

Restaurant Market Analysis

Developing a business plan for an existing business or conducting a feasibility study for a new venture requires a thorough analysis of market conditions. Market conditions in your area have a significant impact on the profitability of your restaurant. The strength of the local market affects how many customers you will serve and the menu prices that you can charge. This guidebook will help you analyze your market so that you can gauge the potential of your existing or proposed operation and make more informed operating and investment decisions.

On the pages that follow are a series of checklists to help you collect and analyze information as part of a restaurant market analysis. The checklists, tailored to the restaurant industry, will serve as a learning tool to help you understand the many market factors that influence your profitability.

Types of Questions Answered

By conducting a market analysis, you will be able to answer questions such as:

- What trends are emerging in the food service industry?
- What are the strengths and weaknesses of my competition?
- Is my location suitable?
- Does my concept fill a niche in the market?
- What is the potential number of customers I can serve per year?

Applications

This guidebook will provide you with an industry-specific market analysis format that can be used in a feasibility study, business plan or marketing plan. The following will help analyze the market potential of an existing operation, an expansion or a new development.

Existing operators can use a market analysis to identify opportunities to improve sales. The analysis can provide valuable information on market conditions to help in forecasting and budgeting. It also provides a foundation for an effective marketing plan.

Prospective operators can use a market analysis to project sales volume for a new restaurant venture. The analysis can provide essential information required in a business plan or feasibility study. Through careful analysis of the market, the risks of a business investment can be lessened.

Using your market analysis findings, you can estimate the financial potential of your venture by creating financial projections. If you are a prospective restaurateur, these projections will help you determine if your venture is feasible. Software for developing restaurant financial projections is available through the University of Wisconsin-Extension, Center for Community Economic Development.

Conducting Your Analysis

The sections that follow include data collection checklists and worksheets. While the section on projection sales should be the final step, the other sections can be completed in any order. Remember that your efforts in studying the market will provide you with information to make better, more informed decisions.

Market Analysis Components

- Industry Trends
- Location and Facility
- Area Characteristics
- Competition
- Knowing Your Customer
- Projected Sales

I. Industry Trends

Studying industry trends is one of the first steps in conducting a market analysis. It will help you identify opportunities and threats in the industry that may affect your profitability.

Studies on consumer eating and drinking patterns are available from various sources. Such studies report recent changes and trends in consumer attitudes and behaviors regarding food away from home. They can identify changing trends before they become apparent in your local market. The following are some of the sources of industry trends data available to you:

- National Restaurant Association
- State and Local Restaurant Associations
- Industry Groups (such as the International Foodservice Manufacturers Association)
- Hospitality Industry Databases (available at many colleges and universities that offer a hospitality program)
- Industry Publications

The following industry trends checklist provides a sample of topics you might want to study as part of your market analysis. Use it to complete this part of your market analysis.

Growth in Industry Sales

- Quick-service vs. table-service
- Chain vs. independent
- Various types of restaurants (steakhouses, ethnic...)
- Catering
- Deli, bakery and takeout operations
- Monthly/seasonal dining out patterns
- Industry sales outlook

Market Demand

- Economic trends
- Consumer confidence
- Demographic trends
- "Food away from home" trends
- Factors that motivate one to dine out
- Eating habits of different market segments

Menu Preferences

- Appetizers/soups
- Entrees
- Sandwiches
- Desserts
- Nutritional concerns
- Menu pricing
- Alcoholic beverage consumption
- Seafood, red meat and poultry trends
- Vegetarian trends

Restaurant Success Factors

- New and popular concepts/themes
- Customer service innovations
- Pricing practices
- Food production methods
- Labor saving techniques

II. Local Market Area

Demographic and economic statistics will help you determine the restaurant sales potential of the market area you plan to serve. By comparing these statistics with those of other areas and the state, you will be able to evaluate the strength of your market area.

The first step in this analysis is to define the geographic size of your market area. Be reasonable in estimating how far people will travel to reach your site.

Once your geographic market area is defined, you should obtain demographic data that describes the people who live and work in the area. Are there many affluent singles? Elderly with discretionary income? Families? Descriptions of the population's age, income, education and gender will help you understand the market area you plan to serve.

Obtain economic statistics such as business growth trends, eating and drinking place sales, and tourism visitation data. They indicate the overall economic health of the market area. This is important since restaurant sales are closely related to local economic conditions.

Data on your market area is available from various sources such as:

- Bureau of Census, U.S. Dept. of Commerce;
- Private marketing data entry forms;
- State and local economic development agencies and State Data Centers;
- Small Business Development Centers;
- County Extension offices;
- Local Chambers of Commerce
- Library resource materials such as: Sourcebook of Zipcode Demographics and Sales and Marketing Management

In addition to studying economic and demographic data, you should also determine the dining out behaviors and preferences of local residents. "Lifestyle Segmentation Reports" provided by marketing group data firms provides a useful source of consumer behavior information. In addition, you can learn about their favorite foods, frequency of dining out, and preferred restaurants through survey and focus group research.

The market area checklist will help you collect data to evaluate your market area. The following checklist includes information relevant to your proposed restaurant. Use it to complete this part of your market analysis.

Geographic Market Area

Market area radius (one, two, three miles, etc.)
Market area

Demographic Characteristics

Population
Age distribution and median age
Gender
Ethnic groups
Household income distribution
Marital status
Dwelling types
Households with children
Education

Economic Characteristics

- Eating and drinking place sales
- Employment levels
- Types of employment
- Number of and growth in business establishments
- Local developments planned
- Seasonality and tourism visitation

Dining Out Preferences and Lifestyles of Local Residents

- Lifestyle segmentation data provided by marketing data firms
- Interview with local residents
- Observe eating habits in other restaurants

Analyzing tourist visitor origin can be a complicated process. As these visitors may be traveling great distances, it can be more difficult to acquire customer information than with a traditional analysis of local residents. Nonetheless, understanding these customers requires obtaining information about their places of origin, as well as data about their demographics and lifestyles.

A technology called geographic information systems (GIS) can be used to solve these problems. Combining GIS with your customer address lists or chamber of commerce inquiry records, allows you to profile tourism customers both geographically and demographically. Furthermore, GIS technology can use this information to search (prospect) for new potential customers in other communities that match your geographic or demographic criteria.

III. Competition

Existing market area restaurants can provide valuable information to help you analyze demand and market opportunities. You can assess their competitive strengths and weaknesses and learn from their successes and failures.

First, identify how many restaurants are in your market area. Then, identify those restaurants that appeal to the types of customers (market segments) that you plan to serve. You should also identify all other restaurants located in your immediate area because they can also influence your business. Consider including bar and grills, catering services, food delivery services, grocery stores with deli, etc. Refer to the Yellow Pages and your local Chamber of Commerce for listings of area food-service operations.

It is important to identify any market area restaurants that have closed, and for what reasons. Also, learn what new restaurants are planned for the market area and determine how they might affect your proposed operation.

After identifying your competition, visit and evaluate each restaurant. Speak with the manager of each operation if possible. Use the following checklist to complete this part of your market analysis.

Location

- Community traffic patterns
- Proximity to sources of demand
- Accessibility
- Visibility
- Surrounding neighborhood
- Parking availability
- Sign visibility

Appearance/Comfort

- Exterior appearance and theme

- Interior appearance and theme
 - Atmosphere
 - Cleanliness
 - Heating and ventilation

Menu

- Theme
- Variety and selection
- Signature items
- Price range and value
- Beverage service

Food Quality

- Taste
- Presentation
- Portion size
- Consistency

Service

- Days open
- Hours of operation
- Service style
- Quality of service
- Speed of Service
- Extra services offered

General Information

- Number of seats
- Estimated seat turnover by day and by meal period
- Types of guests served (age, income, origin...)
- Is business increasing or decreasing?
- Banquet facilities
- Entertainment
- Franchise affiliation
- Reviews by food Critics/Ratings in travel guides
- Local reputation
- Advertising and promotion methods used

Overall

- Strengths
- Weaknesses

IV. Location

Location is a critical consideration because it affects your ability to draw customers. It is important that your site be visible, accessible, convenient and attractive to your market. How you evaluate your location will depend on the type of restaurant you are planning and the type of customers you hope to serve.

Two major choices face prospective restaurateurs: What kind of restaurant should I open and where should I open it? Typically, you will have already selected either a location or a concept for your restaurant. It is important that your location and concept complement each other. It is critical that a site be chosen based on market factors, not because of a low price.

Different types of restaurants will have different location requirements. However, certain elements should be analyzed regardless of the type of restaurant you are planning. Use the following checklist to complete this part of your market analysis.

Description of immediate area

- Residential and commercial profile
- Adjacent land uses
- Proposed developments
- Safety
- Special appeal of location
- Map of area (identify sources of demand, competition and other relevant landmarks)

Proximity to Customers and Competition

- Major demand generators (retail, offices, lodging, hospitals ...)
- Number of potential customers by segment within one-, two-, three-mile radius, etc.
- List of direct competitors

Traffic Volume

- Street and road patterns
- Speed limit and traffic signs/lights
- Highway/Street traffic counts
- Pedestrian traffic counts
- Peak and off-peak traffic periods

Accessibility

- Proximity to major streets and highways
- Ease of entrance and exit
- Parking (guests and delivery)
- Pedestrian accessibility
- Americans with Disabilities Act (ADA) compliance

Visibility

- Visibility from road
- Effectiveness of sign
- "Curb appeal" of building
- Landscaping
- Exterior lighting

Other Issues

- Zoning
- Environmental Issues
- Easements and restrictions
- Growth Patterns of Surrounding Areas

V. Concept Refinement and Evaluation

An effective concept establishes a restaurant's identity. It distinguishes the operation from others in the market area and allows the restaurant to attract particular customer groups.

Understanding customer preferences is essential in developing an appropriate concept. It is important to realize that concepts appropriate for one area may not be appropriate for another. Using data already gathered, this section will help you refine your concept and evaluate its suitability for your market area.

Concept involves the entire dining experience, not just the type of food offered. Elements that define a restaurant's concept include decor, lighting, menu, food preparation and presentation, service, price, location, and size. Even the name of the establishment conveys a sense of the concept.

To help refine your restaurant idea, describe your proposed operation in one or two sentences. Use the elements in the concept refinement worksheet to expand upon your concept statement.

The following questions will help you determine if your concept is suitable for your market area. Use information from earlier sections to answer them.

- What segments of the population are you targeting with this concept? Consider age, income, marital and family status, and other relevant demographic characteristics.
- How large are these market segments within your market area? Is the market growing?
- What share of the market can you reasonably expect to capture?
- Will this customer base be large enough to support your operation?

Answer these and other relevant questions to determine if your restaurant idea is suitable for your market area. Use the following checklist to complete this part of your market analysis.

Concept Statement: _____
Restaurant Name: _____
Independent or Chain Affiliation: _____
Theme (ethnic, regional...): _____
Atmosphere/Decor: _____
Menu (sample appetizers/soups, entrees and desserts): _____
Signature Items on Menu: _____
Food Preparation/Presentation/Portions: _____
Alcoholic Beverage Service: _____
Service: _____
Banquets/Catering: _____
Entertainment: _____
Price Range:
 o Breakfast _____
 o Lunch _____
 o Dinner _____
Number of Seats: _____
Hours of Operation: _____
Overall, concept is different and unique because: _____

VI. Projecting Your Sales Potential

At this point in your market analysis, you have completed your data collection. You have analyzed industry trends, market area demographics, economic statistics, competition, suitability of your location and restaurant concept. You are now ready to estimate your sales potential based on these factors.

Sales in a restaurant are a function of the number of customers you serve (covers) and spending per person (average check). A key indicator of future sales performance is past sales performance. Existing restaurants can rely on their historical records for this information. Prospective operators must look to comparable restaurants for data on their past performance.

While there are no formulas for calculating your sales potential, your prior research will help you make more informed and reasonable estimates. The steps that follow will help you estimate your covers, average check and sales potential.

1. Review Your Competitive Position

A review of your restaurant's relative strengths and weaknesses will help you to determine your competitive position in the market area. Compare your operation with your competition using the criteria below. Be sure to keep in mind your concept and the types of customers you hope to attract.

	Competitive Strength	< -----	----- >	Competitive Weakness	
Concept/Theme	*	*	*	*	*
Proximity to Customers	*	*	*	*	*
Traffic Volume	*	*	*	*	*
Accessibility	*	*	*	*	*
Visibility	*	*	*	*	*
Atmosphere	*	*	*	*	*
Menu Appeal	*	*	*	*	*
Food Quality	*	*	*	*	*
Service Quality	*	*	*	*	*
Entertainment	*	*	*	*	*
Reputation/Reviews	*	*	*	*	*
Franchise Affiliation	*	*	*	*	*
Pricing	*	*	*	*	*
Hours of Operation	*	*	*	*	*
Management	*	*	*	*	*
_____	*	*	*	*	*
_____	*	*	*	*	*
_____	*	*	*	*	*

2. Project Customer Volume

With an understanding of your competitive position in the market and with estimates of volume of other operations, you are ready to make projections of your customer volume potential. The customer volume projection worksheet will help you estimate how many customers, or meal "covers," you will serve. The following instructions will help you complete the worksheet:

1. Divide your operating year into season that describe the variability of your business (peak-season, middle-season, and off-season). Enter the number of weeks in each season in the appropriate box.
2. For each season, estimate the number of daily covers for each meal period. Sum the daily covers to determine the weekly totals.
3. Calculate the number of covers per season by multiplying the projected number of weekly covers by the number of weeks in that season.
4. Sum the totals from each season to determine your annual covers

Customer Volume Projection Worksheet

	Weeks	Breakfast Covers	Lunch Covers	Dinner Covers	Total Covers
Peak Season:	<input style="width: 50px;" type="text"/>				
Monday					
Tuesday					
Wednesday					
Thursday					
Friday					
Saturday					
Sunday					
Weekly Total					
Peak Season Total					
Middle-Season:	<input style="width: 50px;" type="text"/>				
Monday					
Tuesday					
Wednesday					
Thursday					
Friday					
Saturday					
Sunday					
Weekly Total					
Peak Season Total					
Off-Season	<input style="width: 50px;" type="text"/>				
Monday					
Tuesday					
Wednesday					
Thursday					
Friday					
Saturday					
Sunday					
Weekly Total					
Peak Season Total					
Total Year					

3. Project Your Average Check

Average Check includes both food and beverage sales. It should be projected for each meal period as there can be significant variations among breakfast, lunch and dinner menu prices.

Be sure your average check for each meal period represents an affordable and acceptable price-value that is consistent with your concept and the target markets you hope to attract. Pricing should be competitive with other similar restaurants in your market area.

4. Project Your Sales

Sales are calculated for each meal period by multiplying your projected number of covers by the average check. Use the following worksheet to calculate your projected annual sales.

Sales Projection Worksheet

	Breakfast	Lunch	Dinner	Total
Covers	_____	_____	_____	_____
X Average Check	_____	_____	_____	_____
Annual Sales =	_____	_____	_____	_____

When you are done, compare your annual covers, average check and sales projections with industry averages of similar operations. If reasonable, use your sales projections as performance goals for the future.

The Next Step: Financial Projection

Once you complete your market analysis, you will be better equipped to developed realistic financial projections for your proposed restaurant. These projections will help you determine the financial feasibility of your venture. To help you develop restaurant financial projections, guidebooks and spreadsheet software templates are available through the University of Wisconsin-Extension. For more information, contact the Center for Community Economic Development.

This guidebook was updated in 2003 by Bill Ryan and Michael Chrisler of the University of Wisconsin-Extension Center for Community Economic Development and the Small Business Development Center. Assistance provided by Hannah Kirking. This publication was originally written in 1994 with assistance from John Goodpasture, Carl Boger (University of Wisconsin-Stout), James Buergermeister (University of Wisconsin-Stout), Alice Kempen (University of Wisconsin-Extension, Rhinelander), William Way (University of Wisconsin-Stout), and George Weyer (University of Wisconsin-La Crosse, Business Outreach).