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Executive Summary
Holly Springs is a small and rapidly developing town in the heart of Northern California. Economic forecast for the region provides promising growth figures and current indicators on income and demography demonstrate healthy economic outlook. Consumer spending in the region for leisure and entertainment are significant and market has potential for expansion to new sub-segments, especially in food industry. Under these circumstances a lot of companies are seeking opportunities to enjoy favorable market conditions and enter competitive restaurant sector environment. While the sector is extremely competitive, The Station project team identified an emerging opportunity that comes from growing awareness and demand for healthy food options in the region.
Market analysis have revealed that Quick Service Restaurant (QSR) segment has realized the need to supply healthy food options to the market, but this offer is secondary within classic fast-food industry, presented by major players, such as McDonald´s, Wendy´s and Burger King. This makes the potential of this market highly underutilized, leaving room for new market entrants. The Station is the project that was born as the outcome of this market research and findings and it aims to enact healthy food and special customer experience into a unique and completely new market proposition. The concept of The Station is to offer unique and healthy experience to the community of Holly Springs in a chain of stores, located in shopping malls and around central area of the city. The concept of The Station is a complex experience, comprising ambience, healthy food and ‘ aftertaste’ that will attract three major customer segments: businessmen, students and housewives.
The company estimates that fast-paced expansion strategy that aims to open 14 store locations by the end of the first year of operations will generate total profit of USD$ 5 million. The attractiveness of this investment opportunity also comes from the franchise strategy that the company aims to implement after 18 months of operations. Investment profile of the project is presented by USD$ 5 million owners’ capital and USD$ 1. 2 million external funding coming from a bank loan that the company aims to secure after the first stage of the project – pilot The Station Store with overall investment of USD$ 533, 000. The Station, therefore, has strong competitive proposition on the market and the time of entrance is ideal on the rise of concern and awareness of health and wellbeing in the region.
Business Description and Vision
Vision and Mission of the Company
Breakfast is known as the “ most important meal of the day”. Taking this idea a step further, if breakfast is indeed this significant, then why don’t people enjoy a more healthy nutritious breakfast? At The Station, we feel the general public, especially the public of Holly Springs, have not had the privilege of being exposed to such a meal. The Station is going to change that. By providing not only bagels, but also sandwiches, soups, salads, coffee, smoothies, and much more, the town of Holly Springs will actually be excited to wake up each morning and carry on that excitement to return for lunch. The Station will serve the public out of the Shoppes on Main Shopping in Holly Springs, North Carolina.
The Station’s vision is to unleash full potential of healthy foods and become a market leader in providing highest quality and sustainable breakfast options to the community of Holly Springs.
The Station’s mission statement can be read as: “ The Station, serving you a better, healthier meal.” It’s a simple goal, but it’s a goal we hope to achieve all the meanwhile running a smooth, successful business.
Definition of the Business
The Station is project that aims to build its competitive advantage and customer value through offering widely available and price competitive option for breakfast at major locations of public concentration in a manner that the Brand will soon become a synonym of affordable healthy lifestyle. The objective of the company is to develop an aggressive strategy of organic growth that will allow the company opening a total of 14 stores across public locations over the first 18 months of operations. Pilot project will be set in Holly Springs Towne Centre and will serve as the introduction point and strategic store for alignment of operations and positioning of the product of the market. The company will concentrate its efforts to open another 2 shoppes within the following two months to cover major central points of the city. Further growth geography will be adjusted and formalized upon the completion of the pilot project. The company aims to adapt Corporate Social Responsibility (CSR) driven policy and ensure sustainable and socially responsible supply, sourcing and distribution of its products. We strongly believe that healthy life starts with healthy habits and we would like to educate people with personal example and show them that care of “ self” can really make a difference. The primary objective of the company is to develop a strong financial and operational base under an umbrella of recognized Brand to further build on franchise strategy.
How The Idea Was Born?
Holly Springs is the town rich in natural resources that attracts nature lovers and calls for healthy lifestyle. Urban environment is smoothly integrated into picturesque landscapes and it is difficult to leave without attention the contrast that this setting has with the options of healthy dining experience. Tourism potential of the city as well as trends among local population create small, but significant niche of fully local natural foods. Two professional with marketing and entrepreneurship background noticed this opportunity and decided to look at the areas of the business that could give unique for the town and different in the industry proposition. Empirical and analytical studies showed that at the moment there is no option within a Quick Service Restaurant (ASR) industry that is fully focused on healthy eating, while large chains like McDonald´s and Wendy´s try to bring healthy menus to their restaurants under growing pressure of customers´ preferences. This was the starting point of currently mature business idea of The Station to offer truly healthy options for the “ most important meal of the day”.
Business Strategy of The Station is based on the following pillars that aim to create responsible business and sustainable design:
- One community – One goal. Our people are our customers and bringing them together and making our life better is what inspires The Station.
- Sustainable supply chain. We will work together with our suppliers to build responsible operations and integrated CSR policies.
- Local sourcing for sustainable business design. Business case for responsible organization demands us to invest efforts in helping small businesses in local community to create employment and sustainable independent supply chain.
Definition of the Market
The Station is a café that will focus solely on offering breakfast and will concentrate its attention on attracting “ morning public” that values meal as an experience. The market in which the company will operate is Quick Service restaurant as we understand that time is the greatest asset in our increasingly busy world. The town have declared almost double population growth over the past 13 years, with average age of the population of 33. 1 years old. Average household income in the city is between USD$ 80, 000 with smaller population share falling into the range of household income over USD$ 110, 000 (City Data, 2013). Geographical profile demonstrates large concentration of the family households in central area of the city.
Accommodation and food services account for about 2. 8% of the total economic activity. The market is characterized by oligopoly in QSR segment with little diversification into alternative products. Largest market players are McDonald´s, Wendy´s and Burger King, while some smaller competitors took stable market share with specific customer propositions in healthy segment, such as Carolina Grown healthy food delivery. To understand the competitive environment of the market it is important to outline that The Station will face competition from players in other segments, such as Whole Foods Market and Harmony Farm Natural Foods. Based on this market overview it is possible to outline that the following elements became the basic requirement for the customer: 1) price competitiveness, 2) fast service, 3) quality of the products. At the same time, The Station believes that the following identified components are largely missing on the market: 1) healthy fast food option, 2) variety of vegetarian options, 3) space and ambience experience in fast food industry. None of the competitors offers a combination of elegant restaurant experience with fast food proposition.
Target market
Time is money and often it means a sacrifice of personal health and pleasure. The Station decided to change this perception about eating out and having a small break during working hours. But quick meal does not necessarily mean “ dry” and uncomfortable.
- Businessman that “ grabs” a quick snack on a way to business meeting or early hours at work;
- Housewives that like to go out together after daily shopping or simply to diversify their daily routine and share the news.
The profile of a businessman possesses several distinctive characteristics. First of all, these people are not very price-sensitive; they are looking for fast and efficient service not only in food offer, but space and time utilization during their meals. Secondly, business world is more and more demanding for healthy options, as people are concerned with their appearance and wellbeing that can help or negatively affect their careers.
Finally, we believe that Holly Springs housewives will build on the potential of the restaurant as this customer groups is looking for “ comfy” ambience that allows to talk without being disturbed, healthy and nutritive meal for reasonable price and after meal experience that allows them feel light and “ recharged”.
With that in mind, The Station has created its competitive profile to offer unique option of fast food experience that consists of three critical for our customers elements: ambience, food and “ aftertaste”. Ambience will try to comprise and incorporate basic business and educational needs, such as Wi-Fi access, tables equipped with plugs and special isolated areas that will aim to attract study groups or meetings. Aftertaste element will be incorporated into the development of recipe compositions for soups, salads, smoothies and even sandwiches and will build on entire competitive proposition and marketing of our product.
Market Share Projections
The market that The station is planning to enter accounts for a total of 289, 000 consumers, with over 50% of the population that falls in the target segment of QSR. The product, offered by The Station is unique for the QSR market and in some ways competes with other food retail segments, such as supermarkets and healthy food delivery.
With that in mind market share generation will come from two channels: market share acquiring by gaining existing customers from major competitors and smaller fast-food market players as well as new customers that previously did not consider fast-food as eating out option. Given the size of the market and potential represented by population growth and tourism in the city, The Station estimates stable market share growth from 0. 1% during the first operational month to 7. 8% by the end of the first year of activities.
Description of the Products and Services
The Station Product
The Station is focusing on healthy food options that will not be limited by the classic bagel or sandwich options available at competitors and at the same time will offer familiar and simple food that each of Holly Springs community members understands and considers. The range of products is split in seven categories: bagels, sandwiches, soups, salads, smoothies, sweets and coffee. The company will focus on middle range pricing segment, putting all the products in a price, comparative with McDonald´s or Wendy´s meal. Estimated medium bill is for a set meal (sandwich, coffee and dessert) will be USD$ 17, 50, which allows competing with major rivals and offer competitive advantage in healthy food segment prices on average 20% higher for the same product range. Appendix II-I and II-II provide summary of the products and tentative visual presentation of the products that will be sold in The Station restaurants.
The Station Service
The Station, as it was mentioned previously is not only about product that we sell, but also about experience that we offer to our customers along with breakfast. With that in mind, service component of our business is critical to answer the following questions: “ Why are we going to the market?” and “ How we will differentiate and gain market share?”
The combination of special fresh foods and drinks along with intimate and comfortable breakfast experience will ensure that The Station differentiate its product from all the competitors operating in the QSR industry. The company will focus on promoting Fairtrade and local sourcing as the additional value proposition for CSR-aware customers.
Organization and Management
Corporate Structure and Management
The Station will be registered as limited partnership with equal shares and responsibilities in the entity. On initial stages both partners will be involved in day-to-day business operations of the company and ensure successful adaptation and adjustment of the business model on the pilot stage of its development. The background of the first partner is in marketing area with over six years’ experience in large marketing agencies and consulting area for start-up businesses. Second partner´s expertise lies in operational and supply chain management area. He possesses Master´s degree in food supply chain management and on-field experience in several chain restaurants in the US. Both partners have MBA degree and entrepreneurship background.
Further on, with the opening of new stores the company will adjust its hierarchical structure to include middle management and additional administration staff. Appendix III offers a snapshot of Pilot Store and Corporate organizational structure of the company for the period of two years, given the assumption that the company will be able to initiate its franchise project by the 14th month of operations and reach its initial target of 14 stores with 3 own units and 11 franchise operations. Registration of franchise units will be done in agreement with the National and Federal Franchise Laws. Company management will seek for legal consultants to assist on the matters of company registration and pursuing franchise registration.
Legal Structure
QSR, as well as well restaurant service industry in general is a complex structure that requires compliance with a number of licensing and regulatory bodies. The Station will have go through the process of approval for several industry specific licenses (Scott, 2013):
- Business License
- Food Handler´s Permit
- Music License
- Franchise license
With the above in mind, The Station expects small delays in registration process related to receiving business license that takes up to three months. Further legal aspects will be related to establishment of franchise operation where The Station will use the assistant of specialized franchise agencies that provide embracing service on formulation of franchise operation and settlement of legal aspects (Brown, 2007).
Marketing and Sales Strategy
Target Customer Groups
As it was outlined in previous sections, The Station have identified three target customer segments in Holly Springs market: 1) businessmen, 2) students and 3) housewives. The analysis of these customer segments allowed The Station outline a set of joint preferences among these customer groups (Appendix IV) that will build on the company´s differentiation strategy and help to create customer loyalty. It is important to note that while healthy food by itself is not the top priority among five critical factors, the company believes that introducing healthy concept along with other experience will present great market opportunity.
Distribution Channels
For a restaurant business, distribution channels are represented by the type of layout and locations that the company will choose for the operations. The Station will operate in major shopping areas and will pilot the first store in Holly Springs Towne Center shopping with simple layout of 80 m2. This will allow high visibility and volume of customers and given the strategy, where The Station is planning to compete on pricing as well as other merchandise attributes, volume is the key for successful financial position of the organization.
4P´s Strategy
Below summary outlines the critical elements of the marketing strategy of the company, based on the Marketing Mix 4P´s Model. The analysis is done for the future operations and, thus includes a number of assumptions on strategic direction that may further be adjusted based on market reality.
Product of the company is experience. The Station is not trying to sell organic sandwiches or integral bagels as an isolated product, as this proposition is not unique and does not add value. With that in mind the company have developed specific product – ‘ breakfast experience’ that brings to the attention of the customer all the small details, colors of Branding, music, ambience and, of course, varied and healthy meals that complete the experience. The Station is aiming to become a place where people not only have a touch of healthy lifestyle during their “ most important meal of the day”, but who live the restaurants, inspired by the potential and benefits of health awareness.
In terms of pricing, The Station is competing in highly price-sensitive segments and analysis of the target market preferences reveals that price is a critical component of customer brand loyalty (Appendix IV). This forces the enterprise priorities cost-effective solutions on upstream operations, such as sourcing and waste management to be able to bring affordable price to superior product on QSR market. The company expects to price a meal with average bill of USD$ 17. 5, which will allow competing with major market players.
Promotion is the key for fast-paced growth and The Station will count with significant initial investment to introduce the concept of the business and address the issues of sustainable and socially-aware business practices. The business model of the company is new for the market and it will require time to ‘ educate’ the population and show tangible benefits of healthy breakfast. With that, the company will employ promotion strategy with the product lifecycle (PLC) consideration the product lifecycle. Initial stage of promotion at the start-up of operation will include internet marketing, public relationships program to create stronger bonds with the community and sales promotion to attract the customers. Second stage, developing will require further investment in internet marketing to demonstrate and outline strategic direction of the company to its target audiences and sales strategies, aimed at creation of customer fidelity. These strategies will include incorporation of the customer points card that will reward loyalty and facilitate continues preference of The Station to other breakfast options in the city. On the stage of maturity and on initiation of the franchise policy, the company will include sponsorship and advertising in mass media to boost customer interest and bring needed sales to new locations.
Place is defined as the major public places in the city that attract shopping and business activities. While the company will start its operations in the shopping mall it will further consider street store strategy, especially for the franchise sector as by the time of its initiation The Station Brand will have stronger public image to create independent from shopping flow of customers.
Financial Management
Financial analysis of the project allows estimate cash flow and provide projected balance sheet for the start-up and on-going operations over the first year. Second year of operations reflects growth that will come through inorganic growth, derived from franchise operations. With that it is difficult to provide accurate estimates for cash flow over the second year at this stage. The analysis and projection, however, demonstrate attractive return on investment and relatively short payback period (Appendix V).
Given the complexity and asset-intensive strategy it is estimated that The Station project on initial stage, considering only pilot store will require a total of USD$ 533, 000 investment that includes start-up location costs, investment in IT developments, HR program costs and advertisement expenses. The investment also includes a buffer of 6 months operational expenses and other administrative costs.
The project projections, however, look at the rapid business expansion through organic growth over the first year of operation. The investment for this market penetration strategy will require a total investment of USD$ 7, 6 million over the period of one year. This investment assumes the ability of the company to expand its operations to 14 locations with a total income reaching USD$ 1. 8 million monthly. The assumptions are based on total final sales volume per store of 400 meals at an average price of USD$ 17. 5 with 24 operational days per months. It is believed that such sales forecast is viable, given the strategic marketing positioning and budget for advertisement support estimated by the project.
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Appendix IV – Customer Preferences
\*The components of customer Brand preference are ranked from 1 to 10, where 10 is the most important.
Customer Preference Diagram
Appendix V – Financial Estimations
AV– I: Cash Flow Projections
AV– I: Balance Sheet
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