

# ORGANIC RESTAURANT BUSINESS PLAN

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By  
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## APPROVAL PAGE

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## ABSTRACT

This study was undertaken to determine if it is feasible to open an organic restaurant in San Luis Obispo, CA.

All collected data went into the development of a bare bones business plan for the organic restaurant. The report utilizes two techniques for analysis of this data. A strategic analysis was used to determine if the restaurant could be a legitimate competitor among the many local restaurants of San Luis Obispo. Strengths, weaknesses, opportunities, and threats were outlined, given weights according to their impact, and used to develop a SWOT matrix. Strategic goals were set after reviewing the matrix and a QSPM, quantitative strategic planning matrix, was created to determine which goal was worth pursuing. The final step in determining if the organic restaurant could compete in San Luis Obispo was to perform a competitive analysis against what were determined to be the top local competitors. Following the strategic analysis, a financial analysis was executed to determine whether the operation offered a profitable investment. This included an examination of startup costs and funding, as well as the creation of an income statement, statement of cash flows, and a balance sheet that were based off of a thirty-six month sales forecast. These financial forms made it possible to perform a break even analysis that had the final say as to whether or not the restaurant could be a profitable investment.

The organic restaurant failed to break even after three years of business operations. While the strategic analysis indicated the organic restaurant could not only compete, but overcome the competition, the financial analysis indicated that opening this restaurant would be unfeasible. If the methodology were altered to include more in depth financial planning and analysis this decision could be reversed.

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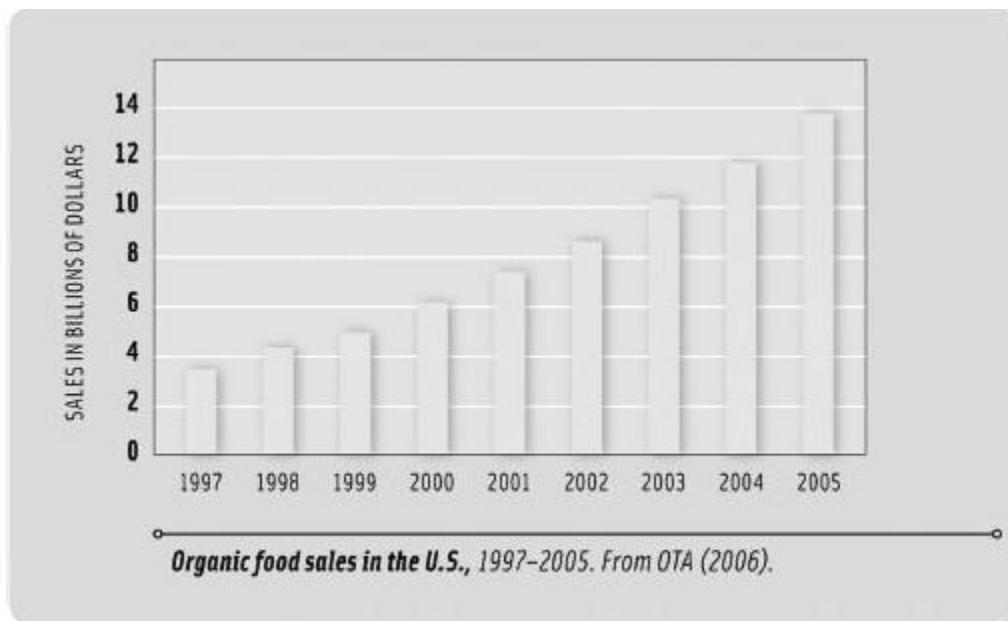
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## Chapter 1

### INTRODUCTION

The organic food industry has experienced tremendous growth in the past two decades. Since 1990, sales of organic food have increased by nearly 20% annually. “This rapid growth may be traced to increased consumer confidence in organic foods as well as to concern about possible health risks and environmental impacts of conventional food production methods.” (Davis 2006: 1)

Figure 1-1: Organic food sales in the U.S. (Davis 2006)



According to the Organic Trade Association, organic and natural foods combined represent a \$20 billion business. Restaurants that embrace these better quality, organic ingredients benefit by gaining the support of consumers concerned with eating well and preserving the environment.

The word “organic” is most often associated with fruits and vegetables, not with chicken, beef, and other protein sources. However, higher-quality meat is currently preferred by consumers. Animals raised organically are free of antibiotics, added hormones, genetically modified (GMO) feed, and other drugs (Davis 2006). Top restaurant chains such as Chipotle, Panera, and Arby’s are already making the transition to these ingredients, and are seeing increased sales as a result, despite higher prices. “The demand for natural and organic foods is a well-documented, chef- and consumer-driven trend that is nestling into a growing number of independent restaurants, college campuses and grocery stores” (Leahy 2006). The success of an independent organic restaurant is entirely possible.

### Problem Statement

Is it feasible to open a new organic restaurant in San Luis Obispo that can be profitable?

### Hypothesis

An independent organic restaurant in San Luis Obispo can generate constant profit by the third year of operations.

### Objectives

1. Create a business plan for a new organic restaurant in San Luis Obispo
2. Conduct a SWOT analysis
3. Conduct a financial analysis of the first three years of business operations

### Significance of the study/Justification

Currently, there are no fully organic restaurants in San Luis Obispo, California. This project will show if it is feasible to open one capable of earning a profit. Due to the increasing popularity of organic food, evident in the market statistics provided by the Organic Trade Association, an independent organic restaurant has potential to be successful. This hypothesis will be carefully investigated by creating a business plan and performing a profitability study.



## Chapter 2

### **LITERATURE REVIEW**

#### Organic Food

Organic foods are made according to certain production standards. For the vast majority of human history, agriculture can be described as organic; only during the 20th century was a large supply of new synthetic chemicals introduced to the food supply. The USDA, United States Department of Agriculture, defines organic foods as products grown without the use of pesticides, synthetic fertilizers, sewage sludge, or genetically modified organisms (Dahm 2009). The market for organic foods continues to grow, and is driven by a number of factors. The establishment of a USDA standard has increased consumer acceptance and there is also an increasing interest in healthy foods (Knudson 2007).

The market for organic foods is growing dramatically. It is estimated that organic sales of food products through supermarkets, mass merchandisers, and natural supermarkets was \$3.6 billion in 2006 in the U.S., double the figure in 2000. The OTA, Organic Trade Association, estimates that the total global organic food and beverage sales were \$13.8 billion in 2006. From 2004 through 2006, sales of organic food increased by 38.4 percent. Furthermore, it is estimated that sales of organic foods will increase by 71 percent from 2006 through 2011. Clearly, organic food has become mainstream (Knudson 2007).

The primary demand driver for the increased consumption of organic food is health concerns. Consumers are increasingly interested in foods that are free of pesticides, and other health risks (Knudson 2007).

Surveys indicate that many consumers purchase organic foods because of the perceived health and nutrition benefits of organic products. In one survey, the main reasons consumers purchased organic foods were for the avoidance of pesticides (70%), for freshness (68%), for health and nutrition (67%), and to avoid genetically modified foods (55%). Such consumers appear to be willing to pay the typical 10% to 40% price premium that organic products command (Davis 2006: 7).

Eating organic comes at a price, these foods can cost more than twice as much, but the increase in sales makes it worth it.

Table 2-1: Organic food prices (Kuchment 2008)

<b>Produce</b>	<b>Non-organic</b>	<b>Organic</b>
Apples, Red Delicious (lb)	1.49	1.99
Bread, store-brand loaf	1.39	3.49
Carrots (lb)	0.99	1.49
Celery hearts (lb)	2.99	3.99
Corn, branded can	1.29	1.49
Eggs, large (doz.)	1.89	3.99
Milk, 2% (half gallon)	2.79	4.39

There are many benefits to eating organic: higher nutrient levels, lower pesticide residues, and the absence of food additives, such as artificial sweeteners, colorings and flavorings, MSG, and hydrogenated fat. When compared to conventional food, organic has more dry matter on a pound-for-pound basis, providing higher nutrient levels. Research by nutritionist Virginia Worthington has shown that the differences in organic foods can be enough to help individuals achieve the recommended daily allowance for certain nutrients that they otherwise may not get (Heaton 2009). Higher quality protein and increased concentrations of antioxidants

and other phytonutrients have been found in organic food. Phytonutrients are molecules that remove the presence of free radicals, which are ions, atoms, and molecules that can damage human cells (Arvaniti 2003). This is because there is not a regular application of chemical pesticides and the plant must rely on increased production of these compounds within itself. Organic produce will contain 10-50% higher phytonutrients than conventional produce (Heaton 2009).

Consuming organic foods is not the only way to increase nutrient consumption, but it may be the safest. Pesticide residues in conventional foods are known to be safe and within acceptable health limits. However, food monitoring programs are constantly showing that nearly one in three nonorganic food samples tested contained a variety of pesticide residues, at levels higher than those being found in and on organic produce. Most pesticide residue safety levels are set for individual pesticides, but most fresh produce can carry multiple pesticides that can have negative impacts on the reproductive, immune, and nervous systems (Heaton 2009).

Table 2-2: Comparison of pesticide residues (Davis 2006)

<b>Detection of pesticide residues in conventional and organic produce: summary of different monitoring programs</b>				
	USDA pesticide data program	CDPR marketplace surveillance program	Consumers Union	Belgium
Conventional — percentage detected	73	31	79	49
Organic — percentage detected	23	6.5	27	12
Ratio — conventional/organic	3.2	4.8	2.9	4.1

In order to make useful comparisons between organic and conventional food, quality should also be considered. In conventional practices, food quality is determined by properties that can easily be measured and quantified (i.e. nutrient content, texture, and microbiological properties). The quality of organic food includes social and environmental dimensions as well as the common measurements of conventional foods (Arvaniti 2003). Besides an individual's own personal health, organic foods are also contributing to the health of the environment in which

people live. Harmful chemicals are not used in organic farming. There is minimal soil, air, and water pollution, ensuring a safer world for our future generations to live in. Dr. Vyvyan Howard, a toxico-pathologist at the University of Liverpool, voiced her opinion on the move towards organic food by the new, and growing, health conscious market segment: "People are applying the precautionary principle to their own lives by purchasing food that has not been produced by industrial methods. From the simple stance of hazard avoidance, organically produced food is the best option that we have" (Heaton 2009).

Animal feeding experiments indicate that animal health and reproductive performance are improved when they are organically fed (Arvaniti 2003). Similar findings are yet to be identified in humans, but it will be assumed that these findings apply to both animals and humans. At the University of Wisconsin at Madison a study among college students was performed to examine their attitudes towards organic food. The objective of this study was to determine whether student awareness and attitudes about organic foods would predict their behaviors with regard to organic food consumption and other healthy lifestyle practices. New research, an increasing public interest, and a desire to become "healthy" have increased the global awareness of organic food products. The results of this study found that the younger students, less than twenty-two years old, were able to define organic and recognize the official USDA seal. Most students knew organic foods were available in grocery and health food stores, but few believed they were offered in restaurants. Nearly 50% of students in this study said that they accept organic foods, or eat only organic foods. Data analysis linked students who live a healthy lifestyle with regular consumption of organic foods (Dahm 2009).

### Organic Food in Restaurants

Chefs are also joining the organic craze by embracing the flavorful quality and incorporating organic foods into their restaurant menus. Food & Wine magazine's *Chef's Survey* found that 76 percent of the chefs surveyed said that they "actively seek out organically grown ingredients." And, according to the National Restaurant Association, 57 percent of restaurants with per person checks of \$25 or more now offer organic items on their menus. Fast food chains like Panera and Chipotle have also started using organic ingredients. Chipotle carnitas were once the least popular meat at the restaurant, but once they began serving carnitas from pigs that received no antibiotics, ate a vegetarian diet, and were given access to open pasture the carnitas became the most popular meat selected, despite an increase in price. Since receiving an eco-friendly makeover, Chipotle's revenues have grown tenfold to reach \$1.1 billion. Its stock price has more than doubled since January 2006, and it now operates more than 700 restaurants around the country and expects to open an additional 130 to 140 before the year-end. Organic food availability in restaurants is expected to increase dramatically over the coming years (McIver 2004).

### Business plans

A business plan is a detailed blueprint used to identify a company's goals and to explain how a company will achieve financial success. Writing a business plan is an important part of forming and running a business. It is critical to acquiring funds and for charting a successful course of action (San Diego Public Library 2005). When starting a new business there are two roles an individual might play. The first is that of a franchisee, an individual who buys into an already successful company and builds his business off their already established, successful

business plan. The second role is that of an entrepreneur, an independent business owner who takes an idea, a conceptual dream, and transforms that vision into a working reality through the development of a unique business plan (Buzza 2009). Regardless of the chosen role, “every business will benefit from the preparation of a carefully written business plan.” (Pinson 2001)

A business plan includes a summary, mission statement, keys to success, market analysis, and break-even analysis. A startup plan is good for deciding whether or not to proceed with an idea, it tells if there is a business worth pursuing, but it is not enough to run a business with (Berry 2004). Every business plan begins with an executive summary, the thesis statement of the business plan. The executive summary answers the questions who, what, where, when, why, how, and how much. It is not written until the business plan is completed as it is a summary that reflects the contents of the finished plan. A business plan is composed of four parts: the organizational plan, a summary description of the business followed by administrative information; the marketing plan, a discussion of all components contributing to the market strategy; financial documents, the quantitative interpretation of everything stated in the preceding sections; and supporting documents, the records to back up statements made in the previous first three sections (Pinson 2001).

The business plan typically starts with a mission statement. The mission statement defines in a sentence or a paragraph an entity's reason for existence. It embodies the company's philosophies, goals, ambitions and moral. Any entity that attempts to operate without a mission statement runs the risk of wandering through the world without having the ability to verify that it is on its intended course. “A good mission statement should accurately explain why your organization exists and what it hopes to achieve in the future” (Radtke 1998: 1). The business description follows, it anticipates and provides answers to critical questions regarding the

business, product/service, marketing, and also provides an analysis of the target customer. The marketing plan describes what kind of product the company will provide and explains how the product is different from that of the competition. A comprehensive plan looks at four essential marketing tools - product, price, place, and promotions - and applies them to the development of a strength, weakness, opportunity, and threat analysis. The financial plan provides a detailed financial plan for profit and loss forecasts, and will forecast at least 24 months into the future. The balance sheet should include your company's total assets, liabilities, and total net worth. The total assets should be equivalent to the total liabilities plus total net worth. A summary of key ratios is also used to measure financial benchmarks of success (San Diego Public Library 2005).

### SWOT Analysis

The SWOT analysis is a simple framework for generating strategic alternatives from the analysis of a business situation. It can be applied to the corporate level, as well as the level of individual business units. SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. Strengths are those potential factors that make a firm more competitive than its direct competitors. Weaknesses are potential limitations and defects in an organization and/or weak factors relative to direct competitors. Opportunities are future factors that allow the organization to improve its relative competitive position, while threats can reduce its competitive position. The three phases of the SWOT analysis are detect, determine, and implement/monitor the strategy (Clauson, J.G. 2001).

The SWOT framework was first described in the 1960's by Edmund P. Learned, C. Roland Christiansen, Kenneth Andrews and William D. Guth in *Business Policy, Text, and Cases*. Kenneth Andrews went on to further discuss the topic in 1971 with his book *The Concept*

*of Corporate Strategy*. The General Electric Growth Council used this form of analysis in the 1980's. Because it concentrates on the issues that potentially have the most impact, the SWOT analysis is useful when a very limited amount of time is available to address a complex strategic situation. A SWOT analysis identifies and addresses strategic issues, provides an organization with a catalyst that stimulates positive activity, increases the likelihood of achieving goals, facilitates organizational change, and improves a company's competitive position (Clauson, J.G. 2001).



## Chapter 3

### **METHODOLOGY**

#### Procedures for data collection

To determine if a new organic restaurant can successfully generate profitable revenue in San Luis Obispo, a business plan must be created. The process of creating this business plan will require broad, comprehensive research on the public opinion towards organic food, population demographics within San Luis Obispo, startup and operation costs, and on competing businesses within the restaurant industry. Every business plan is built from the same basic structure: an executive summary, organizational plan, marketing plan, financial documents, and supporting documents. Data must be collected to develop the marketing plan and financial documents.

To begin the business plan the offered products/services of the business must be described. For a restaurant this would involve a description of the available cuisine. To determine what dishes can be offered to customers, suppliers of organic food, preferably those located in the Central Coast area of California, will need to be contacted about what ingredients they can provide and at what prices. Foodsupplier.com provides a state by state directory of both broad line and specialty food distributors; local organic farms represent other potential food suppliers. Restaurant managers of San Luis Obispo will also be interviewed to identify additional possible sources of organic food and ingredients.

The financial documents are the quantitative parts of the business plan. These include a section on startup costs and operation costs. The cost of rent, labor, PP&E (plant, property, and equipment), initial inventory, renovation, marketing, advertising, supplies, furniture, and any other similar costs (e.g. bank loans) must be determined. Information on these costs will be needed to calculate the total cost of the first year of operation, and will come from many sources. The majority of this information can be found on websites selling the products that will be needed for start-up. To find a rental space for the business, websites like showcase.com contain listings of commercial real estate for rent in San Luis Obispo, and give the rent per square foot, and total rent per year. The desired size for this restaurant is between, 1,400 to 1,800 square feet. Approximately 60% of this space is used for dining, and 40% is used for cooking, preparation, and storage. If the property requires renovation, a contractor will be contacted and provide the information needed for estimating that aspect of the start-up costs. Contractors available for remodeling and restoration in San Luis Obispo include Beem Peterson Gen Contractors, Pro Builders, and Pacific Builders. Restaurantequipment.net has a huge selection of supplies and equipment, as well as links to other websites that can provide furniture for food service businesses. Labor costs will be set according to minimum wage laws, industry standards, and norms for the location. California minimum wage laws are available via the United States Department of Labor website. It must be determined if all employees are paid hourly, or if any receive a salary. An SBA 7(a), small business loan, will pay for the majority of startup costs.

To produce a concrete marketing plan, the population must be researched. Census data will provide accurate details of the population demographics within San Luis Obispo, as well as per capita income and household income distribution. A strategic and competitive analysis will give an assessment of the strengths and weaknesses of current and potential local competitors,

which have been identified as Natural Café and Evos. This analysis provides both an offensive and defensive strategic context to identify opportunities and threats to the business. Data on these competitors can be obtained via their websites, and possibly from interviewing managers and owners if they are willing. Additional information on Evos can be found via the LexisNexis database. LexisNexis describes itself as the "world's largest collection of public records, unpublished opinions, forms, legal, news, and business information." It provides a vast amount of information including SIC codes, up to 7 years of sales/net income, securities, and the number of employees.

#### Procedures for data analysis:

Analysis of the collected data will be both qualitative and quantitative. A SWOT analysis will be developed from the competitive analysis and market data to identify the strengths, weaknesses, opportunities, and threats facing the restaurant. The aim of any SWOT analysis is to identify the key internal and external factors that are important to achieving the objective. These come from within the company's unique value chain. Internal factors are commonly the strengths and weaknesses, while external factors are opportunities and threats. A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. The absence of certain strengths may be viewed as a weakness. The external environmental analysis may reveal certain new opportunities for profit and growth. Changes in the external environment also may present threats to the firm.

Most businesses use the same basic questions during a SWOT analysis. To get an idea of its strengths a business could ask itself many questions: what advantages does the company have; what does the company do better than anyone else; what unique resources does the company

have access to; or what do people in the market see as the strengths of the company. To identify weaknesses a business looks at what could be improved, and what should be avoided.

Opportunities are usually identified by examining interesting trends in the market or by listing competitive advantages. Threats can be determined by a company making itself aware of obstacles, the competition's strategy, evolving technology, and cash flow problems (Slezak 2009a).

After analyzing the SWOT data, a rank and weight is assigned to each factor. Weights are assigned values between 0, unimportant, and 1, very important. The weight indicates the importance of that factor in achieving success in the industry. The sum of all weights must equal

1. Rank measures how well the company is currently responding to the factor on a scale of 1 to 4. A 4 means the response is superior; 3 means above average; 2 means the response is average; and 1 means below average. Using the factors discussed in the SWOT analysis, strategies are formulated within a SWOT matrix that take advantage of strengths and available opportunities, while at the same time overcoming threats and weaknesses (Slezak 2009b).

Figure 3-1: SWOT template

	Strengths	Weaknesses
Opportunities		
Threats		

Following the completion of the SWOT matrix, the final step of the competitive analysis will be to create a Quantitative Strategic Planning Matrix, or QSPM. The QSPM is referred to as a stage 3 management tool, SWOT is stage 2. It is an approach taken to compare feasible

alternative actions/strategies. The attractiveness of each strategy is computed by determining the cumulative impact of each external and internal factor.

Figure 3-2: Quantitative Strategic Planning Matrix template

Key Factors	<u>Alternative 1</u>			<u>Alternative 2</u>		
	Weight	Rank	Total Score (Weight x Rank)	Weight	Rank	Total Score (Weight x Rank)
<u>Strengths:</u>						
a						
b						
c						
d						
<u>Weaknesses:</u>						
a						
b						
c						
d						
Sum Weights	100%			100%		
<u>Opportunities:</u>						
a						
b						
c						
d						
<u>Threats:</u>						
a						
b						
c						
d						
Sum Weights	100%			100%		
Sum Total Scores			x			y

In a QSPM the rank is different from that of the SWOT analysis. It scores how acceptable a factor is for the strategic alternative being examined. A score of 0 means a factor has no effect; 1 is not acceptable; 2 is possibly acceptable; 3 is probably acceptable; and 4 is most acceptable. When assigning these ranks it is helpful to ask “Does the factor affect the strategic choice?” and “Is the strategic choice attractive to dealing with the factor.” Upon completion of the QSPM the alternative with the greater sum total score will be the action taken by the company (Slezak 2009b).

Finally, to determine if the restaurant will be able to earn and maintain a profit, a profitability study will be performed. This study will take the form of a financial analysis. It

requires a sales forecast, balance sheet, statement of cash flows, income statement, and a breakeven analysis to determine if the restaurant is indeed profitable. The data collected for start-up costs will be represented in the first year of these statements. Sales forecasts will be created to help determine profit/loss per month and per year. To produce the forecasts an estimated unit value will be applied to meals, drinks, and other items (i.e. pre-bottled beverages) based on competitor prices, these values will be placed into a mathematical formula,  $ax+by+cz =$  total sales; where a, b, and c are representative of the unit values previously mentioned and x, y, and z are representative of total units sold. The statement of cash flows projects what the business plan means in terms of dollars. It shows cash inflow and outflow over a period of time and is typically used for internal planning. Cash flow statements show both how much and when cash must flow in and out of the business. The income statement shows projections for the restaurant over the next three years. It uses the revenue and expense totals from the cash flow of the restaurant for the first year's figures and projects for the next two years according to expected economic and industry trends; the income statement will provide an estimate of net income. The balance sheet is a projection of assets, liabilities, and equities of the company at the end of the fiscal year, and must follow the formula  $A=L+E$  (Assets=Liabilities+Equity). The breakeven point is the point at which a company's expenses exactly match the sales or service volume. Revenue and expense figures are drawn from the three-year income projection.

### Assumptions

The assumption made in this business plan is that organic food, ingredients, can be easily obtained by the restaurant through distributors and suppliers.

### Limitations

The limitation of the business plan is that the estimated revenues, costs, and sales may not be accurate. With limited time and resources it is not possible to be certain these values are correct. Also, the fact that there are so few organic restaurants already operating in the country may indicate that it is not feasible to open one in San Luis Obispo, CA.

## Chapter 4

### **DEVELOPMENT OF THE STUDY**

#### Data Collection

The goal of this project was to determine if it is feasible to open an organic restaurant in San Luis Obispo. To determine the answer to this problem statement a business plan for a hypothetical organic restaurant, Joobalance, was created. The key information of this business plan is summarized in this chapter. Data used in the strategic analysis was collected by researching local restaurants via their websites. The figures used in the financial section were based off of food prices from the Cal Poly Organic Farm, New Frontiers Marketplace, and a buyer's catalog for the distributor, United Natural Foods Inc. All equipment costs are from websites that include ablekitchen.com, restaurantequipment.com, and bestbuy.com. This data, as well as the business plan, can be found in the appendix

#### Summary The Restaurant

Joobalance is going to be a new healthy, organic restaurant chain inspired by the increasing health conscious attitudes of Americans. Joobalance utilizes the freshest organic produce and lean cuts of meat to provide customers with meals of high nutritional value inspired by cultures across the globe. Every meal is to be freshly prepared for customers, meeting the individual dietary needs and preferences of each one. The location offers a relaxing atmosphere



for customers to enjoy their meal, also providing the option of takeout, delivery, and even catering for special events.

The restaurant not only cares about its customer's health, but also that of the environment. The building will be LEED certified, commonly known as "green," using sustainable, resource efficient models of renovation and operation. Green buildings are designed to reduce the overall impact of the built environment on human health and the natural environment by: efficiently using energy, water, and other resources; protecting occupant health and improving employee productivity; and reducing waste, pollution and environmental degradation. Joobalance will make use of alternate energy to run operations and decrease the location's carbon footprint. Alternate energy sources include, and are not limited to wind and solar energy.

The restaurant will be established as a sole proprietorship initially by Jesse Godsey. Investors will be sought out when expansion becomes the desired goal. To help finance the start-up of this restaurant an SBA 7(a) loan will be needed.

### The Mission

The mission of Joobalance is to provide a unique, healthy, delicious dining experience from environmentally sustainable locations. Since it is located in a small college community, strong community ties and support are important to Joobalance. The majority of food to be used will come from local suppliers along the central coast, even using products of California Polytechnic State's organic farm. The employees are driven by a passion for the food they are serving while trained in providing the highest level of customer service to make each individual experience enjoyable.