

Analysis of Restaurant Opportunities

This section explores market opportunities for new restaurants in the New Richmond Primary Trade Area. The section begins with a summary of industry trends that provide background on changing consumer preferences. Then, an analysis of the New Richmond market is presented based on the insight of two independent hospitality industry experts from the University of Wisconsin-Stout.

Industry Trends

For the past three decades, the restaurant industry has consistently posted yearly sales gains. Today's consumers regard food prepared away from home as a necessity. Convenience, a need for socialization, and gains in real disposable income have led consumers to spend more of their food dollars in restaurants.

In 2002, large chains for the first time captured more of the dining out market than independent restaurants. Their growth has resulted from highly sophisticated companies specializing in sit-down restaurants such as Cheesecake Factory (American), P.F. Chang's China Bistro (Chinese), Morton's (Steak), and Olive Garden (Italian). These and other chains have expanded throughout the country and many are publicly traded (fueling their expansions). The growth of these chains, coupled with sluggish economic times, have forced many independents out of business.

Consumer Preferences

According to a nationwide survey conducted by the National Restaurant Association, men are more likely than women to use restaurant services (91-percent versus 85-percent during the survey week). Younger adults are more likely to use restaurants than older adults (6.9 weekly restaurant visits for adults 18-44 versus 3.3 visits for adults age 65 and older).

According to research by C&R Research for the National Restaurant Association, there are four broad food attitude segments among today's restaurant patrons:

- Adventurous diners are consumers who are most enthusiastic about trying new types of foods and ingredients. They are frequent diners who are "upscale," educated and more likely to live in urban areas.
- Traditional diners are the least experimental and tend to live in smaller cities. They are often older, less frequent patrons who enjoy comfort foods.
- Health-conscious diners are more concerned about what they eat when dining out. They make food choices based on health concerns as well as specialized diets such as vegetarian, kosher and high protein/low carbohydrate.

- Carefree diners are the opposite of health-conscious diners and want to forget about eating healthy. These consumers are typically males under the age of 50.

The distribution of diners among these four segments is fairly even, although differences will be found in different communities.

National Restaurant Association research point to increased preferences for salads, seafood, chicken and bottled water. Trends specific to full service and quick service restaurants are presented below.

Full Service Restaurant Trends

Full service restaurants are defined as those establishments with waiter/waitress service and where an order is taken while the patron is seated. They represent 52% of all restaurant sales in the U.S. Growth in this segment is driven in large part by consumer's desire for fun and enjoyment. Growth in sales, particularly at casual-dining (casual dinnerhouse) establishments, is also driven by the number of higher income households.

In many smaller communities, the "supper club," with its aging customer base, is being replaced by casual dinnerhouse restaurants. The casual dinnerhouse today reflects more the lifestyle of our society. Casual attire is seen in this style of restaurant, and it appeals to all age groups allowing intergenerational dining. It has a menu which can offer variety from hamburgers to steaks, sandwiches to entrees, appetizers to desserts and also the normal variety of alcoholic beverages. It is more likely to focus on wine or beer today with a meal as opposed to spirits. According to Nation's Restaurant News, dinnerhouses are seen as the vehicle driving growth in the restaurant industry. Prominent dinnerhouses include such powerhouses as Red Lobster, Olive Garden, Chili's and T.G.I. Friday's. Other growing chains include California Pizza Kitchen, Chevy's Fresh Mex, Damon's Grill, Tony Roma's and Buffalo Wild Wing's Grill and Bar among others.

Looking forward, full service restaurants are providing more options to provide consumers with fast and easy food service. A large number of these restaurants are now offering carry-out meals. A recent survey found that 42-percent of adults would be interested in full service restaurants delivering food to their home. The survey also found that 43-percent of consumers would be interested in a drive-thru option at their favorite full service restaurant. This was especially important among younger adults and households with children.

Quick Service Restaurant Trends

Limited service restaurants are defined as those establishments in which patrons order at a cash register, use a drive-thru or select items from a food bar. They represent 41-percent of all restaurant sales in the U.S. According to Nation's Restaurant News, the largest chains include giants like McDonald's, Burger King and Wendy's. In fact the sandwich concepts account for 40-percent of the sales for the top 100. Growth of these restaurants has slowed as there has been significant consolidation in the market. Stronger concepts are overtaking weaker ones, often for purposes of acquiring prime real estate. Co-branding various chains in one building has also constrained the overall growth in the number of units.

The rapid growth in number of the "fast-casual" restaurants will have a significant impact on the overall quick service sector. Fast-casual restaurants offer foods and décor more in line with the casual dining experience. This new category, which falls between the Quick Service and Full Service segments, is less likely to offer fried foods and more likely to have hand-held items such as sandwiches and wraps. These restaurants tend to do their highest sales volume during lunch and generate a higher average check than traditional quick service restaurants. Eighteen to 34-year-olds are especially attracted to the "fast casual" segment. Chains from the fast casual segment include Culvers, Panera Bread, Chipotle Grill and Noodles & Company.

Looking forward, consumers of quick service restaurants will continue to desire value and convenience. According to a National Restaurant Association survey, consumers desire carry-out and delivery and many view takeout as essential to their lifestyle. However, these restaurants will face continuing competition from grocery stores, convenience stores and other businesses courting the takeout market. More consumers are also becoming more value-conscious, a reflection of current economic conditions. Consumers are now expecting better value in terms of price paid, service consistency and food quality. Consumers are also more interested in using technology and many would use self-service terminals if available.

Because of the challenges facing many restaurants, especially independents, it is important that operators and those involved in counseling and encouraging business development stay informed of changing trends in this industry. Fierce competition in the industry will continue and proper menu, service and concept planning must be ongoing to prevent business failure.

Source: Restaurant Industry Trends by Doug Kennedy, Bill Way and Bill Ryan. Let's Talk Business, <http://www.uwex.edu/ces/cced/lets/0803ltb.html>

New Richmond Market

The following is based on an analysis prepared by Doug Kennedy and Bill Way of the University of Wisconsin – Stout. Kennedy and Way have years of hospitality industry experience and currently teach at Stout's Department of Hospitality and Tourism. Their analysis was based on research and site visits conducted in September 2003. While other sections of this report focus on the primary and secondary trade areas around New Richmond, this analysis was based primarily on current market conditions within the New Richmond zip code and primary trade area.

Supply

There are a wide variety of restaurants in the New Richmond market. These restaurants are presented on the next page:

Table 3 – Summary of Supply (in New Richmond Primary Trade Area)

Business Name	Address	Concept
New Richmond Restaurants		
Agate Inn (Downtown)	231 S. Knowles Avenue	Bar Food
Bean Bag (Downtown)	245 S. Knowles Avenue	Espresso/Sandwiches/Wraps/Soup
Blue Moon (6 miles east of New Richmond)	1847 Cty. Rd. T	Bar Food
Burger King	120 Meridian Drive	Franchise
Champs (Downtown)	220 S. Knowles Avenue	Bar Food
Dairy Queen (North Central)	262 N. Knowles Avenue	Franchise
Dominos (South Side)	1657 Doman Drive	Pizza
Kozy Korner (Downtown)	157 S. Knowles Avenue	Pizza/Pasta/Sandwiches
Lowry Hotel (Downtown)	116 W. 3 rd Street	Breakfast/Pies
McDonald's (North Central)	243 N. Knowles Avenue	Franchise
Next Door Café (Downtown)	206 S. Knowles Avenue	Breakfast/Lunch
Ocean's Moonstar (Downtown)	121 S. Knowles Avenue	Oriental
Old Saloon (Downtown)	145 S. Knowles Avenue	Home made - Bar Food
Panda Forest (North side)	526 N. Knowles Avenue	Chinese
Pete's Pizza (North side)	1230 N. Knowles Avenue	Pizza/Full Service
Pizza man (South Side)	228 Paperjack Drive	Pizza
Subway (North Central)	215 N. Knowles Avenue	Franchise
Suzanna's (South Side)	118 Homestead Drive	Full Service, Banquet
Sweet Greetings (Downtown)	330 S. Knowles Avenue	Ice Cream/Coffee/Candy
Willow River Deli (Downtown)	244 S. Knowles Avenue	Café/Deli
Major Competitors Elsewhere in Primary Trade Area		
Anne's Café	260 Main Street, Somerset	
Apple Eatery	712 170 th Avenue, Somerset	
Apple River Takeout	128 Spring, Somerset	
Crossroads (8 miles east of New Richmond)	1901 Hwy 46, New Richmond	Café/Roadhouse Dining
Fonda's Restaurant & Bar	206 Main Street, Star Prairie	
Laurel (6 miles east of New Richmond)	1905 Hwy 64, New Richmond	Fine Dining
Little Jewell & Coffee (Downtown Star Prairie)	301 Main Street, Star Prairie	Coffee/Sandwiches/Friday Gourmet Meal
Main Street Pizza (Downtown Star Prairie)	106 Main Street, Star Prairie	Pizza and Ice Cream
Meister's (West of Star Prairie)	1176 Cty. Rd. H., New Richmond	Bar/Lakeside Dining
Pizza Planet (Downtown Somerset)	252 Main Street, Somerset	Pizza
Red Rooster (6 miles east of New Richmond)	1767 Cty. Rd. T, New Richmond	Bar Food
River's Edge Supper Club	1820 Raleigh Road, Somerset	Fine Dining
Rendezvous (Downtown Somerset)	220 Main Street, Somerset	Pizza/Dancing
Settlement, The	2004 State Road 35, Somerset	
Sportsman's Café & Lounge	217 Main Street, Somerset	

Conclusion

The only branded restaurant concepts in the New Richmond market are in the quick service sector. They consist of McDonald's, Subway, Dairy Queen, Burger King and Domino's. This is a limited grouping of the largest segment in the restaurant industry, but is indicative of the limited "branded" restaurant market that has existed in New Richmond up until this point in time. One would need to travel to Hudson to experience a broader sampling of this segment.

The remainder of the New Richmond market consists of independent restaurants providing take-out food (i.e., pizza, oriental), taverns or country roadhouses providing pub type food, or operations from the café/deli segment. Several of the roadhouses have more extensive menus with a variety of entrees and evening specials. In addition there are two traditional supper clubs, as well as a sit down family restaurant, all of which provide banquet services. To date no branded concept from the fast casual or casual dinnerhouse segment has considered this location. A number of operations from these segments have instead selected the Hudson market, a location with freeway access and a broader customer base.

New Richmond appears to be a "price sensitive" market, and this may limit its appeal to the more expensive "casual dinner house" concepts. Although the Applebee's menu is priced at the low end of the "branded dinner house" segment, its prices are higher than the local "full service" restaurants. Based on this observation, other than additional "branded quick service" restaurants (such as KFC or Taco Bell), the New Richmond market seems ready for a "branded fast casual" restaurant (such as Culver's or Chipotle Grill). However, the rapidly increasing population, and results of focus group surveys (noted below), may be indicative of the need and desire for a destination or casual dinnerhouse restaurant.

Demand

According to data purchased from ESRI BUS, residents of the New Richmond primary trade area (zip code areas 54017, 54025, 54026) had \$16,727,000 in consumer spending potential for food purchased away from home in 2002. The primary and secondary trade areas (defined earlier in this report) had \$31,236,000 in food away from home spending potential.

According to ESRI BUS, the largest single lifestyle category in the primary trade area is called Middle America (7A). This category represents 58% of primary trade area households. While they dine out near the US average, they spend less in ethnic restaurants. They utilize family restaurants and utilize counter/eat-in seating at fast food establishments.

The second largest lifestyle category in the primary trade area is called Baby Boomers with Children (2B). This category represents 28% of primary trade area households. They dine out more frequently than the U.S. average and enjoy more foreign food. They have a high frequency of fast food dining, delivery and take out. Pizza restaurants are especially popular with this household segment.

The New Richmond Area Chamber conducted focus group discussions to identify restaurant preferences from the local community. Highlights from the balloting are illustrated in the following table.

Restaurant Focus Group Data

		Independent vs. Chain Affiliated					
<i>Rank</i>	<i>Restaurant</i>	<i>Total Votes</i>	<i>Independent</i>	<i>%</i>	<i>Chain</i>	<i>%</i>	<i>Restaurant Segment</i>
1	Chef Owned & Operated	16	16	14%			n/a
2	Applebee's	15			15	14%	Dinner House
2	Italian Chain (Olive Garden, Ciatti's, Green Mill)	15			15	14%	Dinner House
3	Perkins	12			12	11%	Family
4	Mexican Chain (Taco Bell, Chili's, Don Pablos)	10			10	9%	QSR / Dinner House
5	Adventures	8	8	7%			Family
6	Culvers	6			6	5%	QSR
7	Arby's	4			4	4%	QSR
7	Red Lobster	4			4	4%	Dinner House
7	Tea Room	4	4	4%			Specialty
8	TGIFriday's	3			3	3%	Dinner House
8	Timber Lodge	3			3	3%	Dinner House
8	Family Restaurants	3	3	3%			Family
8	KFC	3			3	3%	QSR
8	Krispy Creme	2			2	2%	Specialty
9	Fameous Daves	1			1	1%	Dinner House
10	Outback Steak House	1			1	1%	Dinner House
10	Coffee Shops	1	1	1%			Family
	Total	111	32	29%	79	71%	

The focus group results indicate a local preference for two concepts. The first would be a Chef-run or “destination” type restaurant such as the Creamery in Menomonie or Adventures in Osceola. The second would be a casual dinnerhouse such as Applebees or Olive Garden. There also appears to be support for the fast casual concept.

Restaurant Site Alternatives

Location is critical to success in the restaurant industry. There are three possible areas for a new restaurant to locate in New Richmond, downtown, or north or south of downtown. It is Kennedy and Way's opinion that the south business area currently represents the best opportunity, in terms of visibility, parking and signage. The restaurant industry has thrived on freestanding locations with easy access and visibility, which are currently available on the south end. The area south of downtown has new infrastructure in terms of wide roads and deeper setbacks to enhance visibility. It also has the newest retail development including a new grocery store, with other commercial space being added. Today's harried consumer is looking for convenience and desires to package multiple purposes for any trips.

While a location south of the downtown area appears to represent the current best opportunity for success, the emerging north end should not be overlooked. The reconstruction of Highway 64, which will widen the highway to four lanes and bypass the downtown area, coupled with commercial development being planned north of the river, would appear to offer opportunities similar to that found on the south end. The downtown is still the heart of the city, with most of the retail and service businesses located there. In recent years, a coffeehouse, a deli and a tavern have all opened on Knowles Ave downtown, showing the continued potential for restaurants in the center of the city.

Conclusions

Kennedy and Way provided the following conclusions in their report.

The New Richmond community is experiencing substantial growth in new residential development. This trend is happening in many western Wisconsin markets based on their close proximity to the Twin Cities. While New Richmond has maintained a daytime employment base, it is still predominantly a bedroom community.

There continues to be a lack of branded foodservice concepts except for several players in the quick service segment. Nearby Hudson appears to be attracting new restaurant concepts from the fast casual and casual dining segments. This is likely related to the fact Hudson is larger and is located on the freeway.

Kennedy and Way felt New Richmond's best bet is to try to attract a new fast casual restaurant, or an independently-owned restaurant that people will come to as a destination location because of its reputation for consistently serving quality food. This does not mean there is not room for other restaurant types. New Richmond is a fast-growing community, in Wisconsin's fastest growing county. The transportation infrastructure is being updated and improved. New commercial construction is occurring on both the north and south ends of town. The downtown retains a vibrant mix of retail, service and commercial activity. The opportunity for growth in the restaurant sector is apparent.