

Full-Service Restaurants

Industry Snapshot

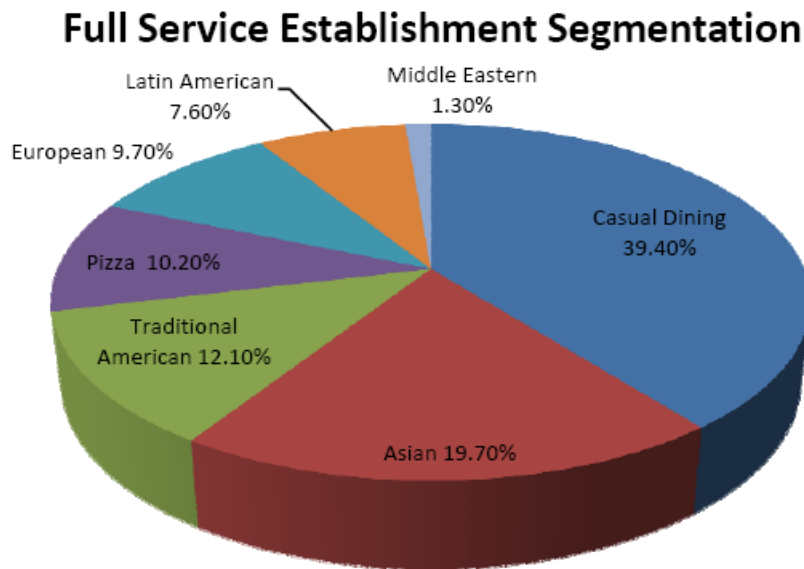


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Industry Segments¹

North American food remains the highest growth area with the largest revenue. This can be attributed to the wide range of price points and variety of food options to meet customer needs and tastes.

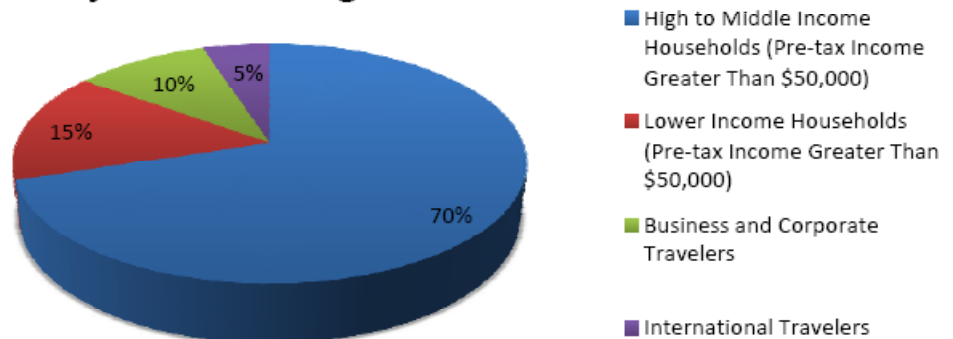
Below is a chart displaying industry segmentation for all full-service restaurants. There has been growth in certain food styles as immigration patterns have increased post-WWII. The most popular foreign cuisine is Asian (19.7%), then pizza (10.2%), European (9.7%), Latin American (7.6%) then Middle Eastern (1.3%). The highest growing food style is Asian, followed by Mexican, and recently Middle Eastern.



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Approximately 85% of the the restaurant industry revenue comes from households. Of that figure, 70% comes from households with an annual income greater than \$50,000. The remaining 15% of revenue comes from business, corporate and international travelers. Below is a chart displaying the major market segments.

Major Market Segments



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¹ [IBISWorld Pty Ltd.](http://www.ibisworld.com), "Full-Service Restaurants in the US." New York: IBISWorld. January 25, 2010. <http://www.ibisworld.com>.

Success Factors²

Full-services restaurants that are successful have several things in common. Below is a list of factors that are proven to be key in running a profitable restaurant business.

- *Attractive Product Presentation: It is important to have a good environment and setting to attract and retain customers.*
- *Appropriate Pricing Policy: Establish a good portion control and pricing policy to maintain cost and profit margins on meals.*
- *Adoption of Business Focus: Understand customer wants and needs, and always meet them. Ensure good word-of-mouth business and strive for a high level of repeat customers.*
- *Close Location to Key Markets: Be located in a place near where your core clients can easily access you and understand the needs from these key clients.*
- *Access to Flexible and Multi-Skilled Workforce: Having access to trained staff on hourly rates, allows you to meet client demand during peak times.*
- *Ability to Adapt Quickly to New Regulations: Make changes according to government regulation, especially in the areas around food handling and safety.*
- *Strong Inventory Management: Minimizing food waste, controlling stock and orders will help to keep costs low.*
- *Quick Adoption of New Technology: To lower costs and increase productivity, strong businesses will adopt new employee training and customer and kitchen technology.*

Industry Data³

Technological Developments

Many Restaurants have employed the use of a point-of-service (POS) system. These systems allow for the business to track inventory, orders, and customers seating. As supplies run low, inventory can be ordered directly from the supplier. These same devices can be used by staff to take patron orders, send them directly to the kitchen so preparation can begin.

Employment

In 2008, thirty-eight percent of workers in food services worked part time, more than twice the proportion for all other industries. The restaurant industry employs 9.6 million people, making it one of the nation's largest employers. Nearly two-thirds of all restaurants employ less than 20 workers. This industry is the leading employer of young workers age 16-19 years old. Often they provide this demographic with their first job in the work force.

² [IBISWorld Pty Ltd.](http://www.ibisworld.com), "Full-Service Restaurants in the US." New York: IBISWorld. January 25, 2010. <http://www.ibisworld.com>.

³ "Food Service and Drinking Places," *United States Department of Labor*, <http://www.bls.gov/oco/cg/cgso23.htm> (March 1, 2010).

Industry Outlook

From 2008 to 2018, wages in this industry are predicted to increase by 8 percent. This is less than the predicted growth of 11 percent for all other industries.

There is a growing demand for the convenience of eating out; this will contribute to job growth in the restaurant industry. Families are opting for the accommodation of young children, which will prompt growth of moderately priced restaurants that cater to this demographic. Fine dining establishments will grow at a slower rate as customers will prefer a more casual dining experience.

Industry Wages

Wages in the restaurant industry are much lower than in other industries. In 2008, the average wage at a full-service restaurant was \$10.21 an hour. Skilled workers like chefs usually earn the most. Other workers often make minimum wage and tips comprise a substantial amount of their earnings. Below is a table listing the median hourly wages of popular occupations in the food services industry.

Median hourly wages of the largest occupations in food services and drinking places, May 2008		
Occupation	Food Services and Drinking Places	All Industries
First-Line Supervisors/Managers of Food Preparation and Serving Workers	\$13.46	\$13.93
Cooks, Restaurant	\$10.40	\$10.57
Food Preparation Workers	\$8.57	\$8.96
Bartenders	\$8.50	\$8.54
Counter Attendants, Cafeteria, Food Concession, and Coffee Shop	\$8.33	\$8.42
Hosts and Hostesses, Restaurant, Lounge, and Coffee Shop	\$8.33	\$8.42
Cooks, Fast Food	\$8.10	\$8.12
Dishwashers	\$8.09	\$8.19
Waiters and Waitresses	\$7.99	\$8.01
Combined Food Preparation and Serving Workers, Including Fast Food	\$7.75	\$7.90 ⁴

⁴ "Food Service and Drinking Places," *United States Department of Labor*, <http://www.bls.gov/oco/cg/cgso23.htm> (March 1, 2010).

Industry Costs⁵

The table below outlines the median costs for a full-service restaurant with an average check amount of \$15 to \$24.99 per person. Income before taxes (per seat) is shown for both independent restaurants and company operated (franchised) restaurants.

Full Service Restaurant (Average Check Per Person \$15 to \$24.99) Statement of Income and Expense - Amount Per Seat		
	Independent	Company Operated
Sales		
Food	\$6,000	\$11,351
Beverage	2,196	3,081
Total Sales	8,333	14,838
Cost of Sales		
Food	2,067	3,928
Beverage	583	851
Total Cost of Sales	3,000	4,920
Gross Profit	5,428	9,490
Operating Expenses		
Salaries and Wages	3,063	4,639
Direct Operating Expenses	535	662
Music and Entertainment	30	34
Marketing	143	228
Utility Services	295	447
Restaurant Occupancy Costs	523	637
Repairs and Maintenance	142	305
Depreciation	159	282
Other Expenses/(Income)	154	(18)
General & Administrative Expenses	276	503
Corporate Overhead	25	0
Total Operating Expenses	5,117	8,341
Interest Expense	64	113
Other Expenses/(Income)	25	0
Income (Loss) Before Income Taxes	229	720

⁵ Deloitte and Touche, *Restaurant Industry Operations Report* (National Restaurant Association, 2007-2008), Pg:56.

Consumer Expenditures⁶

The below table illustrates the dollar amount spent per household based on income, on food away from home annually. As family income increase, more money is spent on dining out. Households that make more than \$70,000 annually spend 50.5% of their food budget eating out; In these same households, \$1,396 is spend per person on eating out annually.

Spending on Food Away From Home

Household Income	Household Spending On Eating Out	Per Person	% of Total Food Expenditures
\$70,000 +	\$4,328	\$1,396	50.5%
\$50,000 to \$70,000	\$2,834	\$945	43.7%
\$40,000 to \$50,000	\$2,401	\$889	43.3%
\$30,000 to \$40,000	\$1,979	\$792	40.9%
\$20,000 to \$30,000	\$1,574	\$645	38.0%
\$15,000 to \$20,000	\$1,253	\$570	35.6% ⁶

Trends

Decrease in Sales Growth - The US economy had a slightly decreased sales growth from 2006-2008. With less traffic, restaurants have had less flexibility in pricing. Consumers have chosen to cut restaurant spending or to eat out less, rather than eat at less expensive restaurants.

Increased Costs of Food - The wholesale prices of food are at record highs, cutting into restaurant profit. Between 2007 and 2008, manufacturers' prices for food increased 9.6 percent. The largest increases were seen on commodity items including: milk, rice, cheese, fats, oil, eggs, and flour.

Casual Dining Growth Outpaces Industry - Fast, casual sales at limited service restaurants grew 3.2 percent between 2007 and 2008. Consumers have flocked to this market for quick, good food, in a casual environment.

Consumers are Eating Out Less Often - Family style and casual dining establishments are seeing less patronage from consumers. One-third of consumers are visiting family style restaurants less often. This decline in visits can be attributed to rising gas costs and cheaper alternatives at home.

⁶ [IBISWorld Pty Ltd.](http://www.ibisworld.com), "Full-Service Restaurants in the US." New York: IBISWorld. January 25, 2010. <http://www.ibisworld.com>.

Financial Information

Below are financial benchmarks for the restaurant industry. The aggregate data is based off 1277 restaurants in the industry. The small company information was collected from 319 small restaurants with annual sales less than \$1,290,005. These ratios can be a useful indicator of a company's current performance and financial situation.

	Income Statement	
	Aggregate	Small Company
Net Sales	100%	100%
Gross Profit	63.3%	63.3%
Operating income	4.7%	4.5%
Net Profit After Tax	2.4%	2.2%
	Balance Sheet	
Cash	7.4%	8.4%
Account Receivable	0.7%	0%
Inventory	3%	2.8%
Total Current Assets	13.3%	12.2%
Total Fixed Assets	50.2%	46.0%
Other Non-Current Assets	36.5%	41.8%
<i>Total Assets</i>	100%	100%
Accounts Payable	6.2%	2.2%
Total Current Liabilities	41.3%	42.7%
Total Long-Term Liabilities	17.5%	8.8%
Net Worth	41.2%	48.5% ⁷

Risks and Challenges⁸

Increase in Competition- Restaurants face competition from a broad range of sources. Competitors include: grocery stores, gas stations, coffee shops, delis, and home cooking. These are several industries vying for consumer food dollars.

Unstable Supply Costs- Prices on commodity are volatile and can change up 20% a year. The changing price manufactures charge for ingredients can significant impact the restaurants profitability.

Labor Problems- A reoccurring problem for many restaurants is high turnover, labor shortages, and policies around minimum wage. Low wages make it hard for some businesses to recruit and retain workers. Any increases in minimum wage, severely effect labor costs for the business.

⁷ First Research, Inc. 2007, "Restaurants." Austin, TX: First Research. January 25,2010. <http://www.firstresearch.com>.

⁸ First Research, Inc. 2007, "Restaurants." Austin, TX: First Research. January 25,2010. <http://www.firstresearch.com>.
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Contamination of Ingredients- Any illness or death caused by food contaminating in any restaurant is well publicized and can affect the sales in all restaurants.

Growing Health Concerns- Consumers have shown an increasing concern about the high calorie, fat, and portion size of some restaurant food. This has prompted legislation and resulted in harmful publicity.

Liability Associated with Serving Alcohol - There are risks associated with serving alcohol at a restaurant. This includes problems associated with serving to minors. Companies that serve to underage patrons can incur fines or risk temporary or permanent closure.

Industry Resources

National Restaurant Association

<http://www.restaurant.org/>

- *Information on industry research, education, networking, tools and events*

Nation's Restaurant News

<http://www.nrn.com/>

- *The latest information on restaurant news, operations, human relations, marketing, chains, and products*

NPD Group

<http://www.npd.com>

- *Eating and cooking trends in America*

Restaurants and Institutions

<http://www.rimag.com/>

- *Trends and news in the industry*

Restaurant Finance Monitor

<http://www.restfinance.com/>

- *Up-to-date news on specific restaurants and the industry*