
THAIFOON RESTAURANT

Anuj Chandarana wrote this case under the supervision of Elizabeth M.A. Grasby solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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It was the middle of May 2005. Eddy Phimphrachanh, whose family owned and managed several Thai food restaurants in Canada and the United States, sat at his desk, determined to decide whether to open Thaiphoon Restaurant (Thaiphoon) in downtown London, Ontario. From a young age, Phimphrachanh had a desire to start a restaurant of his own. Having received advice from his family and others in the business community, he was eager to open the restaurant and to live out his dream provided that all the pieces of his business plan looked favorable. If he proceeded, Thaiphoon would begin operating January 1, 2006.

THE CITY OF LONDON, ONTARIO

Phimphrachanh was inclined to open Thaiphoon Restaurant in London, Ontario, in order to stay close to his family and friends. London, the 10th largest metropolitan area in Canada, was located halfway between Toronto, Ontario, and Detroit, Michigan. The city's population of approximately 356,000 was expected to increase to over 374,000 people by 2011. Major industries included education, health care, tourism and manufacturing.¹

Downtown London

Downtown London was of particular interest to Phimphrachanh. In recent years, the City of London had invested over \$110 million in downtown large-scale projects to revitalize the area, including the construction of the John Labatt Centre, the Covent Garden Market, public park improvements, and upgrades to Museum London and the Central Library.²

¹ Source: City of London files, <http://www.london.ca>, and Wikipedia online encyclopedia, en.wikipedia.org/wiki/London,Ontario, January 5, 2007.

² Source: MainStreet London, a publicly funded downtown revitalization group that sponsors and encourages façade improvements, recruits new quality retail and business tenants, promotes safety and cleanliness, facilitates retail peer support and promotes downtown events and festivals.

The John Labatt Centre was a 10,000-seat venue for sports events and entertainment groups. It was ranked the third largest venue in Canada in ticket sales, behind the Air Canada Centre in Toronto and the Bell Centre in Montreal, with over 600,000 ticket sales in its first year. The John Labatt Centre attracted high-profile concerts, including Cher, Elton John, Rod Stewart, Nickelback and Our Lady Peace. The Covent Garden Market was a popular destination for eating, shopping and local festivals. The market attracted 37,000 people a month and an even greater number when festivals and farmers' markets were taking place on site.

The private sector was also investing in the establishment of new businesses and the development of new residential areas in the downtown core. The number of residential units had increased from 2,700 in 1996 to 3,800 in recent years. As well, there were approximately 500 businesses operating in the core. By 2005, over 30,000 people worked in downtown London, and over 100,000 residents lived within three kilometres of the downtown core.³

EDDY PHIMPHRACHANH

By 20 years of age, Phimphrachanh had garnered considerable experience, academically and in terms of hands-on experience, in the restaurant industry. He had graduated from the Hotel, Restaurant and Casino Management program at Westervelt College, where he took courses in front-desk operations, sanitation, food and beverage management, hotel management, casino management and bartending. He also enrolled in and successfully completed Smart Serve Ontario,⁴ Workplace Hazardous Materials Information System (WHMIS)⁵ and the Wine Council of Ontario (WCO)⁶ certification courses.

Additionally, Phimphrachanh worked in his aunt's three popular Thai food establishments in London (Thai House, Thai Delight and Bangkok Pad Thai) in multiple capacities including dishwashing, serving and bartending. His mother was the dining room manager and his father helped with general maintenance at these same restaurants. Phimphrachanh's aunt was a valuable source of knowledge and inspiration. She encouraged Phimphrachanh to learn about all aspects of the restaurant business and clearly conveyed that he could earn a prosperous living owning and managing his own restaurants. She was not worried that his restaurant would pose a competitive threat since the location and customer profile would likely be different, and she thought there was enough demand to support four restaurants in the London area.

In terms of opening Thaifoon, Phimphrachanh's primary objectives were to:

1. Gain knowledge and experience as an entrepreneur in the restaurant business.
2. Be personally involved with all critical aspects such as menu selection, restaurant design, website design and public relations.
3. Financially support a comfortable lifestyle while following his passion.
4. Contribute to the revival of London's downtown core.
5. Expand his business and personal networks.

³ *Ibid.*

⁴ Smart Serve Ontario has been developed to provide information about safe alcohol service at work and at home, <https://smartserve.org>, January 5, 2007.

⁵ WHMIS is Canada's national hazard communication standard. The key elements of the system are cautionary labelling of containers of WHMIS "controlled products," the provision of material safety data sheets (MSDSs) and worker education and training programs, http://www.hc-sc.gc.ca/ewh-semt/occup-travail/whmis-simdut/index_e.html, January 5, 2007.

⁶ WCO is a non-profit trade association with a leadership role in marketing and establishing policy and future directions for the wine industry in Ontario. It acts as a liaison and co-ordinating body between Ontario wineries, grape growers, and government groups. <http://winesofontario.org/>, January 5, 2007.

THE RESTAURANT INDUSTRY

The foodservice industry in Canada was vibrant, innovative and large. There were over 62,500 restaurants, cafeterias, snack bars, pubs and catering locations in Canada, most of which were owned and operated by local independent entrepreneurs. The industry provided jobs for more than one million Canadians. The average profit in the foodservice industry was 3.6 per cent. The largest expenses were food (37.5 per cent) and labor (31.1 per cent). The average Canadian foodservice operator realized annual sales of \$614,290 in 2004, with a pre-tax profit of \$22,114. Foodservice sales were projected to grow to more than \$50 billion in 2006, representing 3.8 per cent of Canada's gross domestic product.⁷

To understand London's specific data, Phimprachanh turned to the Yellow Pages. There were over 550 restaurants in London and, of those, approximately 10 were Thai restaurants. When reviewing more closely the restaurants in the downtown core, he found that there were approximately 50 restaurants in the core, five of which served Thai food; three of these were owned by his aunt.

THE LOCATION

Phimprachanh understood that his choice of location was paramount to the restaurant's success. He had narrowed his search to the corner of Dundas Street and Talbot Street, in the heart of downtown London (see Exhibit 1) due to the location's proximity to popular entertainment venues such as the John Labatt Centre, Museum London, Covent Garden and the Grand Theatre. Foot traffic⁸ was particularly heavy at lunch hour, given the proximity to several large corporate offices. In addition, the rent at this location was three to four times less than more prestigious areas of downtown London, some of which were located one or two city blocks from the Dundas Street and Talbot Street location.

The location also entailed some risks. Phimprachanh noticed that approximately 50 per cent of the neighboring units on Dundas Street were vacant. The street was typically not busy after dinnertime since there were very few establishments open after 5 p.m. The chosen location had no available customer parking, and only minimal parking was available on Dundas Street.

Phimprachanh had heard from MainStreet London⁹ that the street was on the "road to recovery," and he had recently witnessed significant positive change. He wondered whether he should look elsewhere or settle on this location at the corner of Dundas and Talbot.

OPERATIONS

Seating Plan

Phimprachanh had obtained a floor plan from the building's owner. The size of the kitchen, bathrooms, bar, office and waiting area was pre-determined, but he would be able to design the seating arrangement in the dining area (see Exhibit 2).

⁷ Canadian Restaurant and Foodservices Association.

⁸ "Foot traffic" refers to people walking through an area, as opposed to driving or using any other mode of transportation.

⁹ MainStreet London is a publicly funded downtown revitalization group that sponsors and encourages façade improvements, recruits new quality retail and business tenants, promotes safety and cleanliness, facilitates retail peer support and promotes downtown events and festivals.

Although Phimphrachanh knew that his seating arrangement would determine his capacity, which would thereby affect sales projections, he was interested in keeping the number of seats at or below 30 since this avoided legal regulations requiring a licensed engineer design, a second fire escape and other costly items. Phimphrachanh was also keen on leaving enough space between the tables and chairs for customers and servers to walk. Any design should allow for a quick modification to accommodate larger or smaller groups. The tables chosen for the restaurant measured 2.5 feet by 2.5 feet, and a 1.5 by two-foot space was needed for each chair. Two other seating options included booths or benches, which could be any length and up 1.5 feet wide.

Financial Projections

In addition to investing \$10,000 of his own savings, Phimphrachanh's aunt and mother had agreed to grant him a \$90,000, unlimited-term, no-interest loan to start the business. They offered him these favorable terms because they were convinced that his venture would be successful. They also wanted to show their appreciation to him for helping with the existing restaurants.

Furnishing the new restaurant would use approximately \$85,000 of these funds. The furnishings were to be amortized on a straight-line basis, over five years, with no salvage value. Another \$3,200 would be used to purchase computer equipment, which had an estimated life of three years and would be amortized using the double-declining balance method, with no salvage value. Phimphrachanh would also have to make one-time purchases of a liquor licence and a master business licence, amounting to \$1,055 and \$350, respectively. These intangibles would be amortized using the straight-line method over five years.

Phimphrachanh estimated sales based on the number of turns¹⁰ each day during the lunch and dinner hours (see Exhibit 3). The restaurant would be open 52 weeks each year. Phimphrachanh projected an average lunch bill would amount to \$12, of which \$10 would be for food and \$2 for beverages. Similarly, he projected an average bill at dinner would amount to \$25 per person, of which \$20 would be for food and \$5 for beverages.

Variable costs would include food (37 per cent of food sales), labor (30 per cent of total sales), drink (25 per cent of drink sales), and credit card fees (two per cent of credit card sales, which were projected to be 75 per cent of total sales). All other anticipated annual costs are listed in Exhibit 4.

Phimphrachanh planned to keep approximately 15 days of food inventory and approximately seven days of drink inventory on hand. Upon moving in, he would have to pay his landlord the first month's rent of \$1,282 along with a deposit equal to the last month's rent payment of another \$1,282. He would pay his advertising, hydro, land phone, insurance, Internet, and mobile phone expenses, approximately 15 days after the invoices were received.

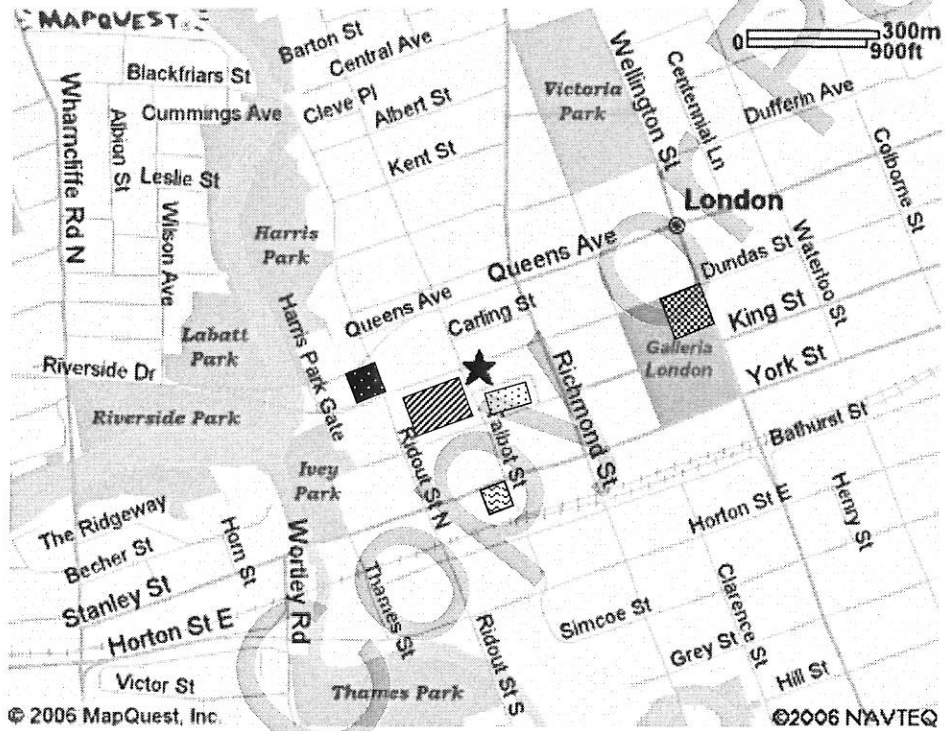
Phimphrachanh knew that restaurant sales were difficult to forecast, given the unpredictability of competitive and economic forces, and he wondered what his financial projections would look like if he were to fall short or exceed his sales estimation by 20 per cent. If the restaurant's results were to fall drastically below expectations, there was no formal contingency plan in place.

¹⁰ A turn refers to the number of times the restaurant's capacity is served. For example, if a restaurant has 50 seats, two

DECISION

Phimprachanh was eager to open Thaifoon Restaurant. He would consider his assessment of his own capabilities, the attractiveness of the industry, the suitability of the location, the seating plan selection and related financial projections, including a projected income statement and balance sheet for the year ending December 31, 2006, before making a final decision. His aunt had mentioned that if Phimprachanh wanted to be wealthy, he would have to open his own business. To this end, one of his financial goals was to be able to draw \$100,000 from the business by the end of fiscal year 2006. His expectation was loosely based on his family's Thai restaurant experience in London. He appreciated the wisdom and support of his mother and aunt, and he wanted, above all, to make sure that their financial commitment to his success was protected.

Exhibit 1
PROPOSED LOCATION

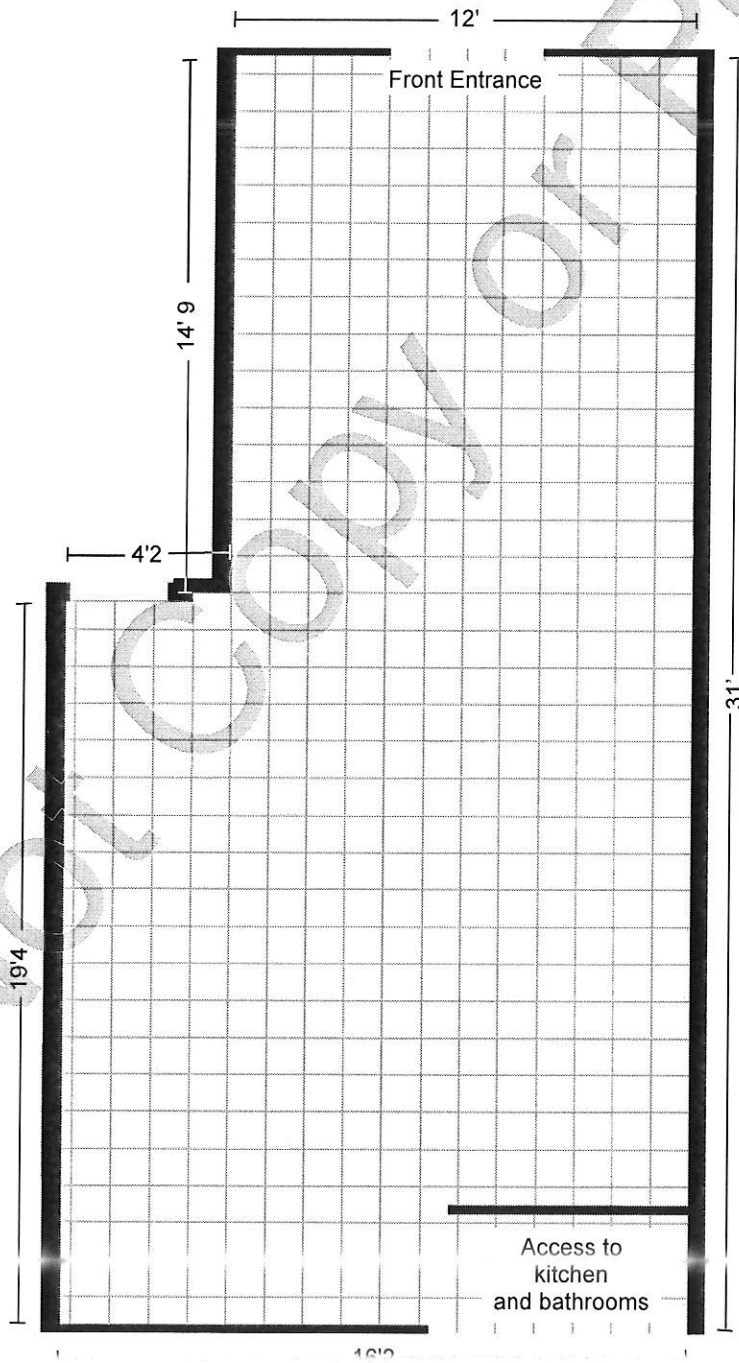


Legend:

- ★ Thaiphoon Restaurant
- ▨ John Labatt Centre
- ▤ Covent Garden Market (in which Thai Delight was located, owned by Phimprachanh's aunt)
- ▩ Central Library
- Museum London
- ▧ Ben Thanh Restaurant

Source: www.mapquest.ca

Exhibit 2
PROPOSED FLOOR PLAN



Do Not Copy or Post

Exhibit 3
PROJECTED SALES
Turns per Day

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
Lunch	1.0	1.0	1.0	1.0	1.0	closed	closed
Dinner	1.5	1.5	1.5	1.5	2.5	2.5	2.0

Source: Company files.

Exhibit 4
PROJECTED ANNUAL COSTS

Amortization*	\$ 19,414
Rent	15,384
Advertising	10,000
Hydro	8,000
Truck	6,840
Phone, Yellow Pages	6,480
Donations and sponsorships	3,000
Annual repairs and maintenance	3,000
Printing	2,000
Laundry	2,000
Miscellaneous	2,000
Cleaning supplies	1,950
Gas	1,920
Website	1,600
Insurance	1,200
Internet	720
Accounting services	650
Mobile phone	552
Staff uniforms	500
Office supplies	500
ADT (security system)	360
TOTAL	<u>\$ 87,789</u>

* $(85,000 \div 5 \text{ years}) + (3,200 \times 2/3 \text{ years}) + [(1,055 + 350) \div 5 \text{ years}] = \$19,414$

Source: Company files.