A Model Study for Establishing a Small Restaurant in Downtown Honolulu

An Analysis Prepared by

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for the

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A. Objective

I. Description of business, market, and products

A local Japanese couple is interested in starting up a small diner. As sole proprietors, in order to capture both individual and group customers, they intend to establish a take-out restaurant with limited dining service. The reason is "individuals don't go restaurants. Parties do" (Rainsford & Bangs, 1996). Individual customers generally purchase take-out items. The target customers are mainly workers, students, and non-family households around the neighborhood. The couple plan to hire three full-time workers, making the total number of employees five. The restaurant will offer fresh Japanese food, such as Udon and Donburi, and local plate lunches in a casual setting.

II. Location

A favorable location greatly increases the chances of success for a new restaurant establishment. If the couple targets a lunch time crowd, the downtown area is the premier location because of its proximity to office buildings (Rainsford & Bangs, 1996). Around 45,905 daytime central downtown workers and 1,762 downtown residents (by zip code 96813), who either walk to work or work at home, form a strong customer base for the small diner. Additionally, convenient banking services, transportation and grocery stores are crucial factors for a successful restaurant operation. The diner has easy access to financial services and grocery supplies. The Honolulu mass transportation system is an asset in bringing in secondary customer targets.

Because downtown Honolulu is such an attractive place for restaurant businesses, the start-up restaurant faces severe market competition. Moreover, the restaurant's business hours will be limited to only 6am to 4pm due to the downtown after working hours.

Before starting a restaurant business plan in the central downtown district (by zip code 96813), the couple should consider the following statistics as of 2001:

1. a) Number of restaurants and food stores: 179 (Area: From Richards Street to Maunakea Street and from N./S. Beretania Street to Aloha Tower Drive) (Downtown Planet, 2003)
   b) Number of limited-service restaurant establishments: 60
2. Number of business (e.g. retail, finance, and service) establishments: 3,304
3. Number of schools and colleges: 10
4. Number of banks (including commercial and savings banks, and credit unions): 41
5. Number of grocery stores: 14
6. Number of bus routes passing through the downtown area: 33 (TheBus, n.d.)

B. Data Requirements

I. Inquiries by the owners of the business

1. Is there an opportunity for a Japanese diner to succeed?
2. How is the current competition faring?
3. What is the future prospect of the business?

4. What type of food will suit the neighborhood most? Japanese cuisine or others?
5. Can the neighborhood households afford to dine out frequently?
6. How accessible is the restaurant to the general downtown population?

II. Acquisition of data

The owners first need to define the area of downtown by using census tracts or zip codes. To answer the above questions they need to know: current resident population, households and non-families statistics, and population growth estimates for the region. Household income figures, race characteristics, and the number of similar restaurant establishments are factors which may influence their investment decision. Also of concern to them are the annual sales and average annual payroll estimates of the current restaurants in downtown.

III. Data sources used

Department of Business, Economic Development & Tourism Research and Economic Analysis Division, State of Hawaii, *General Social and Economic Characteristics for the State of Hawaii: 1990*, Hawaii State Data Center Report Number 8 (November 1994), Table 7.

Department of Business, Economic Development & Tourism Research and Economic Analysis Division, State of Hawaii, *General Social and Economic Characteristics for the State of Hawaii, by Islands and Census Tracts: 2000*, HSDC 2000-3 (October 2002), Table 8.

Department of Business, Economic Development & Tourism Research and Economic Analysis Division, State of Hawaii, The State of Hawaii Data Book 2002, Table 23.12 < http://www.hawaii.gov/dbedt/db02/'23.02'!A1> accessed October 21, 2003.

U.S. Census Bureau, 1997 Economic Census: Accommodation and Foodservices by Industry Honolulu County, HI <http://www.census.gov/epcd/ec97/hi/HI003_72.HTM> accessed October 28, 2003.

U.S. Census Bureau, 1997 Economic Census, County Business Patterns Data, Zip Code Business Patterns: Sector 52 Finance & Insurance, Sector 61 Education Services <http://censtats.census.gov/cgi-bin/zbpnaic/zbpcomp.pl> accessed October 29, 2003.

U.S. Census Bureau, 1997 Economic Census, County Business Patterns Data, Zip Code Business Patterns: Sector 72 Accommodation & Food Services, 1998, 1999, 2000, 2001 Industry Code Comparison, Industry Code 722211: Limited-Service Restaurants <http://censtats.census.gov/cgi-bin/zbpnaic/zbpcomp.pl> accessed October 9, 2003.

U.S. Census Bureau, 1997 Economic Census, Sector 72: Accommodation and Food Services: Geographic Area Series: 1997 <http:factfinder.census.gov/servlet/IBQTable?_useFDS=Y&ds_name=E9772A1> accessed October 22, 2003.

U.S. Census Bureau, Profile of General Demographic Characteristics: 2000, DP-1, Census 2000 Summary File 1 (SF 1) 100-Percent Data, Geographic Area: 96813 & 96817 5-Digit ZCTA < http://factfinder.census.gov> accessed October 7, 2003.

U.S. Census Bureau, Profile of Selected Economic Characteristics: 2000, DP-3, Census 2000 Summary File 3 (SF 3) Sample Data, Geographic Area: 96813 & 96817 5-Digit ZCTA < http://factfinder.census.gov> accessed October 20, 20.

C. Application of the Data

I. The area of downtown

From census tract 39 to 53 is the downtown area. It includes the following places:

1. Civic Circle
2. Central Business District
3. Queen's Hospital
4. Queen Emma Gardens
5. Puowaina
6. Pauoa
7. Pacific Heights-Dowsett
8. Puunui-Nuuanu
9. Alewa-Kawananakoa
10. Kamehameha Heights
11. Lanakila
12. Kuakini
13. Foster Botanical Garden
14. Chinatown
15. Aala

Besides census tracts, the two different classification systems which define the area of downtown are: zip codes, 96813 and 96817; and economic place, Red Hill to Makapu'u Point. Zip code 96813 will be designated as the central downtown district since most business buildings are located in this area.

Zip code 96814 was deliberately excluded in this study. The current designated area is not only large, but is also made up of other, well-established take-out restaurants.

II. Industry classification

According to the North American Industry Classification System (NAICS), the food service industry belongs to section 72 and the code for limited-service restaurants is 722211. In these restaurants, patrons can either purchase take-out items or consume their foods inside the restaurants. The restaurants may also provide both alcoholic and non-alcoholic beverages.

III. Occupations of downtown workers (by zip code 96813)

Over 3,500 workers engage in management and other professional occupations. Other than that, around 2,750 workers are either working for sales business or in offices. The remaining workers have their occupations in service industry as well as a few of them work for production, transportation and so on.

D. Interpretation of the Data

I. An opportunity for the Japanese diner & its future prospect (Exhibit 1a & 1b; Graph 1)

From analyzing the data of Exhibit 1a, between 1990 and 2000, a constant growth of resident population (by 1.88%) and non-family households (by 16.32%) occurred in the downtown area. There was a 0.54% drop in family households. The focus of this analysis should be non-family households because they usually do not cook at home. Graph 1 shows that a rising trend of non-family households is steadier than that of resident population. This trend reveals that the start-up restaurant should have a steady source of customers in the short run; also, further growth of the resident population and non-family households is expected. Additionally, based on census 2000 social characteristics data, it shows that 32.5% of downtown residents are single; also, residents who are widowed, divorced and separated make up around 23.3% of the total downtown resident population. These types of residents, altogether account for over 50% of the total downtown resident population, are the potential frequent-diners, because single individuals seldom stay home for dinner. Hence, an opportunity for the restaurant to succeed and its future prospect are optimistic.

However, the current restaurants serving other ethnic tastes may lower the prospect of the new restaurant. Although the exact number of Japanese restaurants was not known out of those 153 other-ethnic restaurants in Honolulu (Exhibit 1b), it is logical to believe the new restaurant will hardly fill the gap in serving Japanese cuisine; meanwhile, it will compete with restaurants serving a variety of flavors, such as Chinese, Korean, Italian, and Mexican.

*Note: calculations on a separate page in Exhibits

II. Current market competition (Exhibit 2 & Graph 2; Exhibit 3 & Graph 3)

In the last four years, Graph 2 shows that the smallest employment-size restaurants (1 to 4 employees) were a strong competitive force in the industry of limited-service restaurants. Furthermore, with 60 such establishments in average for four years, downtown limited-service restaurant were the most numerous. Contrary, similar size diners (5 to 9 employees) (see Table 3) were not competitive as the smallest ones, and the four-year average number of establishments was just about 26. The largest size restaurants (10 to 19 employees) did not rival to the 5 to 9 employee-size restaurants. To conclude, it is foreseeable that the new restaurant will operate in a tough business environment, especially competing with the smallest size restaurants.

*Note: calculations on a separate page in Exhibits

III. Household income levels (Exhibit 4 & Table 4)

Graph 4 shows that income distribution among all the household categories was more or less even. Exhibit 4 shows that, to a certain extent, the Downtown area was an affluent neighborhood, in which the households had annual incomes between $25,000 and $74,999. Definitely, the neighborhood households can afford to have lunch at the small restaurant weekly or even daily.

IV. Sales and payroll (Exhibit 5)

Looking at a wider scope of economic place like Honolulu, Exhibit 5 shows that the annual sales of limited-service restaurants regardless of size in 1997 were $285,542,000 or 10.97% of the total sales of a whole industry. The annual payroll of all limited-service restaurants was $71,057,000. In other words, the average annual payroll for each employee was around $10,497.41. There is, however, a lack of detailed sales and payroll information for those three employee-size restaurants, which were mentioned in Part II.

*Note: calculations on a separate page in Exhibits

V. Taste for the neighborhood (Exhibit 6)

Asians were the largest composition of ethnicity in the downtown area. The Chinese, Filipino, and Japanese made up most of the Asian population. Their taste preferences may be somewhat similar to each other and tend to select oriental foods as their daily meals. Hence, Japanese food may suit most of the Orientals and other peoples who are interested in new foods.

E. Summary of the Analysis

The restaurant owners have found adequate empirical data to answer their queries when they plan to start their restaurant business. The projected population growth, especially non-family households, high-income level, and favorable composition of race show that the downtown area is a suitable place for establishing a restaurant business. The owners can find other advantages to situate their business in downtown, such as sufficient source of daytime customers, comprehensive transportation system, as well as convenient financial services and grocery supplies. However, to a certain extent, strong rivalries and a saturated food service market adversely affect the survival of the newly founded restaurant.

F. Conclusions

According to the 1999 nationwide findings from *American Demographics*, young people and urban dwellers were the majority of those who dine out at the oriental cuisine restaurants, such as Chinese and Japanese restaurants. Moreover, people were much more willing to go further for a delicious meal than before (Lach, 1999). Middle income-level households (from less than $10,000 to $25,000) purchased take-out items twice a day or more. Nevertheless, the survey projected a declining pattern of purchasing take-out from every income group (Energy Information, 1999). Perhaps it was due to the recent economic slump.

The owners should feel confident in opening the small Japanese diner after viewing both academic and empirical findings of the emerging young people market and other favorable conditions. As long as, the restaurant builds a reputation for good customer service and high quality of food, it will succeed in the downtown area.

References

Downtown Planet (1997). *Annual Restaurant Issue 2003*. Retrieved October 28, 2003, from http://www.downtownplanet.com/AnnualRestIssue/indexa.html

Energy Information Administration (1999, October). Toplines: Take-Out, Anyone? *American Demographics*, 12.

Lach, Jennifer (1999, September). Toplines: Doggie Bags Aren’t for Fido Anymore. *American Demographics,*10-11.

Rainford, Peter, & Bangs, David H., Jr. (1996) *The Restaurant Planning Guide* (2nd ed.). Chicago, Illinois: Upstart Publishing Company.

TheBus, Oahu Transit Services, Inc. (n.d.). *Routes & Timetables*. Retrieved October 28, 2003, from http://thebus.org/Route/Route.asp

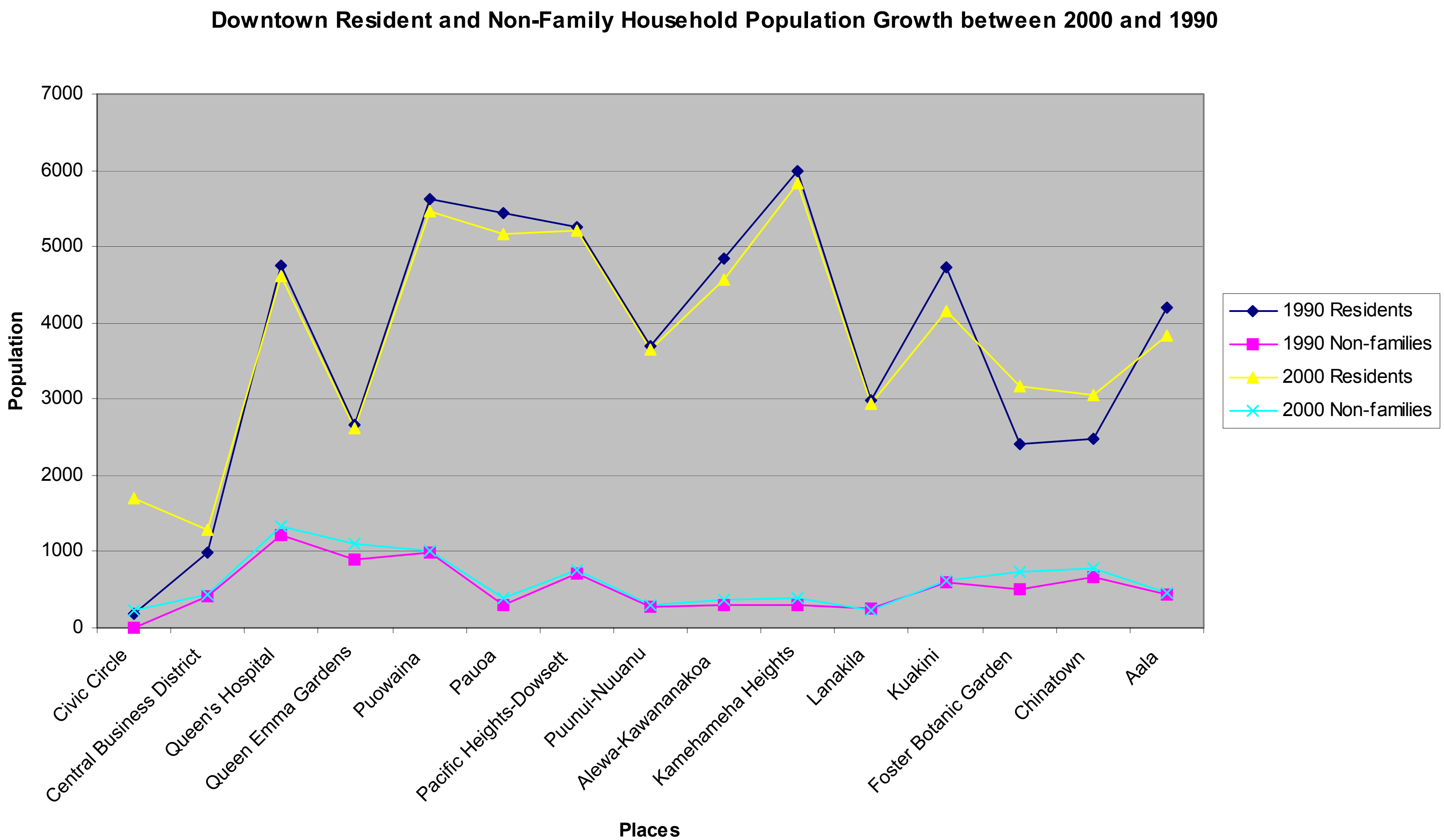
Exhibits

Exhibit 1a

Downtown Resident Population, Households, Families, and Non-Families between 2000 and 1990									
		1990				2000			
2000 Census Tract	Places	Resident Population	Households	Families	Non-Families	Resident Population	Households	Families	Non-Families
39	Civic Circle	181	24	17	7	1,690	296	62	234
40	Central Business District	991	626	202	424	1,295	724	293	431
41	Queen's Hospital	4,742	2,150	939	1,211	4,610	2,221	889	1,332
42	Queen Emma Gardens	2,672	1,508	607	901	2,609	1,587	480	1,107
43	Puowaina	5,632	2,312	1,326	986	5,473	2,294	1,294	1,000
44	Pauoa	5,429	1,594	1,305	289	5,173	1,625	1,230	395
45	Pacific Heights-Dowsett	5,264	2,061	1,348	713	5,218	2,137	1,369	768
46	Puunui-Nuuanu	3,687	1,212	944	268	3,640	1,190	893	297
47	Alewa-Kawananakoa	4,837	1,567	1,278	289	4,575	1,539	1,171	368
48	Kamehameha Heights	5,991	1,645	1,338	307	5,821	1,704	1,306	398
49	Lanakila	2,978	948	703	245	2,949	943	714	229
50	Kuakini	4,724	1,599	995	604	4,154	1,529	913	616
51	Foster Botanic Garden	2,399	1,133	624	509	3,167	1,527	797	730
52	Chinatown	2,480	1,169	502	667	3,056	1,496	714	782
53	Aala	4,208	1,490	1,053	437	3,842	1,437	985	452
	Total	56,215	21,038	13,181	7,857	57,272	22,249	13,110	9,139

Sources: The Department of Business, Economic Development & Tourism, State of Hawaii, General Social and Economic Characteristics for the State of Hawaii: 1990, Hawaii State Data Center Report Number 8 (November 1994), Table 7.
The Department of Business, Economic Development & Tourism, State of Hawaii, General Social and Economic Characteristics for the State of Hawaii, by Islands and Census Tracts: 2000, HSDC 2000-3 (October 2002), Table 8.

Graph 1



Downtown Resident and Non-Family Household Population Growth between 2000 and 1990
Population
7000
6000
5000
4000
3000
2000
1000
0
Civic Circle
Central Business District
Queen's Hospital
Queen Emma Gardens
Puowaina
Pauoa
Pacific Heights-Dowsett
Puunui-Nuuanu
Alewa-Kawananakoa
Kamehameha Heights
Lanakila
Kuakini
Foster Botanic Garden
Chinatown
Aala
Places
1990 Residents
1990 Non-families
2000 Residents
2000 Non-families

Exhibit 1b

Characteristics of Restaurants and Food Stalls in Honolulu Economic Place: 1997

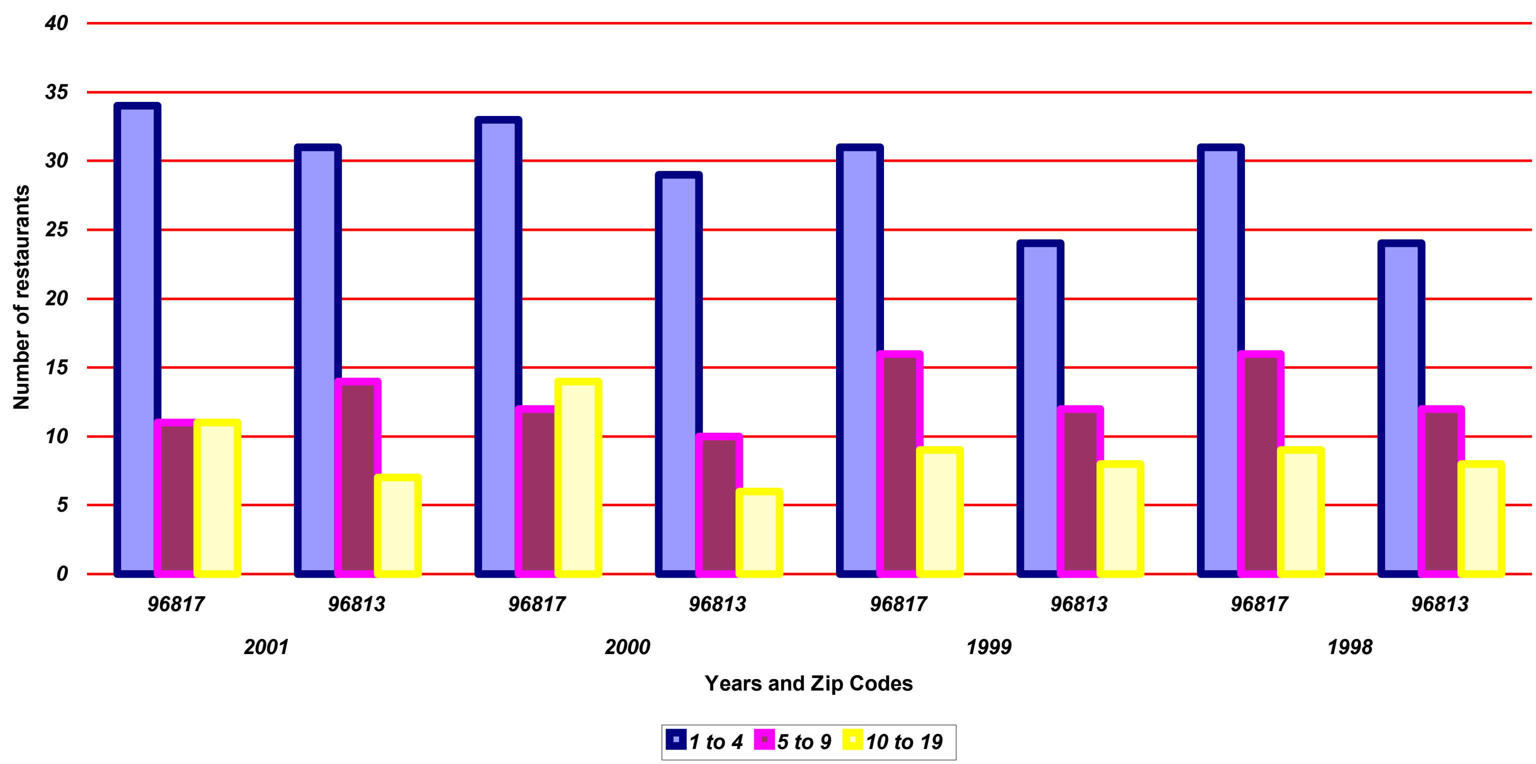
Subject	Full- service restaurants	Limited-service restaurants	Cafeterias	Drinking Places
Establishments in business at end of year	1,168	926	8	266
Sales, calendar year (million dollars)	1002.4	653.7	2.8	92.9
Seats, Dec. 31	98,059	28,190	453	16,278
Average cost per meal (establishments):				
Less than $5.00	134	356	3	...
$30.00 or more	54	-	-	...
Menu type or specialty (establishments):				
Italian	41	6	-	...
Mexican	29	46	-	...
Chinese	246	43	-	...
Other ethnic	408	153	-	...
Seafood	61	2	-	...
Steak	22	11	-	...
Pizza	50	258	-	...
Chicken	-	46	-	...
Hamburger	1	216	-	...
Sub shop	6	41	-	...
Other food specialty	15	38	-	...
American	328	111	8	...

Source: U.S. Census Bureau, *1997 Economic Census, Miscellaneous Subjects,* EC97R72S-SB(RV) (December 2000), pp. 25, 43, 53-54.

Exhibit 2 & Graph 2

Limited-Service Restaurant Competition between Zip Code 96817 and 96813 by Employment Size								
	2001		2000		1999		1998	
Sizes	96817	96813	96817	96813	96817	96813	96817	96813
1 to 4	34	31	33	29	31	24	31	24
5 to 9	11	14	12	10	16	12	16	12
10 to 19	11	7	14	6	9	8	9	8

Restaurant Competiton between Zip Code 96817 and 96813 by Employment Size

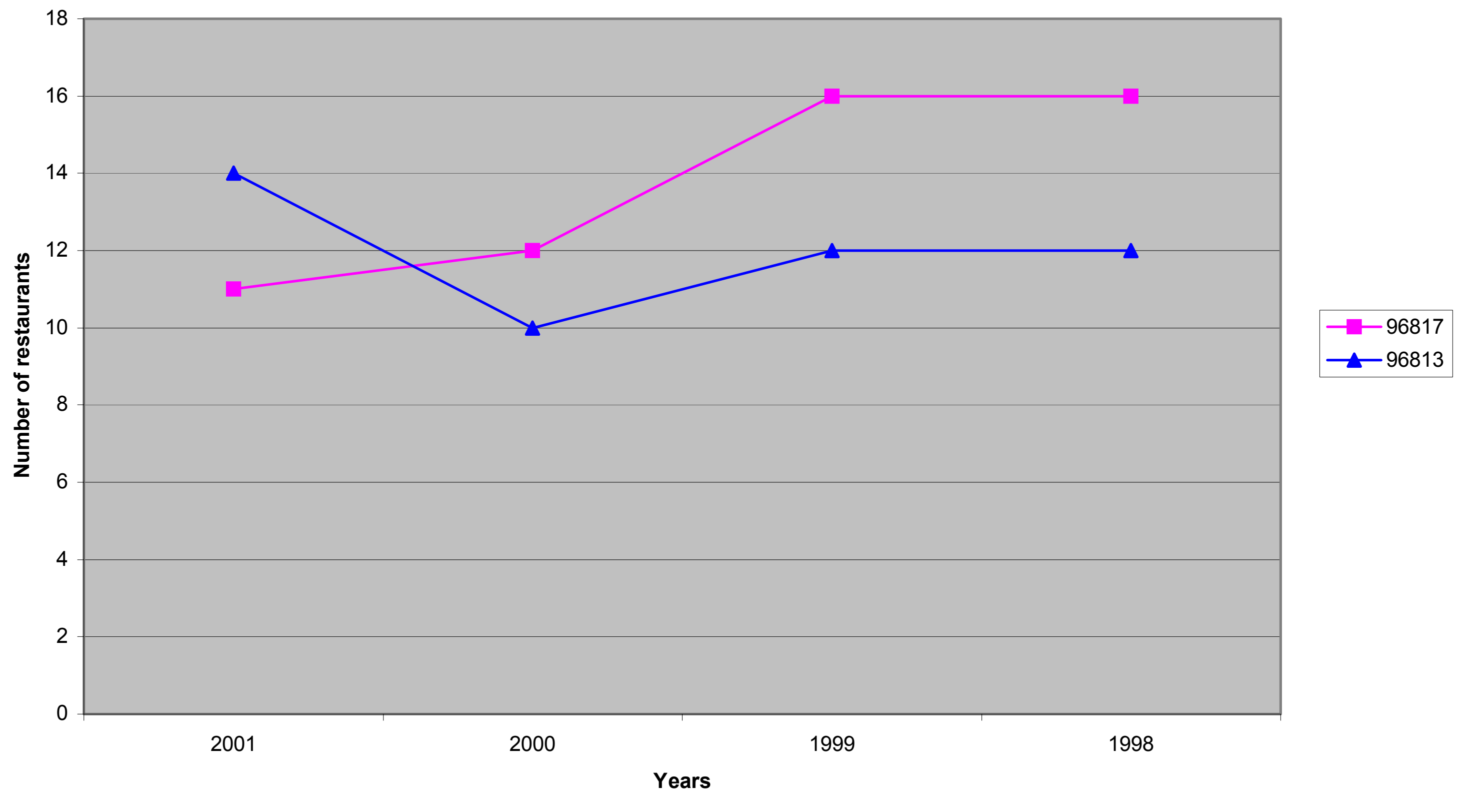


Source: U.S. Census Bureau, 1997 Economic Census, County Business Patterns Data, Zip Code Business Patterns: Sector 72 Accommodation & Food Services, 1998, 1999, 2000, 2001 Industry Code Comparison, Industry Code 722211: Limited-Service Restaurants <http://censtats.census.gov/cgi-bin/zbpnaic/zbpcomp.pl> accessed October 9, 2003.

Exhibit 3 & Graph 3

Number of Limited-Service Restaurant (SIC:722211) Establishments by 5-9 Employment Size				
Zip Codes	2001	2000	1999	1998
96817	11	12	16	16
96813	14	10	12	12

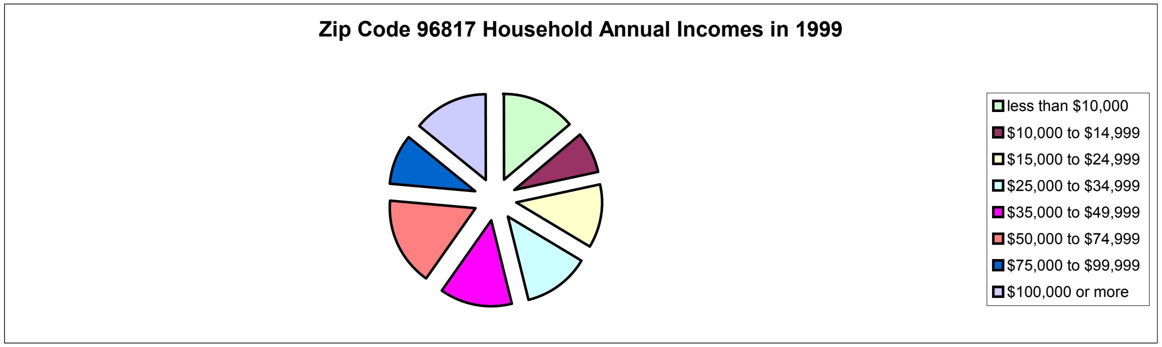
The Current Trend of 5 to 9 Employment-Size Restaurant Establishments Between Zip Code 96817 and 96813

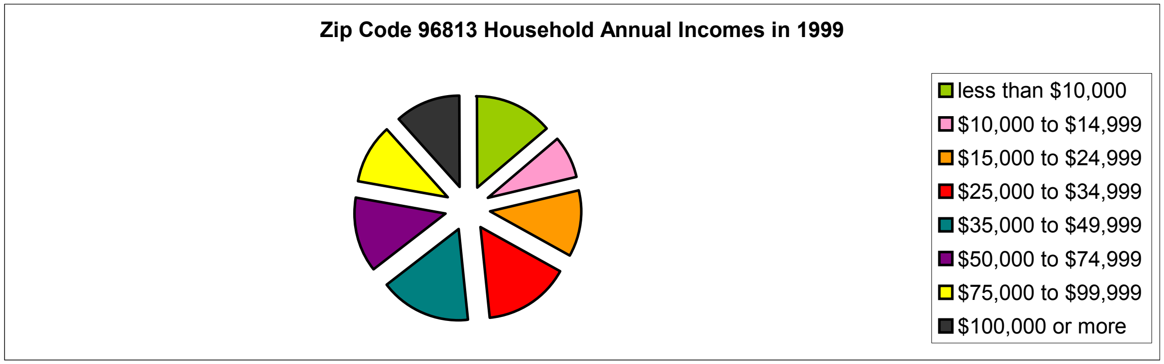


Source: U.S. Census Bureau, 1997 Economic Census, County Business Patterns Data, Zip Code Business Patterns: Sector 72 Accommodation & Food Services, 1998, 1999, 2000, 2001 Industry Code Comparison, Industry Code 722211: Limited-Service Restaurants <http://censtats.census.gov/cgi-bin/zbpnaic/zbpcomp.pl> accessed October 9, 2003.

Exhibit 4 & Graph 4

Household Annual Incomes in 1999 between Zip Code 96817 and 96813				
	96817		96813	
Income Ranges	Number	%	Number	%
less than $10,000	2589	14.1	1267	13.9
$10,000 to $14,999	1408	7.6	677	7.4
$15,000 to $24,999	2230	12.1	1069	11.7
$25,000 to $34,999	2294	12.5	1393	15.3
$35,000 to $49,999	2505	13.6	1469	16.1
$50,000 to $74,999	3049	16.6	1222	13.4
$75,000 to $99,999	1744	9.5	956	10.5
$100,000 or more	2599	14.1	1052	11.6
Total Households	18418	100	9105	100





Source: U.S. Census Bureau, Profile of Selected Economic Characteristics: 2000, DP-3, Census 2000 Summary File 3 (SF 3) Sample Data, Geographic Area: 96813 & 96817 5-Digit ZCTA < http://factfinder.census.gov> accessed October 20, 2003.

Exhibit 5

Annual Sales and Payroll of Accommodation and Foodservices in Honolulu Economic Place: 1997					
NAICS Code	Description	Establishments	Sales ($1000)	Annual Payroll ($1000)	Number of Employees
72	Accommodation & Foodservices	1503	2,603,981	733,432	42,549
722	Foodservice & Drinking Places	1,372	(D)	(D)	(D)
72211	Limited-Service Restaurants	402	285,542	71,057	6769

*D - disclosure

Source: U.S. Census Bureau, 1997 Economic Census, Sector 72: Accommodation and Food Services: Geographic Area Series: 1997 <http:factfinder.census.gov/servlet/IBQTable?_useFDS=Y&ds_name=E9772A1> accessed October 22, 2003.

Exhibit 6

Race Characteristics for Downtown Honolulu (Zip Code 96813 & 96817): 2000				
	96813		96817	
Races	Number	%	Number	%
One race	17,814	83.1	44,518	85.5
White	4,423	20.6	4,756	9.1
Black or African American	217	1	318	0.6
American Indian and Alaska Native	34	0.2	66	0.1
Asian	10,551	49.2	34,783	66.8
Asian Indian	46	0.2	61	0.1
Chinese	2,617	12.2	9,404	18.1
Filipino	1,217	5.7	9,765	18.8
Japanese	4,626	21.6	9,614	18.5
Korean	895	4.2	2,092	4
Vietnamese	323	1.5	1,643	3.2
Other Asian	827	3.9	2,204	4.2
Native Hawaiian and Other Pacific Islander	2,406	11.2	4,277	8.2

Source: U.S. Census Bureau, Profile of General Demographic Characteristics: 2000, DP-1, Census 2000 Summary File 1 (SF 1) 100-Percent Data, Geographic Area: 96813 & 96817 5-Digit ZCTA < http://factfinder.census.gov> accessed October 7, 2003.

Calculations

Growth of resident population (page 3) = (2000 resident population – 1990 resident population)/1990 resident population
= [(57,272 – 56,215)/56,215] x 100%
= 1.8803% (1.88%)

Growth of non-family households (page 3) = (2000 non-family households – 1990 non-family households)/1990 non-family households
= [(9,139 –7,857)//7,857] x 100%
= 16.317% (16.32%)

Growth of family households (page 3) = (2000 family households – 1990 family households)/1990 family households
= [(13,110 – 13,181)/13,181] x 100%
= -0.539% (-0.54%)

Average number of 1 to 4 employee-size limited-service restaurants (page 4) = total number of establishments/4 years
= (34 + 31 + 33 + 29 + 31 + 24 + 31 +24)/4
= 59.25 (60)

Average number of 5 to 9 employee-size limited-service restaurants (page 4) = total number of establishments/4 years
= (11 + 14 + 12 + 10 + 16 +12 + 16 + 12)/4
= 25.75 (26)

Percentage of the annual sales of limited-service restaurants of the accommodations & foodservices industry (page 4)
= Sales of limited-service restaurants/Sales of the industry
= ($285,542,000/$2,603,981,000) x 100%
= 10.97%

Average annual payroll for each employee of limited-service restaurants (page 4) = Annual payroll/Number of employees
= $285,542,000/6,769
= $42,183.779 ($42,183.78-)