the entrepreneur to keep in mind that in order to successfully run a business within the food industry, they need to monitor and control all costs constantly." (Crandall et al.,,1996).

Crandall et al,(1996, p 35) explain that, "there are three distinct dimensions to a comprehensive cost-control appraisal: product, people, and property". Two of these three have been discussed above, however possibly the most important area in which cost cutting needs to occur is the location. This is key because the location of a restaurant should be easily visible and accessible to patrons. This is a fundamental factor that relates to the success of the business as a restaurant location. Hanayasha (2016) added that when considering the location of a restaurant, factors such as the geographic, demographic and psychographic aspects need to be taken into account. It is clear, therefore, that any changes within these factors would interfere with the level of the location desirability. Therefore, for a restaurant to cut costs within the realm of location is a very difficult and risky process, as it could spell disaster for the business.

1.3 Scope of the new restaurant concept

The new restaurant is a conceptual one that will operate between the fine dining and family-themed restaurant classifications (Crandall et al.,1996, p 37). The reason for positioning the new restaurant concept between these two brackets is to overcome the numerous challenges that the restaurant may face. As identified above, for any restaurant to be successful costs need to be controlled, yet given the conceptual framework of the restaurant, costs will inevitably be higher. Thus, charging higher prices will be necessary in order to achieve desired levels of profits. These prices will be more in line with fine dining, however the ambiance and theme of the restaurant will be more family-oriented.

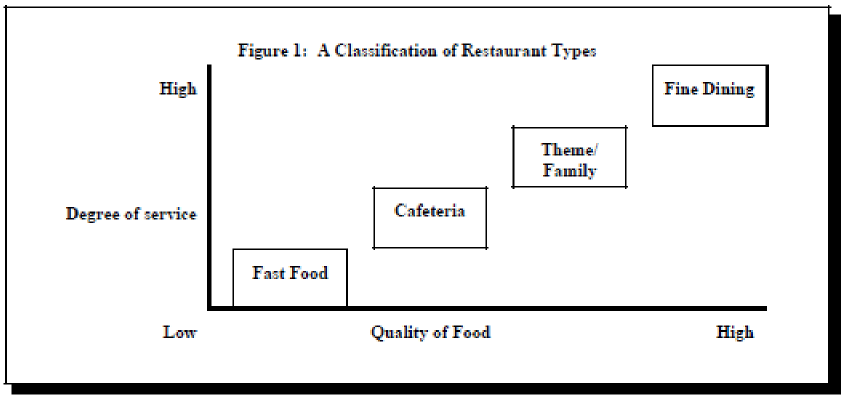

Figure 1: A classification of restaurant types

Source: Crandall et al. (1996, p37)

1.4 Themes of residency

In order to be successful within The restaurant industry, the entrepreneur requires a high degree of creativity in order to provide for the evolving wants of consumer. (Crandall et al., 1996). The idea behind the new restaurant concept will directly service this point. The restaurant will adapt all aspects of the restaurant to the theme of the home country of the chef. For example, if a Mexican chef is hired, the music, décor, waiters' outfits, drinks and food should all be tailored to the Mexican theme for the duration of the Mexican chef's stay. The idea here is for the local food community and patrons to get a taste of Mexican food produced by a Mexican chef, served and eaten in the Mexican way. This allows the restaurant to 'reinvent' itself every time a new chef from a different country comes to the restaurant, enabling it to be pioneering and exciting, which will expand quality and reputation. This therefore allows for cost cutting and may result higher sales and profits (Ottenbacher and Harrington, 2007 as cited in Lee, Hallak and Sardeshmukh, 2016;). This is further substantiated by the Entrepreneurship Theory of Innovation, which ,states that within a capitalist system, entrepreneurs disturb or destroy existing economic structures and create new ones by putting untried methods into practice, which is a process labelled by (Schumpeter, 1961) as 'creative destruction'" (Lee et al.,, 2016, p,217).

1.5 Customer feedback

One of the most integral parts of this business will be to receive open, honest and regular feedback from patrons and critics. Due to the nature of the service industry, this should not be a major issue as "services generally involve many more customer 'touchpoints', or discrete experiences, than do manufactured goods" (Berry, Shankar, Parish, Cadwallader & Dotzel,, 2006, p61). This type of feedback will allow me to develop aspects of the restaurant quickly and effectively to ensure that patrons are happy with both the service and value of the restaurant. Berry et al., (2006, p 61) It is understood that such experiences hinge upon 'experience clues' in three forms. which are: functional clues, which point to the technical quality of the offering; mechanical clues, which refers to nonhuman elements such as the design of the facility; and human clues, coming from the behaviour and appearance of employees. (Berry et al, 2006). Therefore, it is clear that such clues are directly related to the customers level of satisfaction. Using these three experience clues, the restaurant will respond to customer feedback to ensure that it results in the required service and experience that patrons are paying for. This is vital to ensure the survival of the restaurant.

1.6 Rationale of the launch of a new restaurant concept – Innovation

Crumpton (2012) describes innovation to be the creation of an improved or more efficient process. It is further linked with the "willingness to implement changes to existing methods or techniques in order to gain the benefits of greater efficiency" (Crumpton, 2012, p2.). Oke, Munshi and Walumbwa (2009) cautioned, however, that in order for innovation to be a successful process, the leaders within the institution need to be aware of the diverse needs of their staff. This indicates that due to the nature of the new restaurant concept, different management styles need to be employed when understanding what part of the innovation process the restaurant is in. The innovation process below highlights five key steps:

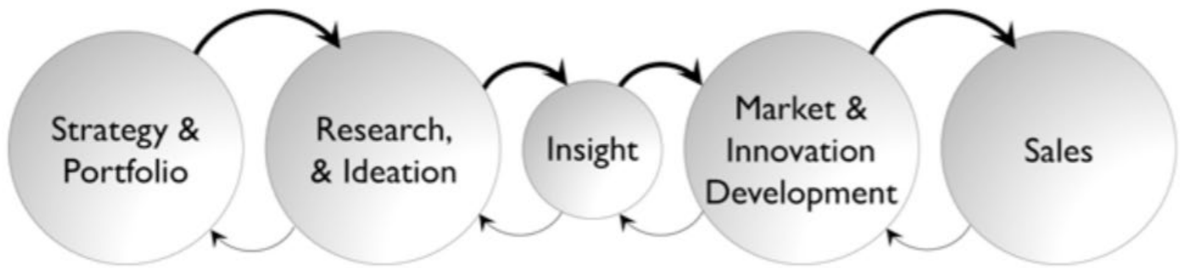

Figure 2: The innovation process
Source: Morris (2011, p 7)

Innovation is required for a business to stay relevant in every industry, including the food service industry. There are many different ways in which to innovate. Lee et al. (2016) describes the following innovation activities: product, service, process, management and marketing innovation. Berry et al. (2006) shows that innovation within these five areas is positively related to restaurant performance. If the restaurant is able to innovate in each of these areas, it will be able to stay relevant and even succeed. However, as Berry et al. (2006, p 61) pointed out, "the best service innovators take a holistic approach to market leadership". This indicates that despite where one innovates within the above identified areas, the innovation needs to consider the entire organisation and not one specific part of the restaurant. The entrepreneur needs to remember that all the innovation that occurs is taking place to better the customers' overall experience with the brand.

Section 2: Literature Review

2.1 Introduction

A reliable collection of different data sets is required to substantiate why I believe that the proposed business idea is viable. It will be necessary to use prior research to understand what has transpired within start-up businesses, including restaurants, in the past, so that mistakes made can be learned from to ensure success in the future. I intend to use prior research combined with my own personal research to understand whether there is a lucrative market in which I can position the restaurant. My intention is to find business models that include innovation as the basis for improved performance and financial stability, as well as innovation within restaurants, and apply these to the new restaurant concept. The purpose of the research will be to find the best methods and findings that are appropriate to the new restaurant concept to ensure that the business proposal is viable, so that I can take it to market and implement it. While I understand that the market place is a very difficult environment, there is still growth within the restaurant industry within South Africa, with a total market size of approximately of R53,721.3 million as of December 2017 (Statistics SA, 2018) and an average growth of 0.425% per year (Statistics SA, 2018).

(Not necessary) . Parsa, Self, Njite and King (2005, p304.) remark that “restaurant failures can be studied from economic, marketing, and managerial perspectives”, while (Fields, 2007; Parsa, Gregory, & Terry, 2012, p14) found that one of the primary factors that contribute to the failure of restaurants is “a poor concept that is not differentiated”. (Parsa et al., 2005, p 314) further explained that in order for a restaurant to be a successful one, the owner needs to focus on their objectives.”.Furthermore, Parsa et al. (2012) also identified that the economy, capital, location, and quality of life, amongst other factors, contribute to restaurants failing.

With the variety of challenges that were identified above, it is clear that there needs to be a distinct business model to create a ‘go to market’ strategy for the restaurant. In order to formulate this strategy, I will make use of a variety of models developed specifically for the restaurant industry. The first model I will use is the integrated conceptual model of restaurant performance developed by Lee et al(2016) (see Figure 3). With the concept of the new restaurant relying heavily on change within the business, all employees need to apply a varying degree of agile thinking. I will thus outline the different aspects of agile thinking that will be required throughout the restaurant, as well as the different concepts covered within the lean business start-up methodology. As for the innovation, I will incorporate the use of the model described by Ottenbacher and Harrington (2007.), namely "the innovation process described by Michelin-starred chefs".

2.2 Integrated conceptual model of restaurant performance

Lee et al. (2016, p 216.) identified that when formulating a model, one needs to look at the restaurant in a holistic manner. They noted that the approach needs to incorporate the entire "value chain model", which considers a business to have two strategically relevant value creating activities - primary and support activities. Primary activities involve the physical creation of products, the marketing and delivery of these products to buyers, and support and after sales service. Support activities are the inputs that allow primary activities to take place. This involves inputs in the form of purchases, human resources, technologies, and the structure of the firm (Lee et al., 2016; Porter & Millar, 1985). The model integrated four main theories from entrepreneurship and social psychology, namely the:

- Self-Efficacy Theory (Bandura, 1990);
- Entrepreneurship Theory of Innovation (Schumpeter, 1961);
- Human Capital Theory (Nafukho, Hairston & Brooks, 2004); and
- Endogenous Growth Theory (Phelps, 1966).

Lee et al. (2016) suggested that these four links, will have an effect on one another in some way These linkages were hypothesised by Lee et al (2016.)., who proved five of the six hypotheses to be true. The only hypothesis that was rejected by (Lee et al., 2016, p 219) read, "The human capital of restaurant owners, measured by entrepreneurial experience and education, is positively related to business performance". I believe that this model is worthwhile using in order to ensure that the idea behind the new restaurant concept, as well as the go to market strategy directed by the model, will prove to be successful.

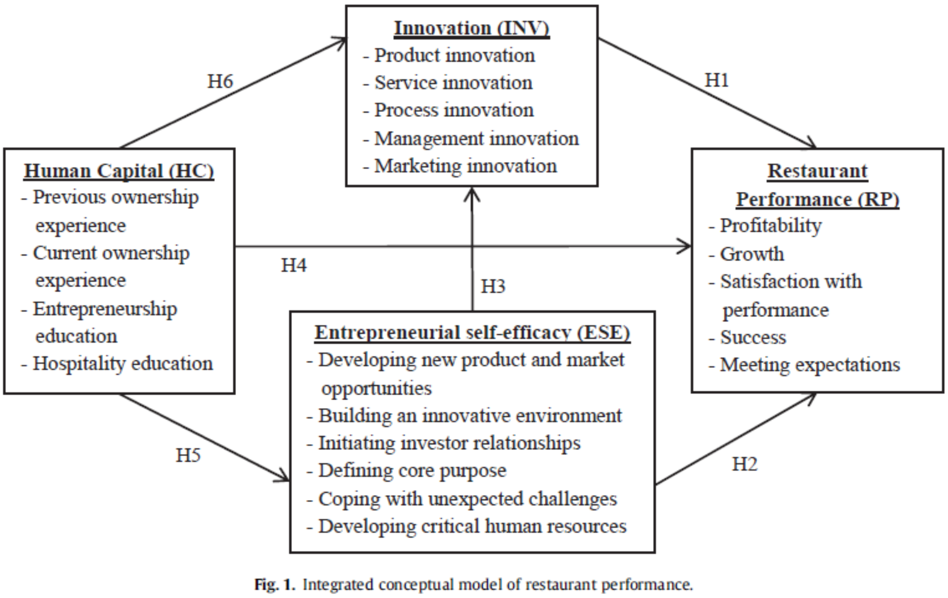

Figure 3: Integrated conceptual model of restaurant performance

Source: Lee et al. (2016)

2.3 Agile aspects

There are a variety of different agile aspects that apply to businesses, but may not be relevant to a restaurant specifically. I intend on cherry picking and identifying the relevant aspects that apply directly to the new restaurant business model to ensure success. These are:

- Strategic agility – this refers to a business's ability to make and implement feasible and diverse decisions in a quick yet sustainable manner. "(Lengnick-Hall & Beck, 2009). Strategic agility is useful in aiding businesses to address change in an innovative and sustainable way. Change needs to be viewed as an asset to be embraced because it allows for the business as well as its employees to develop themselves professionally . " (Eisenhardt, 1997). This is of utmost importance for the restaurant, as the concept will be continuously changing chefs as well as the types of food served. The in-house chefs will need to adapt and grow their personal skills to execute the foreign chefs' orders flawlessly. Furthermore, the waiters will need to ensure that are always up-to-date with the menu changes.

- Business agility – this refers to a solution that preserves their competitive advantage during all times. Moreover, it is fundamental that in order for a business to be agile, the stakeholders need to predict and cater for particular changes within the organisation. "Agile organisations are quick and resourceful and are able to predict and adapt to the change that is forthcoming" (Mathiassen & Pries-Heje, 2006, p 116). "This applies to the speed in which a business can respond to customer requests and market dynamic" (Mathiassen & Pries-Heje, 2006, p 116). The reason for basing the restaurant on this principle is due to the restaurant needing to change quickly. By understanding the customers' wants and needs, the restaurant will be able to produce a high-quality product quickly that satisfies the customers' expectations, all while ensuring that the business does not panic when the change of chefs occurs.
- People agility – or 'Resource Fluidity'. involves the internal capability to reconfigure business systems and redeploy resources rapidly, based on businesses processes for operations and resource allocation, people management approaches, and mechanisms and incentives for collaboration that make business models and activity system transformation faster and easier" (Doz & Kosonen, 2008, p96). The reason that I will incorporate this into the restaurant is to ensure that all the employees are completely cross-functional, i.e. the waiters will need to understand what is required of the chefs and the runners and vice versa. This is to ensure that if there is ever an issue with being short staffed, anyone in the restaurant, regardless of their title, will be able to help a different department. This will mean that the customer experience is always thought about, and we are continuously thinking about how and where we can add value to them.

2.4 The innovation process described by Michelin-starred chefs

A Michelin star is defined as "A mark of distinction awarded by the Michelin travel guides to a restaurant in recognition of the high quality of its cooking. A restaurant may receive one, two, or three stars, representing very good, exceptional or exquisite cuisine, respectively" (Collins Dictionary, 2018).

While the innovation of the new restaurant concept lies mainly within the idea of the actual restaurant, there is still a need to ensure that the food that is served is innovative and different to anything that is currently being served in the market. The restaurant will rely on the different resident chefs to bring new ideas to the restaurant during their time as head chef, but they will need to ensure that the tastes that they bring are suitable for the South African market. The restaurant will request that once a chef has arrived in South Africa, part of their mandate will be to run through this model to ensure that the food is of the standard of the restaurant, as well as seen as something different. The model represented as Figure 4 (Ottenbacher & Harrington, 2007, p448) describes "the process that Michelin-starred chefs follow in order to produce a world class menu". I truly believe that due to the stature of these chefs, the restaurant needs to follow these steps in order to be seen as a high-quality establishment. This model also focuses on finding products that are not available for competitors, which will allow the chef to develop themselves as professionals and thus develop a form of competitive advantage. This competitive advantage will also be formed by purchasing regional products, which will result in a better product through shorter delivery channels. (Ottenbacher & Harrington, 2007).

While the principle behind the new restaurant concept is to bring chefs from different countries to cook the way they do for their local markets, the food needs to be adjusted according to the South African market and the restaurant needs to ensure the quality of the dishes served. For this reason, some of the idea generation within the model will be redundant as the country that the chef originates from will be considered before they are employed.

One of the most important aspects of the model is the final three steps, namely: final testing, training and commercialisation. This is of utmost importance as the dishes need to be tailored to the South African market, and there must be an ability to upsell other products with the food. A chef interviewed by Ottenbacher and Harrington (2007, p 453) explained that there is a relationship between the food and the beverage and reiterated "wine has to fit with the food. I might compromise for the wine and slightly change the dish – for example use less spice in the sauce". This is critical, as the ability to upsell and cross-sell products to customers will be imperative to the success of the restaurant.

Training will also be imperative as the new head chefs will need to train and show the local chefs what is expected from them to create the dishes that they have designed. It will be expected that the head chef first cooks the different dishes to demonstrate to the local chefs, and then trains them in order to replicate the standards. A Michelin-starred chef remarked to Ottenbacher and Harrington (2007, p454) that, “We train as often or long until the kitchen employees can cook it 100 percent perfect. The dish must be perfectly cooked without the boss being involved in the cooking process”. Furthermore, another chef explained to the authors that there is a need for “Best products, best preparation, best logistics and consistency. Consistency means training your employees so that the operational procedures are consistent and that if they cook a dish a 100 times – it always tastes the same”. As part of the agile discussion above, all employees of the restaurant will be involved in this training. All the employees, including the waiters, will see what each dish consists of to ensure that they are able to communicate and convey what each dish is about. Furthermore, it will be seen as a safety precaution as all staff will understand the ingredients of the variety of dishesn case there are any products used that people could possibly have allergies to, e.g. nuts.

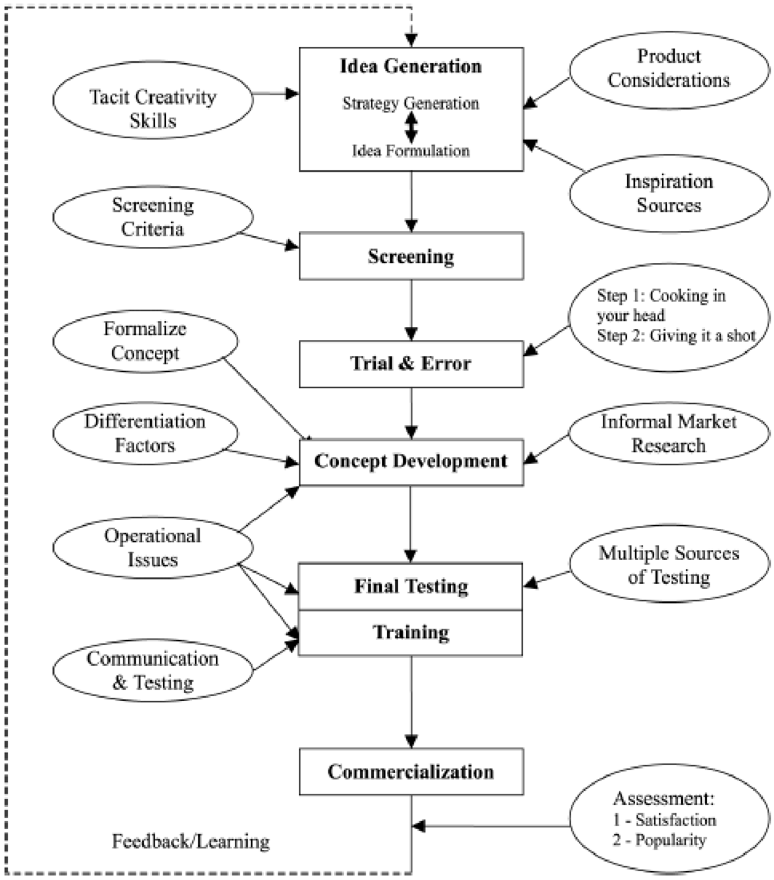

Figure 4: Innovation process described by Michelin-starred chefs

Source: Ottenbacher and Harrington (2007, p450)

2.5 Lean start-up methodology

"The Lean Start-up offers entrepreneurs - in companies of all sizes - a way to test their vision continuously, to adapt and adjust before it's too late" (Ries and Furr, 2011, p2). Ries and Furr (2011) added that lean thinking is imperative and defines value as providing benefit to the customer, this is of extreme importance when it come to the new restaurant concept. If it is not bringing value to the customer, the concept will inevitably fail. The lean start-up model uses a concept called Minimum Viable Product (MVP). "The MVP is that version of the product that enables a full turn of the build-measure-learn loop with a minimum amount of effort and the least amount of development time" (Ries and Furr, 2011, p7). This idea allows the restaurant to quickly come up with innovative dishes with the new chefs, implement them and assess how well the market accepts the dishes. This requires constant feedback from the customers, therefore the below model will need to be implemented:

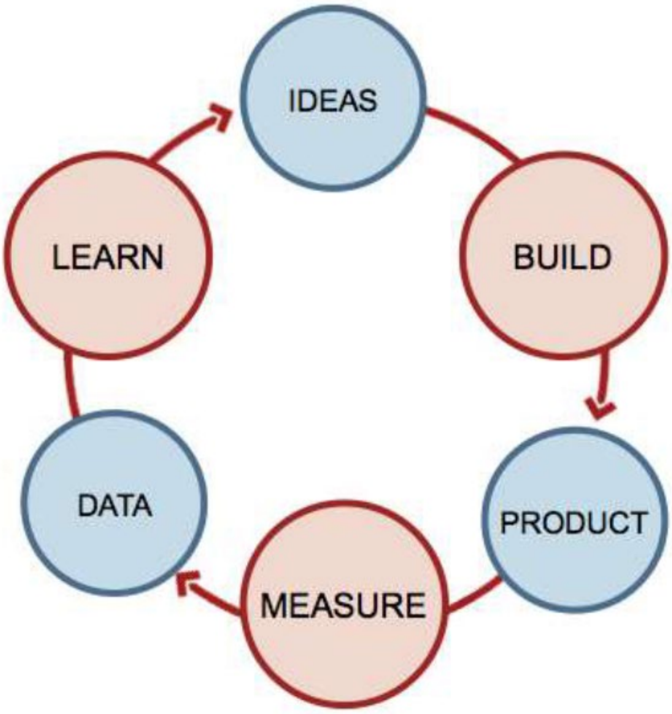

Figure 5: The Feedback Loop
Source: Ries and Furr (2011, p7)

This feedback loop will be implemented to understand what the patrons are saying about the restaurant and the variety of food it is serving. Constant analysis will be done on all the dishes that are served by the acting head chef to understand why patrons are buying the dishes and why they are not willing to try others. “During customer development, a start-up searches for a business model that works. If customer feedback reveals that its business hypotheses are wrong, it either revises them or ‘pivots’” (Blank, 2013 p 6). “When a company pivots, it starts the process all over again, re-establishing a new baseline and then tuning the engine from there” (Ries and Furr, 2011,p12.). The concept of pivoting is integral to the lean start-up methodology and will allow the restaurant to change to other dishes to ensure that the customer is getting the full experience that they require. Ries and Furr (2011, p 12) concurred, and expressed that “Each pivot unlocks new opportunities for further experimentation, and the cycle repeats”.

2.6 The 3Ps of service marketing

The last model that will be employed is the extended marketing mix. The basic marketing mix of the 4Ps will be used, however the extended version which focuses on services marketing will be emphasised. The added 3Ps are physical evidence, process and people. These need to be looked at and understood for the everyday running of the new restaurant.

Physical Evidence: Drummond and Ensor (2005, p10) defined this as "customers look(ing) for reassurance relating to required benefits and quality. They look for physical evidence as an indicator of likely satisfaction". This is key, as the new restaurant needs to portray to its patrons the likelihood of their needs being met. Customers need to be made aware of the new concept that will be introduced, while the benefits of an ever-changing menu also need to be well communicated with potential patrons.

Process: Drummond and Ensor (2005, p10) defined this as "the method by which the service is provided. It forms the facilitation element of the service offering, which deals with the customer at the point of contact". This is crucial as regardless of the type of food being served, the way it is served will never change, i.e. the order taking process will remain consistent and the waiters will always be front and centre to interact with the patrons, take their orders, ensure the kitchen is processing the orders, and ascertain that the orders are fulfilled to the patrons' expectations.

People: Drummond and Ensor (2005, p10) stated that "many services are people-based, therefore the quality of provision is totally dependent on the people providing the service", i.e. "people are an essential element of the marketing mix". The people referred to within the restaurant are the chefs and waiters. The waiters will always be held to the highest level of professionalism and must take into account the patrons' needs and wants. They will always interact with a smile and ensure the patrons are comfortable. Due to the nature of the restaurant, the waiters' knowledge of the offerings must be flawless. They will need intricate knowledge of the concept of the restaurant, the ever-changing menu, as well as the pairings of food and beverages that are on offer. There will be continuous training of both the waiters and chefs to ensure that their knowledge base is growing and that they are empowered and have the know-how to approach any problems that may occur with regards to the servicing of patrons' requirements.

2.7 Conclusion

The models above will be used to determine if the concept of the restaurant is applicable and can be implemented. Based on the models and the prior research, it is clear that an appropriate idea is required before opening a business, however it is imperative to ensure that one follows sound logic and the application of ideas to ensure success. The restaurant industry is a cut-throat and difficult industry to excel in, thus the entrepreneur needs to ensure that he does not fall into the traps that others have which led to their downfall. The management needs to ensure that they create an organisation that is agile enough to adapt to the different chefs' needs and personalities, all while ensuring that the quality of the service is never compromised. Furthermore, the management needs to create a high-performance establishment that thinks about the customers' needs and how exactly they can satisfy them.

Section 3: Data collection and analysis

3.1 Type of Research

To prove the viability of the proposed business venture, specific research needs to occur. I plan on making use of quantitative research in the form of an online survey, which will be used to establish whether there is a need or want for the restaurant. The study will outline how often people visit restaurants and establish what type of restaurants they frequent. This will be used as the basis for the research. The research will also be used to understand the types of food the market would like to consume, as well as the pricing brackets that can be offered.

3.2 Research Methodology

A cross-sectional methodology will be used to gather the data for the research. Cross-sectional research looks at the population of the research at one point in time and will give me an understanding of the target population and their needs at present. Cross-sectional research will also allow me to look at various characteristics at once.

3.3 Sample

The sample of the population will be selected at random; my hope is to receive an approximately 50% response rate from a population of at least 300 people. The population will come from different walks of life and will give me a good understanding of the market. The survey will be targeted at patrons who frequent restaurants on a regular basis and have a predetermined propensity to consume. It is estimated that approximately 42 million people will eat at a fast food outlet in South Africa in 2018 (Murray, 2017), which indicates that my target of 150 people is less than 0.01% of the total market size, and therefore is a realistic target. While the new restaurant will be targeted at a higher end patron, one can assume that a portion of these 42 million people also eat at higher end restaurants. I will ensure that the population is suitable by directing questions to them that account for this, after confirming that people who eat at fast food outlets also eat at higher end establishments.

3.4 Analysis

In order to understand and analyse the results of the survey I will make use of descriptive and inferential statistics. According to the Web Centre for Social Research Methods (2005), “Descriptive Statistics are used to present quantitative descriptions in a manageable form”. Furthermore, they allow one to gain an overall picture of what the data are telling the researcher. The Centre further explains that “we use inferential statistics to try to infer from the sample data what the population might think”. I will make use of this to determine whether or not the idea behind the concept is of value and can be executed.

3.5 Survey development

The survey will be developed to understand the exact needs of the consumers in the market. The target will be to reach a minimum of 150 people through an online survey that will be developed on one of the survey sites, e.g. Qualtrix. The reason for using an online survey is that it is a quick and inexpensive platform, and people are able to access it from anywhere (internet access dependant). The survey will comprise of yes/no questions that are related to location, price and the viability of the idea. As location is one of the most important aspects relating to a restaurant, it needs to be assessed by the potential customers. A decision must be made if the business will be a destination restaurant that focuses mainly on marketing efforts, or within an established shopping centre or mall that focuses on passing trade. The survey will also focus on the types of food that the customers wish to see from the restaurant, e.g. Thai, Chinese, Italian etc.

3.6 Conclusion

If I am able to prove that this restaurant concept is a viable proposition, this research will be invaluable in assisting me to achieve my ultimate goal of opening the business within the correct market and ensuring that it becomes profitable.

Section 4: Data Analysis

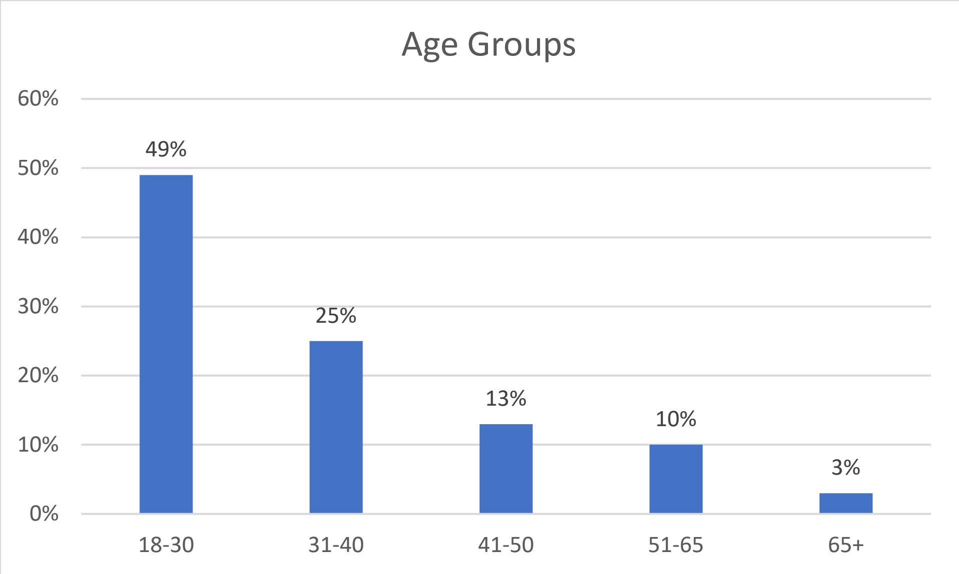

Figure 6: Age groups

Illustrated above is the proportion of age groups that answered the survey. The majority (49%) of respondents fell into the 18-30 age group, however 97% fell under the age of 65, which gives the data a full rounded outlook as to how what the market looks like

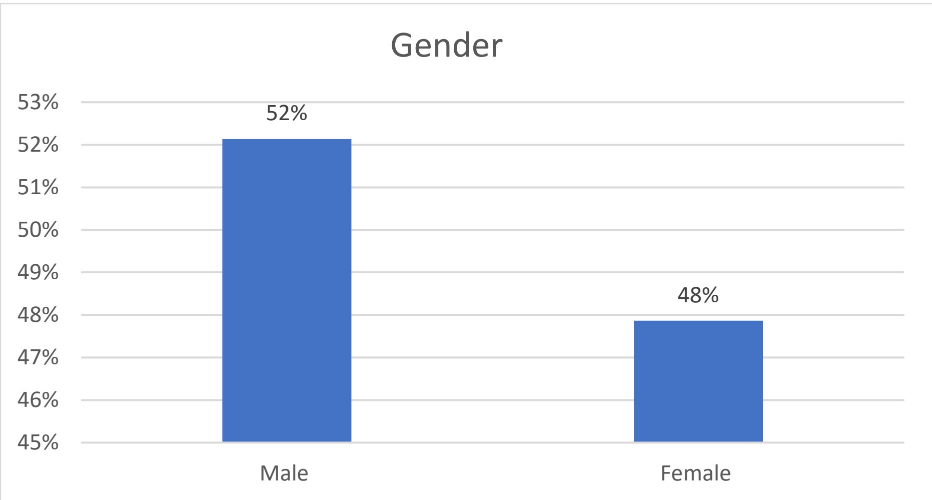

Figure 7: Gender

There was little difference between the number of males and females who answered the survey, as 52% were male and 48% were female.

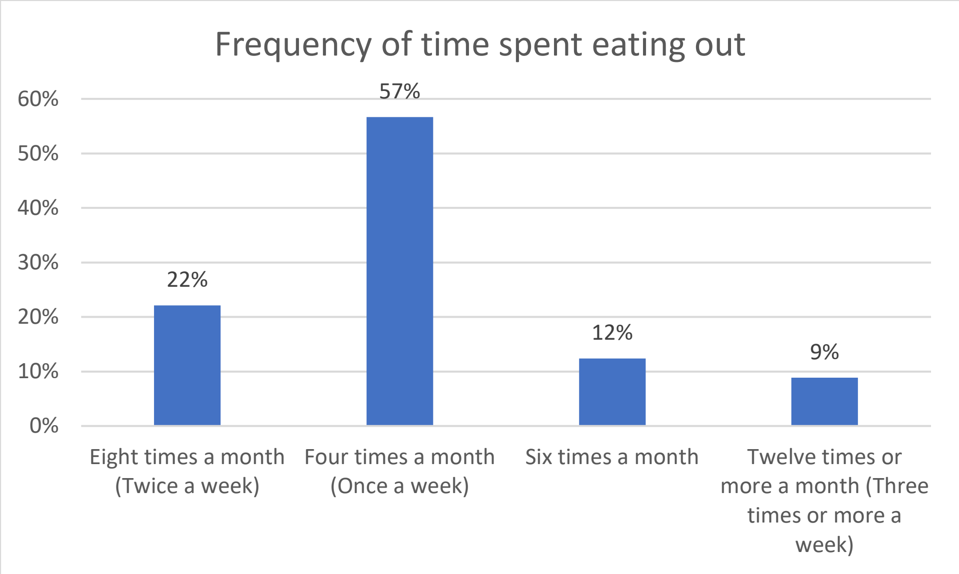

Figure 8: Number of times the respondents eat out

It was extremely important to understand the habits of the people who took the survey to ascertain how many times the average person eats out. Eating out refers to not preparing and eating food at one's house, and must be at an establishment of some sort. Over half (57%) of the respondents stated that they eat out at least once a week, with a further 22% saying that they eat out twice a week. This indicates that the respondents fit into the target market of the restaurant, as they have enough disposable income in order to eat out.

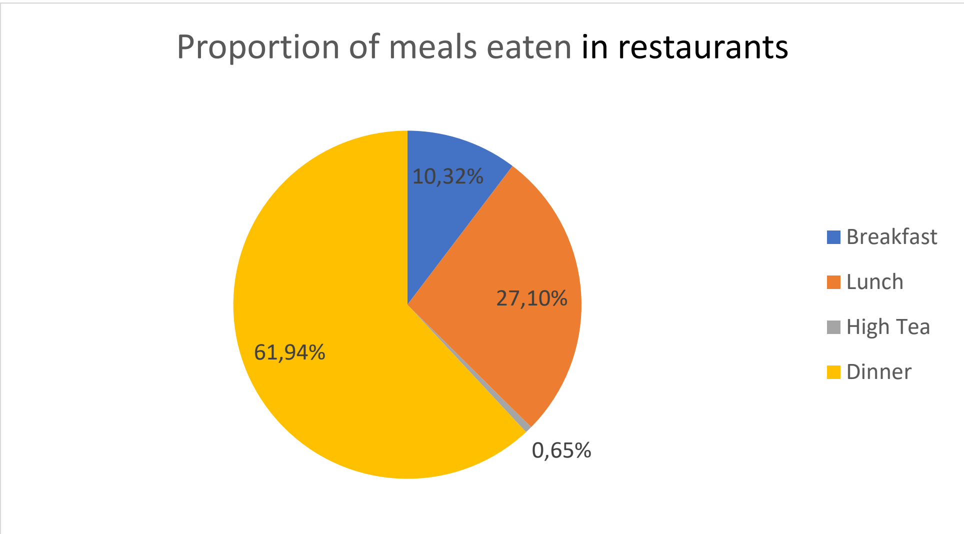

Figure 9: Proportion of meals eaten in restaurants

The above graph depicts the meals that people eat out most often. This will be used within the business case to highlight which meals the restaurant will be open for. The above graph shows that 61.94% of respondents eat out at dinner time and 27.10% eat out at lunch. This is a strong indication that the restaurant should cater towards these meals.

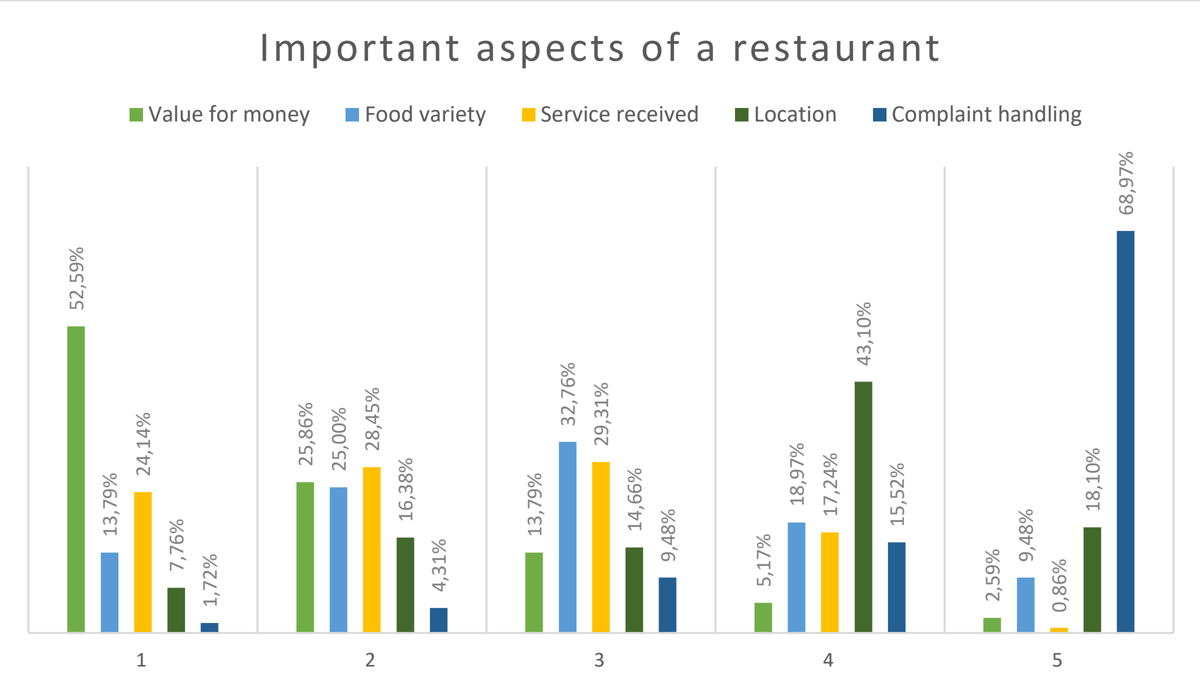

Figure 10: Important aspects of a restaurant

Some invaluable information gathered through the data is the importance of specific aspects of the restaurant and what the respondents view as being important to them. 78.45% of the respondents rated value for money within the top two key aspects of a restaurant. Value for money was also chosen as the most important of the 5 aspects achieving 52.59% of people choosing number 1 of the 5 options. This was followed by service received at 52.59% within the top two options, followed by food variety at 38.79%. It is clear from this that people want to see good service and value for money from a restaurant, more so than the location and how the restaurant handles complaints.

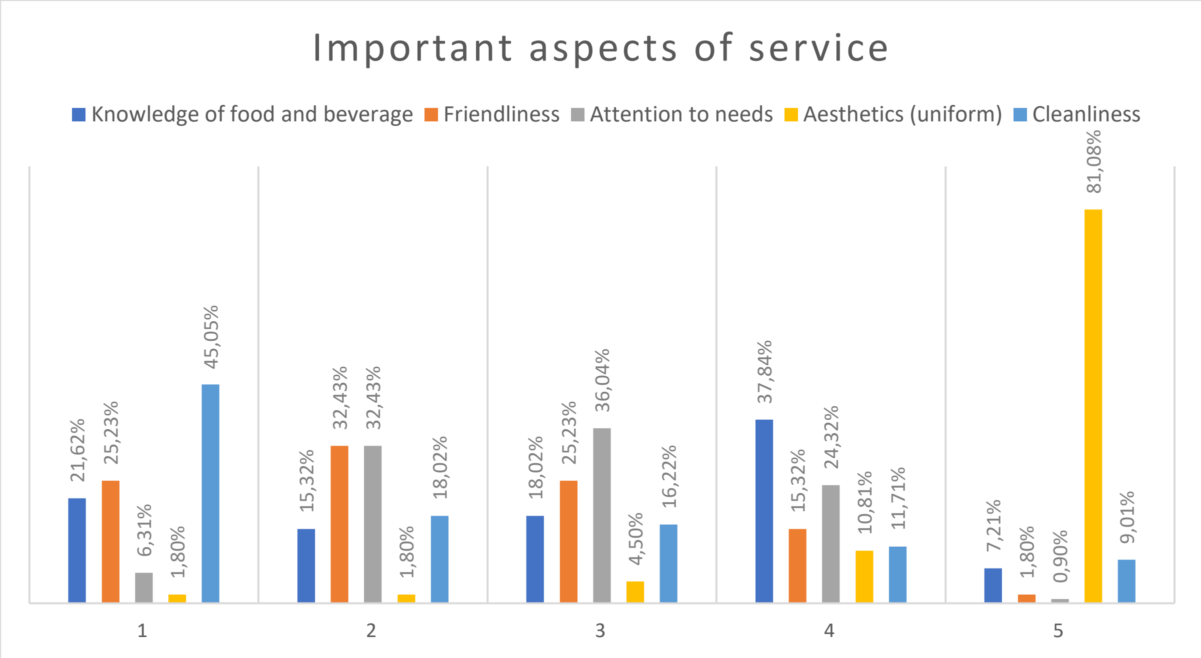

Figure 11: Important aspects of service

As discussed, service at a restaurant is of the highest importance and can impact on the success of a restaurant. It is therefore critical to understand what aspects of service are the most important in order to ensure that the new restaurant focuses on the correct issues.

The highest ranked aspect of service is undoubtably the cleanliness of the waiters, which was rated by 45.05% of the respondents as the number one factor, and by 63.07% as one of the top two aspects. The next most important indicator is the friendliness of the staff at 57.66% of its votes within the top two. It is clear from the data that the third most important aspect is attention to needs, with 68.47% of its votes sitting in second and third. According to the respondents, the aspect of service that is least important to them is the aesthetics of the waiters and staff. This refers to the uniforms of the staff and had 81.08% of the respondents rating it as 5 on the scale.

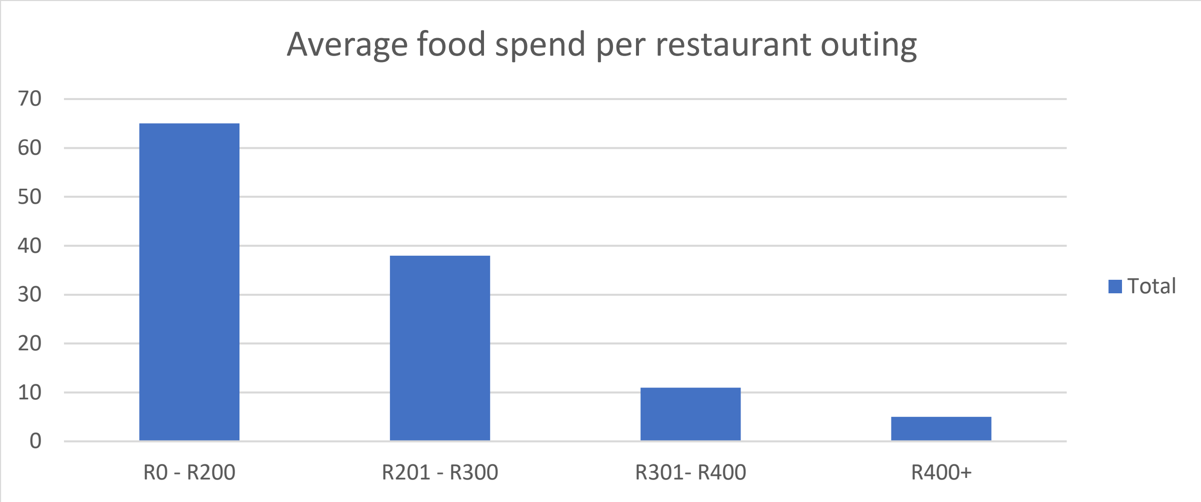

Figure 12: Average food spend per restaurant outing

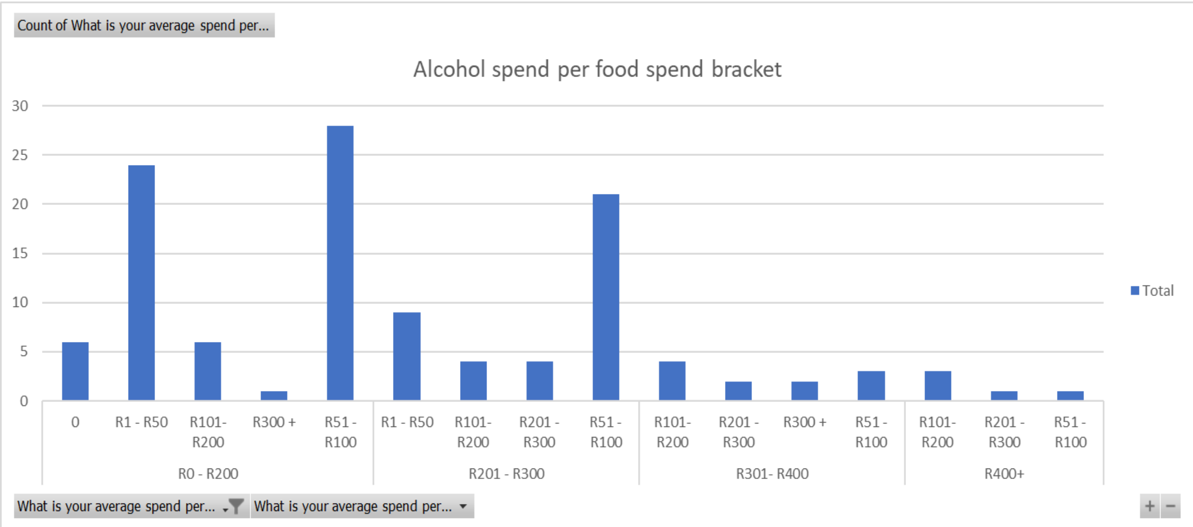

Figure 13: Alcohol spend per food spend bracket

The above tables show that the majority (54.62%) of the respondents spend on average R0-R200 on food in a restaurant. Of these 65 respondents, 36.92% spend R1-R50 on beverages, with 43.07% spending R51-R100. Through further analysis of the table it is clear that the most common amount spent on beverages overall is R51-R100, with 44.54% of respondents choosing this option.

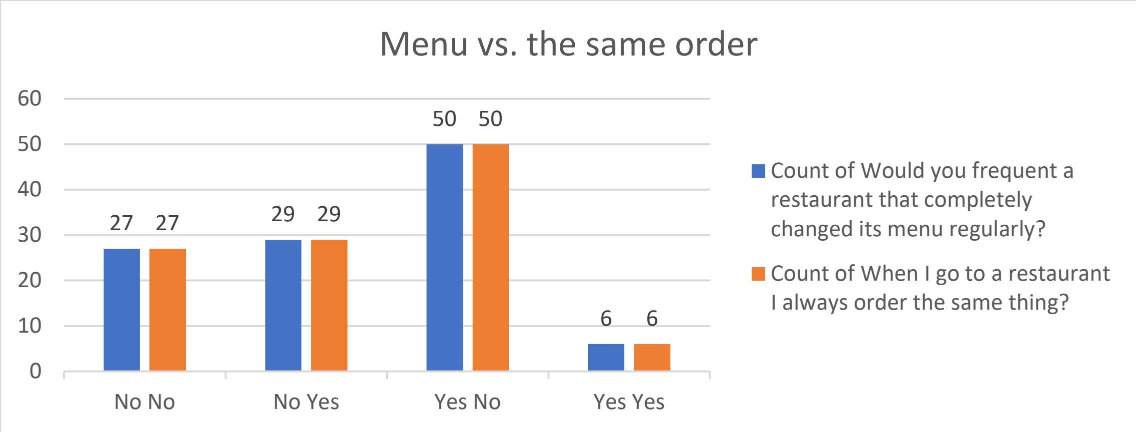

Figure 14: Menu vs. the same order

A total of 112 respondents answered the questions: Would you frequent a restaurant that completely changed its menu regularly, and when I go to a restaurant I always order the same thing. Of these respondents there was an even split of people between who said they would frequent a restaurant that changed its menu regularly and those who said they would not. Furthermore, of these 50 respondents 89% of them stated that they do not order the same meal when frequenting a restaurant. This makes sense as these people are open to change and are therefore happy to try new food.

Of the respondents that answered no, there was an almost even split as to whether they eat the same meal at the same restaurant, which fits into the mould that they are not happy for a restaurant to change its menu frequently.

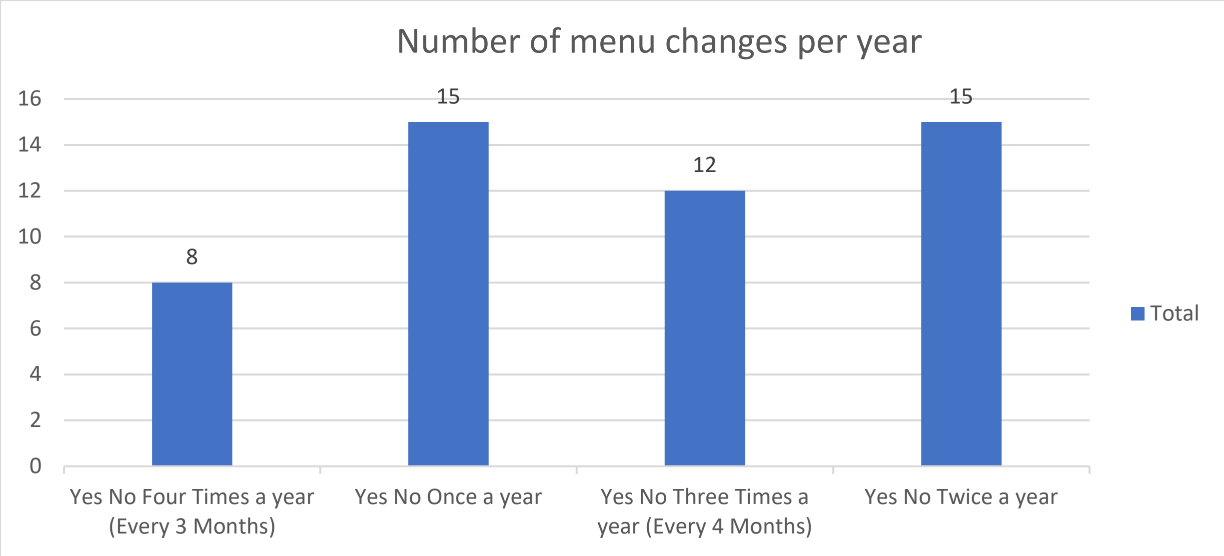

Figure 15: Number of menu changes per year

Figure 15 shows the respondents who answered 'yes' to: 'Would you frequent a restaurant that completely changed its menu regularly?' and 'no' to the statement: 'When I go to a restaurant, I always order the same thing'. Out of the 50 respondents who answered the two questions accordingly, Figure 15 shows that 84% of these respondents want to see a menu change at least twice a year. Furthermore, 54% want to see a menu change at least three times a year. This demonstrates that the business model of the proposed restaurant could be more effective if the restaurant only changes chefs twice a year, i.e. every six months.

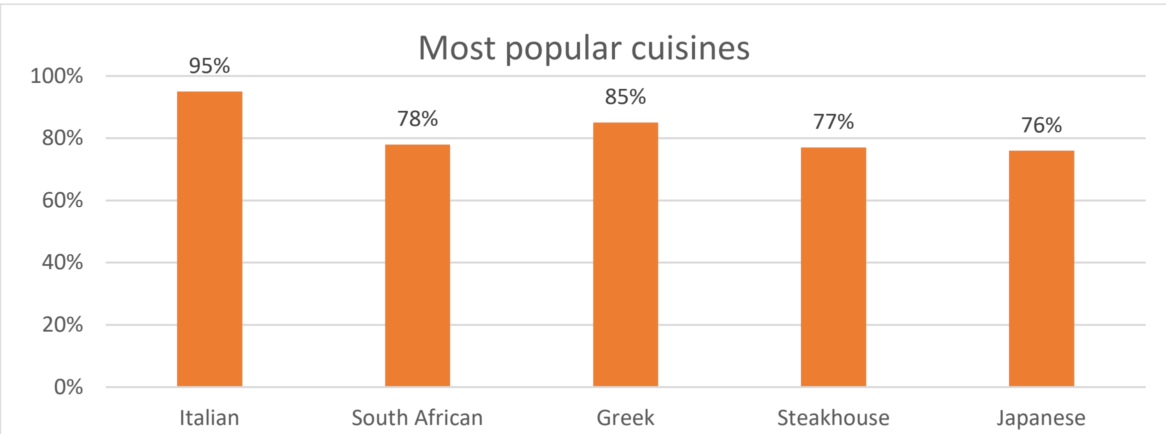

Figure 16: Most popular cuisines

As part of the restaurant concept, the restaurant will be changing chefs on a regular basis and will therefore also be changing cuisines. In order to understand what the most popular cuisines are, the respondents were asked to rate a selection of different options. The percentages listed above is a representation of the cumulative values of each cuisine ranked out of the 17 options given. As can be seen, 95% of the respondents voted Italian within the top five cuisines on the list.

Figure 17: Mean values of top five cuisines

The above graph is a continuation of Figure 16, which illustrates the mean of all the answers from the respondents; the closer to one the more popular the cuisine. It can thus be seen that the most popular cuisines, in order, are: Italian, South African, Steakhouse, Greek and Japanese.

Section 5: Business Description

The restaurant will be called “The Residency”. The Residency will be situated within an affluent part of Johannesburg’s northern suburbs close to Sandton. The main idea behind the restaurant is to have a restaurant that changes its main chef every six months. Each chef will come into the restaurant and redo the menu to represent their identity and nationality. The Residency’s head chef will help design the menu, décor and all other elements of the restaurant to bring a unique dining experience to the patrons. Furthermore, the head chef will be tasked with educating the patrons about the cuisine and what has inspired them to cook in the manner that they do. While the Residency is a restraint based on a unique dining experience this experience will include the pairing of different alcohols indigenous to the head chef as well as education about the cuisine.

5.1 Vision

- To create a restaurant in which diversity is not only celebrated but embraced and loved.
- To create a concept that can be implemented in different cities around the world.
- To provide a space in which chefs are able to fully express themselves through their food in order to educate patrons about their culinary experience, influences and dreams.

5.2 Mission

- To bring a unique dining experience to all patrons.
- To engage with and educate patrons about different cuisines and chefs from around the world while ensuring the highest levels of service and quality.
- To present a different culinary experience to patrons every time a new chef arrives while guaranteeing that their culinary and dining experience is never compromised.

5.3 Goals and Objectives

5.3.1 Overall objective

- To build a restaurant that's name is synonymous with quality and value while ensuring that patrons enjoy a unique dining experience.
- To establish a name within the market for being on the cutting edge of restaurant and culinary innovation while maintaining high occupancy rates, good profit margins and ensuring that all staff are highly trained.
- To always look at what patrons are saying and use their recommendations, wants and needs to grow the restaurant into a market leader.

5.3.2 Chef acquisition

The scouring and acquisition of chefs is integral to the business as the chefs need to be of the highest standard. As the restaurant grows and gains more of a reputation the ability to attract bigger names will be easier. However, the ability to source high quality chefs who are yet to make a name for themselves will be a key area in ensuring a success.

5.3.3 80% Occupancy

To achieve a minimum of an 80% occupancy rate within the restaurant daily from opening. As identified within the financial assumptions an 80% occupancy rate allows us to generate a good revenue stream. Furthermore, this also allows us to aim high and beat our own target by achieving an even higher occupancy rate.

5.3.4 Geographic expansion

To expand the restaurant into different cities around the world. The appeal would be to employ a 'resident chef' for a period of time that would travel the world and work in the various locations of the restaurant around the world. However, this is a long-term goal and would only be possible after a full success is made within South Africa.

5.3.5 Customer experience

To achieve a customer happiness rating of no less than 98%. A patron will expect to receive a good value for money establishment and in order to achieve this the highest levels of service and quality will need to be achieved in order to guarantee that all customers are happy with what they receive.

5.3.6 Restaurant expansion

In the fourth year of the restaurant it is planned to do an expansion in order to increase the capacity of the first restaurant by approximately 31%. This will allow more guests into the restaurant as well as help increase revenue.

Section 6: Proposed Summarized Business Plan

6.1 Situational Analysis

The restaurant will operate within the restaurants and coffee shops segment of the restaurant industry within South Africa. Statistics South Africa (2015) reported that the total income generated by the food and beverage industry was approximately R54.4 billion in 2015. Of this amount, the restaurant and coffee shop segment contributed 55.1%, which equates to approximately R29.9744 billion (Statistics South Africa, 2015).

While this proposal outlines my intention to create a new concept in restaurants, the restaurant will still fall into the restaurant and coffee shop segment of the economy, therefore one can use specific data referring to this segment. Statistics South Africa (2018) stated that as of March 2018, this segment had seen an increase of 7% in income generated based on 2017 figures. This indicates that the segment is growing which bodes well for the new restaurant.

As per the research conducted, it is clear to see that people want to frequent a restaurant that changes its menu on a semi-regular basis (see Figures 14 and 15). Furthermore, the data show that people are most interested in value for money when eating at a restaurant. Petrick (2004) states that one of the most important factors in customer satisfaction and repurchase intention is perceived value. Pettijohn, L.S., Pettijohn, C.E. and Luke (1997) found that three of the most important attributes within a restaurant are quality, cleanliness and value, i.e. in order for any restaurant to be successful today, it needs to have a changing menu, offer value for money, be clean and be of a high quality. For this reason, these aspects are all key to this business proposal.

6.2 Porter's 5 Forces

Porter (2008) listed five forces that one needs to identify in order to understand the overall competitiveness and profitability of an industry. I used this model as a way in which to further understand the food industry, in order to have a full understanding of where and how the new restaurant should operate.

6.2.1 Threat of new entrants

There are two reasons for why there is a low threat of new entrants within the food and beverage industry. The first is that there are high barriers to entry into the industry, including regulations and high capital expenditure. The second is that independent restaurants have a low chance of achieving economies of scale due to their small size.

6.2.2 Competitive rivalry

The competitive nature of the industry is extremely high. A restaurant has many competitors such as major chains, fast food providers, informal restaurants and independently owned restaurants. Customers have many choices, ranging from the type of food on offer to the amount the food costs.

6.2.3 Threat of substitutes

There are a few substitutes to eating out, however these are direct substitutes and therefore make the threat high. If a customer has R100 to spend on food, they can buy ingredients to eat in, they can go out and buy food in a restaurant, or they can go to a supermarket and buy a premade meal which is the most convenient. As all three options are competing for the same money, this makes the threat high.

6.2.4 Power of buyers

The power that the consumer has is extremely high due to the sheer number of restaurants within the industry. Consumers have a vast variety of choices when it comes to satisfying their need to eat out, therefore all restaurants are competing for the same customers. This give the consumer all the power as they have the choice as to where to go.

6.2.5 Power of suppliers

Suppliers do not have much power within the industry; there are many farmers in South Africa who sell fresh produce, thus it is easy for a restaurant to change suppliers as and when needed.

6.3 Marketing

According to Statistics South Africa (2018), 44.42% of the total restaurant industry's income was generated by food sales within the restaurant and coffee shop segment. Furthermore, 6.75% of total industry income was generated through bar sales of restaurant and coffee shops. I wish to capture approximately 0.001% of this market to the value of approximately R2.99 million.

6.3.1 Target market

As seen in Figure 8, the market that my restaurant will target is very easy to appeal to, as it is comprised of individuals mainly between the ages of 18-65 who eat out at a restaurant at least once a week. I will not exclude the population above the age of 65, but for promotion purposes I will focus on younger people as they are more connected on social media, which makes targeted advertising campaigns easier.

The ideal profile of my patrons will be four people at a table who have stable, well-paid jobs and the disposable income available to spend R200-R300 on food and R51-R100 on alcohol per person. As seen in Figures 12 and 13, this represents approximately 18% of the respondents to the survey.

6.3.2 SWOT analysis

Below is a SWOT analysis for the restaurant:

6.3.2.1 Strengths

- Diversity within the menu.
- Variety of chefs allowing a new energy to come into the restaurant on a regular basis.
- High investment in training of staff.
- Owner run restaurant.

- Procurement of top-quality produce.
- High emphasis on value for money.
- Constant change allows for a broader customer base.
- Insulated from economic fluctuations due to the affluent target market.

6.3.2.2 Weaknesses

- After a chef leaves, patrons might be disappointed with new menu and chef.
- Misalignment of a chef's culture and South African's attitudes and tastes.
- Too dependent on owner management (not enough money in early stages to hire a full-time manager).
- Owner has no experience in running and working in a restaurant environment.
- Due to the niche market the restaurant will be small, which will in turn impact revenues.
- Intensive administrative work with regards to sourcing, housing and legal requirement for work permits and visas for foreign chefs.

6.3.2.3 Opportunities

- Geographic expansion – this concept can potentially be rolled out in Cape Town and Durban.
- Pop-up restaurant during high seasons – these can be focussed on popular holiday destinations and would potentially use favourite dishes from a variety of chefs who have worked in the main restaurant.
- Ability to pivot easily based on the market's tastes and preferences.
- Additional revenue streams such as a restaurant cook book based on recipes from different chefs.

6.3.2.4 Threats

- Recession and low economic growth leading to consumers eating out less.
- Low growth industry impacting on bottom line.
- Changes in legislation regarding work permits and visa requirements.
- Deterioration of restaurant location and surrounding areas.
- Drought and other environmental factors leading to supplier prices escalating.

6.3.3 The Marketing mix

6.3.3.1 Product

The restaurant will offer a variety of different cuisines cooked by various chefs. The concept of the restaurant is that there will be a 'resident' chef employed for a short period of time, who will cook their speciality cuisine from whichever country they represent. Further to the food that will be on offer, the restaurant will be full service and offer a full bar. The restaurant will encourage pairings of different alcoholic beverages to the meal of your choice, whether it be wine, whisky or a designer cocktail.

The product will also offer diners experiential dining based on the cuisine, top quality ingredients and service, combining to create a unique dining experience. There will be an emphasis placed on the presentation of the food and beverages, with all activities and products being designed and implemented with customer centricity at the forefront.

6.3.3.2 Price

Pricing will be done to ensure that all dishes and beverages on the menu provide a desirable return. This will vary depending on the cuisine being presented, for example charging the same price for a salad and a steak would be unacceptable, therefore each individual dish would need to be priced accordingly based on its ingredients. All pricing will be done to meet the following per person charge: R200-R300 per head for the food element of the bill, and an average R51-R100 per person for beverages.

6.3.3.3 Place

The restaurant will be located within the northern suburbs of Johannesburg. The location will be chosen in order to be as close as possible to the affluent consumers who make up the primary target market. The location of the restaurant will be situated within an upper-class mall and designed in order to accommodate approximately 100 people.

6.3.3.4 Promotion

The restaurant will have social media presence on Facebook and Instagram. These platforms will allow the business to communicate about the different chefs and their stories, as well as create a hype around a new chef's arrival and the food that they will be cooking. I will hire a public relations company to ensure that the restaurant's launch information is sent to the relevant food and restaurant publications in Johannesburg.

Local food bloggers, influencers and restaurant critics will be invited to the launch in order to obtain reviews, brand awareness and positive word of mouth marketing. This will also be done every time a new chef takes over at the restaurant in order to present their food to the public.

6.3.3.5 Physical evidence

The restaurant will change twice a year based on the cuisine and nationality represented by the resident chef. The design of the restaurant will be created in conjunction with an interior design company to ensure that it is aesthetically pleasing and creates an environment in which patrons feel comfortable and relaxed so that they can enjoy the full unique experience of the chef and restaurant. The layout of the restaurant will be designed to accommodate approximately 100 people; diners will not feel cramped in order to ensure that their experience is intimate and focuses on the experience they enjoy when visiting the restaurant.

The food and beverage presentation will further ensure that patrons are suitably impressed when they receive their orders. This will help drive the experience and messaging of the restaurant.

6.3.3.6 People

The restaurant will be run and managed by the owner, alongside a staff who will include a kitchen manager and brigade as well as a front of house team. Furthermore, the resident chef will also be part of the team. All employees including both kitchen staff and front of house staff will be trained so that they have a full understanding of how each aspect of every meal is prepared. Weekly training of all will take place in order to ensure that patrons' needs are always serviced and kept top of mind. Their entire focus will be on the experience that patrons receive and to ensure customer centricity.

The front of house employees' uniforms will change depending on the cuisine being served by the resident chef.

6.3.3.7 Process

The flow of the restaurant will be that of a typical restaurant setting, i.e. patrons will first be seated and offered beverages. Upon receiving their beverages, one of the highly trained front of house team members will explain the different dishes on offer, as well as the accompanying side dishes and alcoholic beverages. At the conclusion of each meal, the head chef will thank every table. This will allow for ongoing feedback as to how the restaurant can change in order to ensure that the needs of the customer s being thought of.

Customer involvement will be vital for the restaurant's success. The constant feedback from customers regarding food, location, pricing, cuisine and any other aspects will be encouraged. This will be done on an ongoing basis to ensure that the restaurant and its offerings are always meeting customers' expectations for a unique dining experience.

6.4 Management and team complement

The management and team will consist of the following:

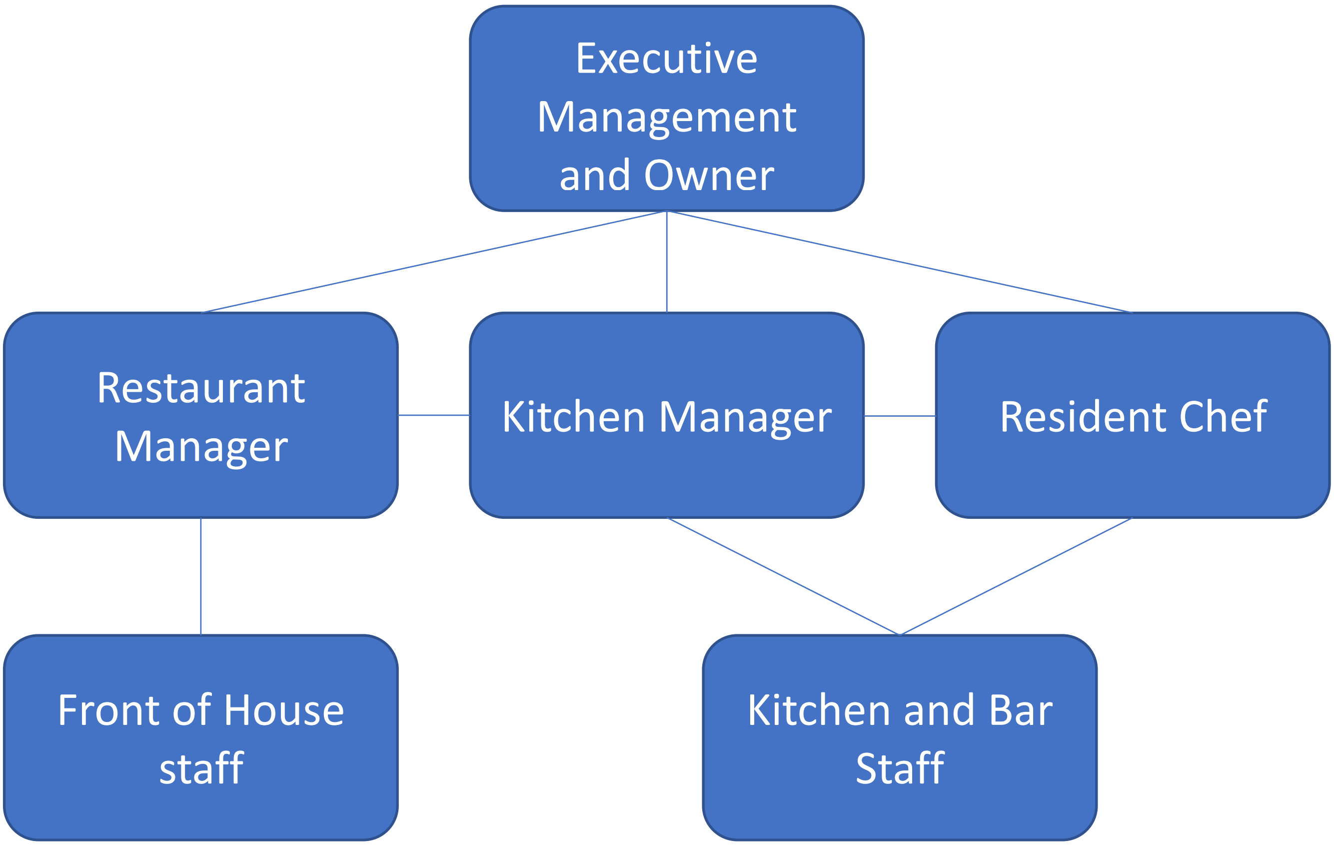

Figure 18: Organogram of the restaurant

6.4.1 Executive Management and Owner

Hylton Sonnenberg (I) will be the founder, owner and executive manager of the restaurant. I come from a business background, having initially earned a diploma and degree in marketing from the IMM, before attaining a PDM from Wits Business School. Following the PDM, I spent some time as a business analyst at a South African broadcaster, then took a year to travel the world. Upon my return I have spent time in sales within the start-up space. I regularly work at a whisky bar helping manage the bar and ensuring customer satisfaction is always high.

I will oversee all day-to-day operations of the restaurant and ensure that the restaurant will run smoothly. All managers will report into me but will work closely with myself in order to ensure that the restaurant is delivering on the promise of a unique dining experience. I will also find, select and recruit the resident chefs from around the world.

I will work closely with these chefs to design a menu that talks to the customer base and ensure that the chef understands what is expected of them.

6.4.2 Restaurant Manager, Kitchen Manager and Resident Chef

A close working relationship will need to be forged between the restaurant and kitchen manager, as they will be responsible for the running of the respective staff for both front and back of house. They will also work extremely closely with every resident chef in order to ensure that their vision for the food is translated onto every plate. The managers will be responsible for the quality of service that each and every patron receives.

6.4.3 Restaurant Manager

As mentioned above, a restaurant manager will only be employed once there is sufficient budget for this role. Until such time, this role will be filled by the owner, Hylton Sonnenberg. This role will be in charge of all front of house team members, as well as ensuring that each patron receives the promised unique dining experience. The restaurant manager will need to safeguard the quality of service as well as the quality of food being presented to the patrons. Furthermore, the restaurant manager will be tasked with handling complaints and guaranteeing customer satisfaction.

The restaurant manager will work closely with the kitchen manager to ensure that food goes out to all patrons on time, and that each and every order meets both the patrons' expectations and the chef's standards.

6.4.4 Kitchen Manager

The kitchen manager will be responsible for all the staff who work in the kitchen and will be a liaison between the resident chef and the staff if any problems arise in the kitchen. They will also be responsible for ensuring that the quality that each chef, on their respective stations, puts out. The kitchen manager will ensure that the kitchen is always in a good working condition and will focus on the cleanliness of the environment. The kitchen manager will further ensure that there is always continuity within the kitchen, no matter who the resident chef is; they will lead the kitchen to help translate the resident chef's vision into a reality. They will also need to be hands-on with all front of house staff to ensure that food gets taken to patrons quickly and correctly.

6.4.5 Resident Chef

The resident chef will have one main responsibility: to create a menu that delights every customer. All the staff in the restaurant will be focused on translating the chef's vision into an experience that the patrons will feel and taste. Furthermore, the resident chef will be the final quality check when it comes to the dishes prepared. The chefs will be the main attraction, which is why they will always ensure that the food that is being served is to their standards.

The resident chef will also be responsible for the training of the kitchen staff to ensure that they know exactly how to cook every dish. This will also ensure that they pass on their knowledge and empower those who work in the kitchen.

6.4.6 Kitchen and Bar Staff

The kitchen staff will be made up of different lower level chefs who will assist the resident chef to create the meals that they choose. These kitchen chefs will be highly trained individuals and will report into the kitchen manager. They will be responsible for their respective stations being stocked and clean at all times. They will also provide assistance to each other and be able to cover each other's stations in order to encourage collaboration and teamwork. Furthermore, these employees will be given personal time with the resident chef in order to for them to learn new skills.

The bar staff will report into the kitchen manager but will also deal with the waiters and restaurant manager. Their tasks will include ensuring all drink orders are fulfilled correctly and quickly, and trained baristas will make the required coffees. The bar staff will also be trained to create a variety of cocktails and will undergo the same training as the front of house staff to ensure that if a problem arises, they are able to step into this role as well.

6.4 Timeline

The Gannt chart below represents the estimated timeline for the opening of the restaurant.

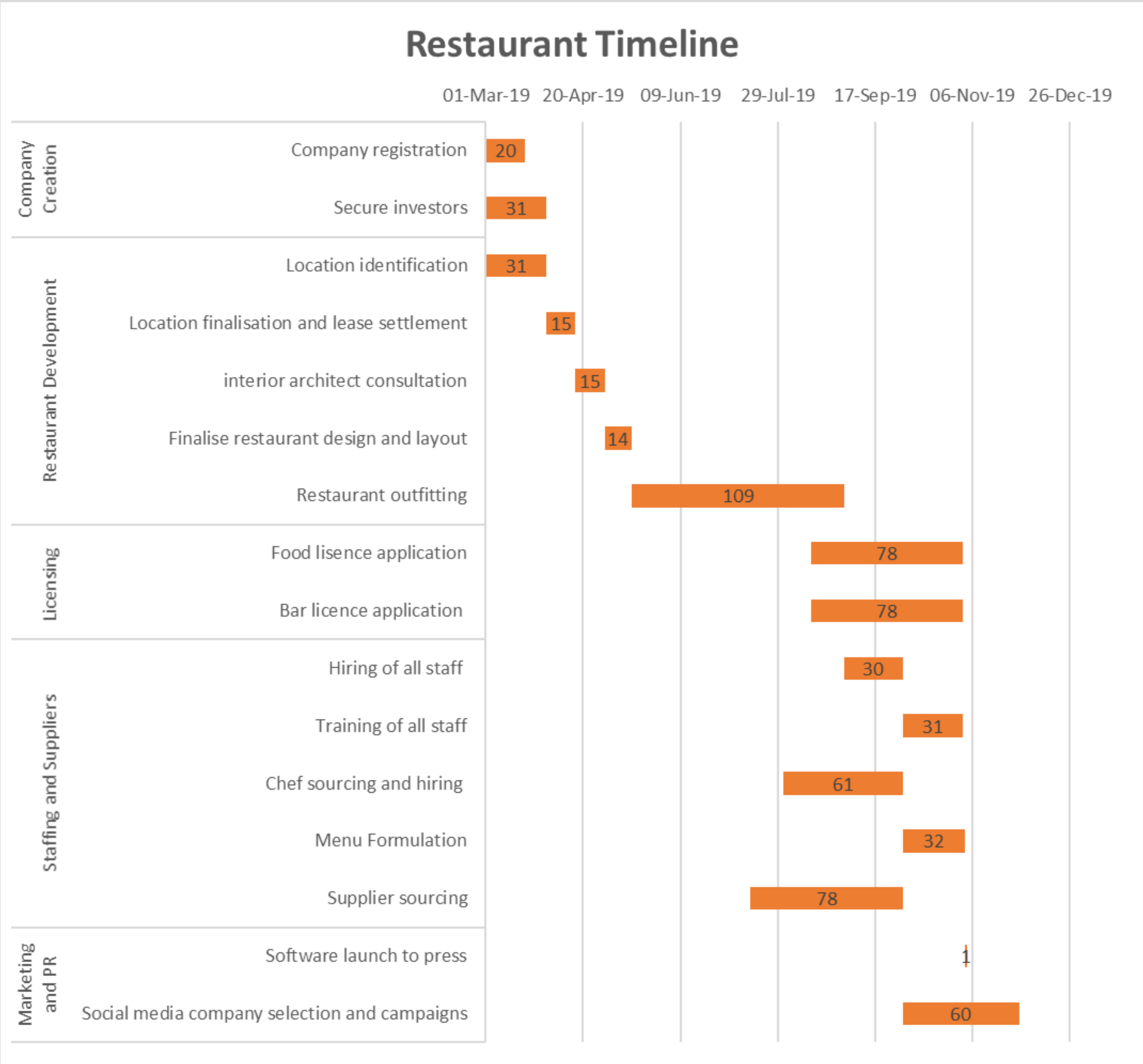

Figure 19: Restaurant timeline

The biggest hurdle that the restaurant faces in assuring that it keeps to this timeline is the issuing of the relevant licences. Both food and bar licences can take time and therefore can impact on when the restaurant can officially open its doors to the public. However, during this time there will be much to do in anticipation of the opening of the restaurant, as the resident chef will need to consult with the staff as to how he wants to create the first menu. Furthermore, the resident chef will need to train the staff on how to cook the different dishes. As mentioned, staff training will be an ongoing process, however the initial training in terms of running the restaurant will be critical.

The restaurant design will always remain the same, however the décor will change depending on the resident chefs' cuisines and nationalities.

After the soft launch of the restaurant, the marketing and PR campaigns will continue to further increase people's interest in, and knowledge of, the restaurant. The marketing campaigns that will be promoted over social media will be ongoing, which has been provided for within the budget.

Section 7: Financial information

7.1 Comprehensive Income Statement

The Residency Pty (Ltd) Comprehensive Income Statement				
	Year 1	Year 2	Year 3	Year 4
Revenue	**R13,728,000.00**	**R15,100,800.00**	**R16,610,880.00**	**R21,801,780.00**
Total cost of goods sold	R9,422,400.00	R10,081,968.00	R10,787,705.76	R14,963,949.00
Revenue generarated from Food	R2,995,200.00	R3,504,384.00	R4,079,162.88	R4,756,752.00
Sales from food	R9,984,000.00	R10,982,400.00	R12,080,640.00	R15,855,840.00
Cost of sales from food	R6,988,800.00	R7,478,016.00	R8,001,477.12	R11,099,088.00
Revenue Generated from Bar	R1,310,400.00	R1,514,448.00	R1,744,011.36	R2,081,079.00
Sales from bar	R3,744,000.00	R4,118,400.00	R4,530,240.00	R5,945,940.00
Cost of Sales from bar	R2,433,600.00	R2,603,952.00	R2,786,228.64	R3,864,861.00
Gross profit	**R4,305,600.00**	**R5,018,832.00**	**R5,823,174.24**	**R6,837,831.00**
Total Expenses	**R3,518,016.00**	**R3,764,277.12**	**R4,027,776.52**	**R4,573,720.87**
Wages	R1,536,000.00	R1,643,520.00	R1,758,566.40	R2,013,666.05
Ultilies	R72,000.00	R77,040.00	R82,432.80	R88,203.10
Rent	R600,000.00	R642,000.00	R686,940.00	R855,025.80
Marketing	R60,000.00	R64,200.00	R68,694.00	R73,502.58
Chef costs	R240,000.00	R256,800.00	R274,776.00	R294,010.32
Expenses on bring chef out	R30,000.00	R32,100.00	R34,347.00	R36,751.29
Insurance	R30,000.00	R32,100.00	R34,347.00	R48,751.29
Telephone	R6,000.00	R6,420.00	R6,869.40	R7,350.26
POS	R14,400.00	R15,408.00	R16,486.56	R17,640.62
Internet	R9,600.00	R10,272.00	R10,991.04	R11,760.41
Finance Cost	R302,016.00	R323,157.12	R345,778.12	R369,982.59
Maintanance	R12,000.00	R12,840.00	R13,738.80	R14,700.52
Other	R60,000.00	R64,200.00	R68,694.00	R73,502.58
Cleaning materials	R36,000.00	R38,520.00	R41,216.40	R44,101.55
Licences	R6,000.00	R6,420.00	R6,869.40	R7,350.26
Account costs	R60,000.00	R64,200.00	R68,694.00	R73,502.58
Owner Salary	R420,000.00	R449,400.00	R480,858.00	R514,518.06
Décor	R24,000.00	R25,680.00	R27,477.60	R29,401.03
Earnings before Interest, Tax, Depreciation and Amortisation	**R787,584.00**	**R1,254,554.88**	**R1,795,397.72**	**R2,264,110.13**
Depreciation and Amortisation	R504,000.00	R504,000.00	R504,000.00	R504,000.00
Earnings Before Interest and Tax	**R283,584.00**	**R750,554.88**	**R1,291,397.72**	**R1,760,110.13**
Interest	R0.00	R0.00	R0.00	R0.00
Tax @ 28%	R79,403.52	R210,155.37	R361,591.36	R492,830.84
Net Profit	**R204,180.48**	**R540,399.51**	**R929,806.36**	**R1,267,279.29**
Dividends paid (25% of net profit)	R51,045.12	R135,099.88	R232,451.59	R316,819.82
Retained earnings	R153,135.36	R405,299.64	R697,354.77	R950,459.47
Accumulated Retained Earnings	R153,135.36	R558,435.00	R1,255,789.76	R2,206,249.23

Figure 20: Comprehensive income statement

7.1.1 Financial model assumptions

- Food and bar prices will escalate at 10% per annum, while all other costs are assumed to grow at 7% per annum.
- Revenue figures used the following assumptions:
  - Number of operating days in a month - 26 days.
  - The restaurant will be open for two meals a day, i.e. lunch and dinner service.
  - The food mark-up is 30%.
  - The bar mark-up is 35%.
  - R200 average spend per person on food items.
  - R75 average spend per person on bar items.
  - The average profit per customer:
    - Food
      - R200 * 70% = R140 cost of sales
      - R200 – R140 = R60 profit per customer on food
    - Bar
      - R75 * 65% = R48.75 cost of sales
      - R75 – 48.75 = R 26.25 profit per customer on bar items
    - Total profit per customer
      - R 60 + R 26.25 = R 86.25
  - The occupancy of the restaurant at full capacity will be 100 people therefore a maximum of 200 people can be served in a day.
    - An occupancy of 80% full is assumed within the model.
    - According to these assumptions, the total number of customers served on average every day will be 160.
- Below are the assumptions made for the various expense line items, namely:
  - Wages
    - Eight waiters each earning R4,000 per month. This amount excludes any and all tips earned by the individual waiters.
    - Six cooks each earning R6,000 a month.
    - Four cleaners who will take shifts earning R3, 000 a month.
    - Two managers each earning R9,000 a month.
    - One resident chef earning R30,000 a month.

- Rent
  - Rent is assumed to be R50,000 per month.
- Marketing
  - A budget of R5,000 per month is assigned to the marketing function.
  - A social media and PR firm will be employed to use this budget in order to achieve the best results.
- Finance costs
  - The finance costs are factored in as a cost the restaurant will incur for having credit card facilities.
  - An average of 80% of all sales will be made via credit card, at a rate of 2.75% of the total value.
- Maintenance
  - An SLA with a maintenance company will be entered into to maintain and fix all kitchen equipment, as well as any other issues that may occur within the restaurant.
- Expenses for bringing the chefs to Johannesburg.
  - These expenses factor in flights as well as any administrative and visa cost that a resident chef might incur.
- Other
  - This expense item is used for any breakages that may occur within the restaurant, such as plates or glasses.
- Licences
  - Food and liquor licence.
- Décor
  - This item is budgeted at R2,000 per month.
  - This gives each new resident chef R12,000 in order to ensure the décor suits the cuisine and nationality of the chef.
- Depreciation
  - An assumption of R2,520,000 will be invested in assets within the kitchen
  - This will be depreciated at a rate of 20% per year for five years using the straight-line method.

- Interest

- As there are only investors in the restaurant, no loan will be required and therefore no interest will be accrued.

- Dividends
  - A dividend will be paid out to investors at 25% of net profit every year.
- Retained earnings
  - This will be used for any expenses that are unforeseen and later invested back into the restaurant for expansion as seen in year 4.
- Year 4 expansion
  - All previous assumptions hold true.
  - The restaurant will use a portion of the retained earnings in order to fund the expansion.
  - This will be to expand the restaurant by a total of 31% capacity. This will increase the daily amount of served people by approximately 50 using the above assumptions on occupancy.
  - This expansion will be negotiated with the landlords before the initial lease is signed in order to ensure that the expansion can take place.
  - During the expansion all tables and chairs will also be replaced.
  - Rent will increase by R10,000 a month.
  - Insurance costs will increase by R1,000 per month to cover the additional capacity of the restaurant.

7.2 Net Present Value (NPV) Calculation

The Residency Pty (Ltd)						
Net Present Value (NPV) Calculation						
	Year 0	Year 1	Year 2	Year 3	Year 4	
Investment	-R5,000,000.00					
Earnings before Interest, Tax, Depreciation and Amortisation	R0.00	R787,584.00	R1,254,554.88	R1,795,397.72	R2,264,110.13	
Tax	R0.00	-R79,403.52	-R210,155.37	-R361,591.36	-R492,830.84	
Interest	R0.00	R0.00	R0.00	R0.00	R0.00	
Total cash flow	-R5,000,000.00	R708,180.48	R1,044,399.51	R1,433,806.36	R1,771,279.29	R32,178,240.44
Net Present Value (NPV)	**R12,486,333.36**					
Terminal Growth Rate	**9.00%**					
Cost of equity	**15.00%**					

Figure 21: Net Present Value calculation

7.2.1 NPV explained

The NPV is used to discount all the cash flow of the business to understand whether it is worthwhile to invest in. As seen in Figure 21, the NPV equals R12,486,333.36. This is what the total cashflow of the business is worth in today's money. The investment amount needed in order to open the business is R5,000,000. Of this, R1,000,000 will be put in by the owner and founder, Hylton Sonnenberg. The remaining R4,000,000 will come from different investors. This R4,000,000 will amount to 35% of the business. This is trading at a discount as the investors will receive a 25% dividend every year on profits. Furthermore, this is a discount as if one takes the R4,000,000 and divides it by the NPV, one arrives at 32%. Therefore, the additional 3% is goodwill gesture from the owner towards the investors. Finally, the NPV proves that this is a viable and profitable business model

Section 8: Conclusion

This document has explored the viability of a new restaurant concept being introduced restaurant industry. It has identified the relevant gaps within the industry as well as the different models that would be called upon in order to establish the new concept within South Africa. Through the data collected an average spend on food as well as beverages has been collected in order to inform the financial predictions.

Although, through the understanding of the industry analysis it is clear that the restaurant industry is extremely competitive. However, through the use of the innovation model in conjunction with the restaurant innovation model it is clear that disruption can still occur opening a gap within the market.

Through the use of the integrated conceptual model of restaurant performance it is clear that a restaurants performance is very dependant on the primary and support activities within the restaurant. This model suggests that the performance of the restaurant lies within the hands of the management team and a restaurant can become successful regardless of the competitive nature of the industry.

In conjunction with all the above as well as the financial models built, it is clear to see that if the restaurant can ensure that the cost are kept to a minimum that the venture can be and is a viable idea. Furthermore, it is clear that the venture will be profitable from the first year strengthen the case as well as making it a lucrative and exciting investment.

Section 9: References

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