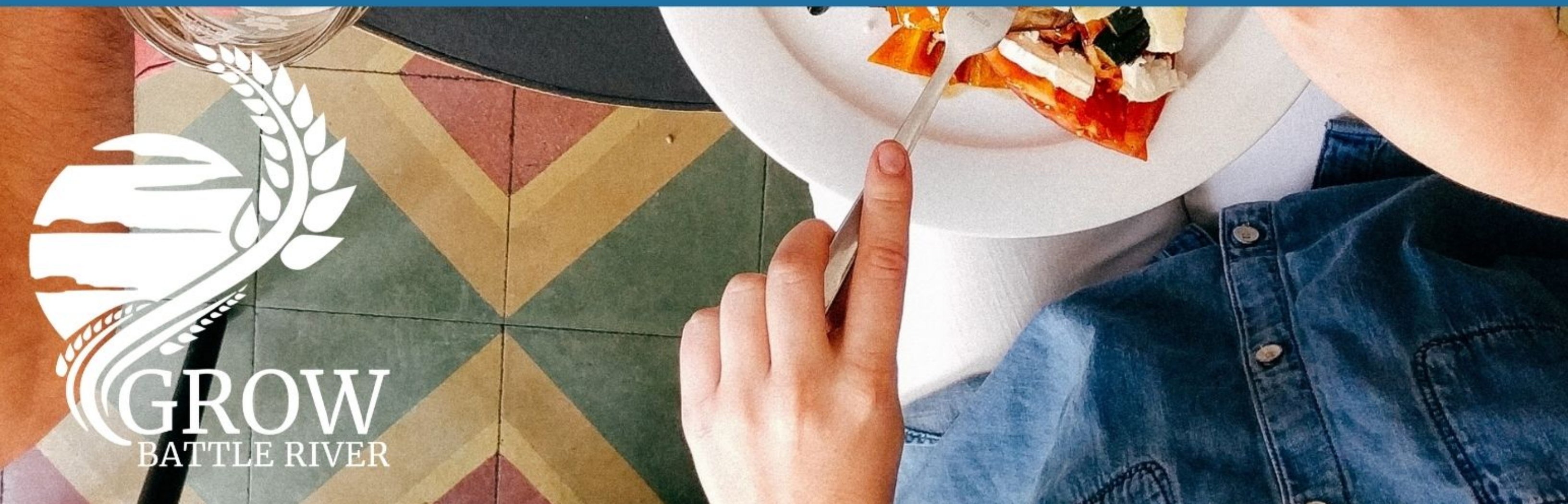
Business Prospectus: Fast Food Restaurant

Created by Battle River Economic Opportunity Committee (BREOC)

2021



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Overview

Battle River Economic Opportunities Committee (BREOC) is a partnership of seven municipalities that have taken ownership of driving and leading economic prosperity in their region. This region spans two counties in East Central Alberta, County of Paintearth and Flagstaff County, which house the municipalities involved: Castor, Coronation, Halkirk, Forestburg, and Heisler.

BREOC has developed a comprehensive strategy to diversify, strengthen, and create long-term success within their regional economic portfolio. An aspect of this plan focuses on support for private sector development and inbound investment. This included creating business prospectuses for different opportunities within the region for potential investors to use and grow into fully realized ventures.

BREOC has identified eight (8) business ideas that they feel represent high potential opportunities in the region and created prospectuses that explore the details of starting and operating the venture. The following prospectus is focused around creating a fast-food franchise within the BREOC region. Since fast food exploded on to the scene in the late 1940s, it has transformed into one of the most influential industries in the world. It changed the way the world thinks about food and the supply chains that create it. Their popularity is indisputable, and customers buy their products consistently because they know they are getting a consistent product with good value.

BREOC has no fast-food restaurants such as Tim Hortons, McDonalds, Wendy's, or Subway. There is also a lack of independent fast-food restaurants. Rather, they are fully serviced restaurants. Given the popularity of these restaurants, there is an opportunity to create one within the region that will be well supported by the local populous.

The following prospectus will explore creating a franchise fast food chain within the region.

The Concept

Fast food restaurants can exist in three different models. The first model is a fast-food franchise business model. A franchise is an authorization granted by a company to an individual or a group that enables them to act under the company's brand. The franchisee pays an upfront fee, and ongoing fees to sell the company's products, use their advertising, use their business model, and more. There are many advantages to starting a franchise such as their low rate of failure, the business assistance available from the parent company, the immediate brand recognition, and the higher chance of turning a profit. On the other hand, franchises are expensive to buy into, there are high payments and costs owed to the parent company, and rules that need to be followed. For many entrepreneurs, franchises are an opportunity to buy into an existing, successful business model that has a proven track record, a successful training program, a solid supply chain, and expert technical support.

For those who do not have the start-up funds or want to own their own business, the second model should be considered. This is an independent fast-food restaurant. This is a simple business model in which the owner(s) make(s) all decisions within marketing, operations, human resources, and overall strategy.

The third model is the company-owned chain restaurants, which are irrelevant for the purposes of this prospectus. Therefore, this prospectus will discuss and provide information on both the franchise model, as well as the independently owned fast-food restaurant model. It will not advise on which fast food restaurant to open, or what food to serve, but it will provide information and resources on the most popular options in Canada.

About the Industry

The fast-food industry is comprised of restaurants where patrons pay for quick service food products before eating. Purchases may be consumed on-site, taken out or delivered. Most of the industry's establishments also sell beverages, such as water, juice and sodas, but usually not alcohol (IBIS World, 2020).

Typically, when one thinks of fast food, a hamburger, fries, and pop are pictured. However, fast-food has expanded over the past two decades. Everything from sandwiches, to pizza, to salads, to to-go bowls, and more are now considered "fast food" if delivered promptly.

The industry is dominated by franchised restaurants rather than company-owned chain restaurants, or independent fast-food restaurants. This is due to their ability to conduct business at a high volume and scale internationally.

The key external drivers that directly affect the industry are:

Consumer Spending: This is the total amount Canadians spend on goods and services. The more consumer spending, the more successful the fast-food industry.

Per capita meat consumption: All fast-food restaurants supply meat products to their customers. The more meat being consumed, the more supply is needed to meet the demand of the fast-food restaurants.

Consumer Confidence Index: The index measures consumer optimism about the current economic environment and is an indicator of consumer product sales in the near term. High confidence drives higher consumer spending.

Adult Obesity Rate: The overall health of Canadian diets has decreased in recent years and obesity rates are rising. This can be partially attributed to the popularity and consumption of fast-food products.

Market

The market for the fast-food industry in the BREOC area was analyzed by assessing industry trends, typical customer segments, and the regional trade market.

Industry Trends

In Canada, the fast-food industry is typically successful on an annual basis. There are over 10.3 fast food restaurants per 10,000 individuals, and more than 54% of Canadians dine at a fast-food restaurant at least once per week. Popular franchises are seemingly on every block in urban centres, and they also have success in more remote rural areas. However, rural areas are more likely to have locally owned independent fast-food restaurants. 2

020 was a surprising year for the industry, as they experienced a significant and uncommon dip in total revenue due to the COVID-19 pandemic. However, a bounce back to pre-COVID revenue levels is expected due to the following trends.

Fast food chains are adapting to the taste of the consumer. Healthy, gourmet options are in demand by Canadians and fast-food chains have taken advantage of this by adding alternative options to their menu.

Per capita disposable income. An increase in per capita disposable income is expected in Canada at a rate of 1.1% annually over the next five (5) years.

Industry profit margin continues to improve. Through supply chain efficiency, automation, and other factors, the profit margin in the industry is going to continue to improve over the coming years.

Figure 1 below illustrates the revenue trend within the industry from 2013 projected into 2026. Notable is the dip in revenue caused by the COVID-19 pandemic, and the expected bounce back due to increased consumer demand and confidence.

Figure 1. The percentage change in revenue of the fast-food industry from 2013 projected into 2026

The main franchise fast food industry trend in Canada is the palpable success of McDonalds and Tim Hortons. They are by far the two most successful fast-food franchises in the country, which can be inferred from Figure 2 below. In 2018, Tim Hortons grossed $8.9 billion in sales, while McDonalds grossed $5.3 billion. Due to the popularity and low failure rate of these franchises, there are implications for the potential franchisee such as high start-up costs, high franchise costs, and strict guidelines. Figure 2 below shows the relative success of these franchises in Canada.

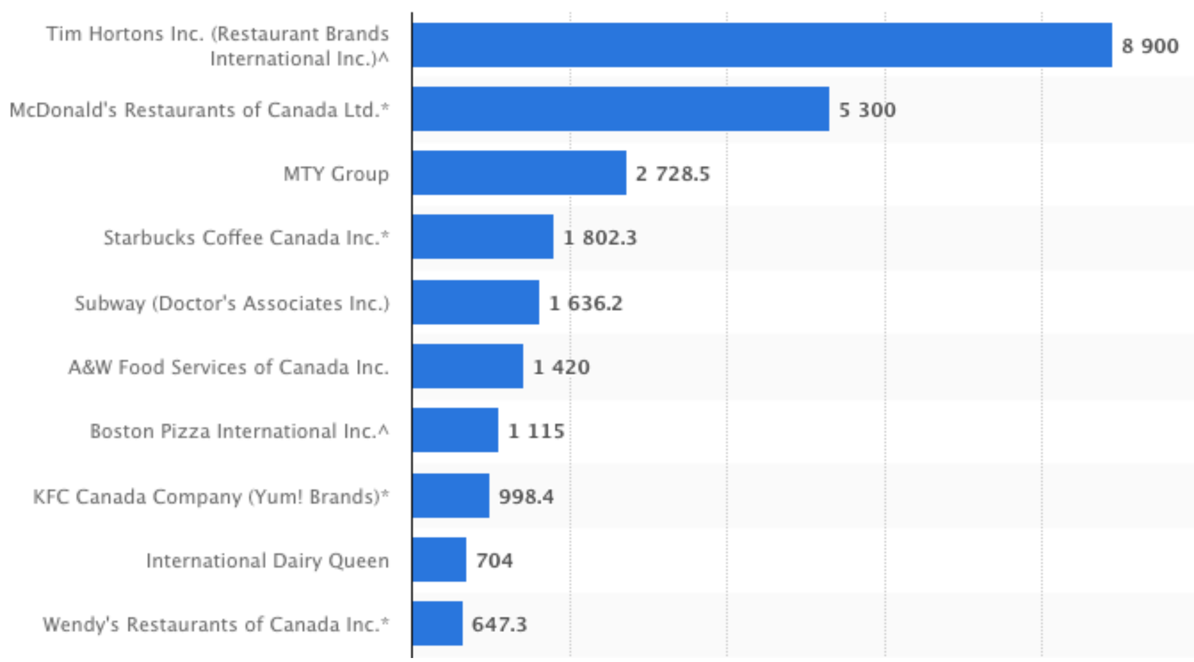

Figure 2. Restaurant chains in Canada ranked by gross sales (2018)

Customers

In operating a fast-food restaurant, the targeted customer segments vary widely dependent on food pricing, food choices, and branding. This idea is illustrated in Table 1 below, as two fast food restaurants are compared in terms of customer segmentation. One is a classic fast-food restaurant; the other is a healthy alternative. The idea represented here is that dependent on the products served, there will be a distinction in the customer's attending the restaurant

Table 1: The customer segmentation across classic fast food and healthy alternatives

Type of segmentation	Classic Fast Food (McDonalds, Wendy's)	Healthy Alternative (Freshii, Chopped Leaf)
Geographic	Urban/Rural Centres	Urban Centres
Demographic	Age 2-80 Low to Middle Income Students, Employees, Professionals	Age 15-75 Middle Income Employees, Professionals,
Behavioural	Prioritize cost benefit and time efficiency	Prioritize healthy food options and time efficiency
Psychographic	Prioritize value exchange	Brand and corporate social responsibility plays a role in their decision making

BREOC Regional Market and Trade Area

When assessing the trade area for a fast-food restaurant, a one hour driving radius is presumed. Research suggested that in rural areas, individuals will drive an hour to visit nearby communities for a variety of reasons. While people are visiting, they may use tourist services, such as fast-food restaurants for a snack, beverage, or meal before returning home. To show the population that may be accessed by this driving radius, Figure 3 contains a trade area map within a one (1) hour drive of Alliance, the geographical centre of the BREOC region. This trade area includes a large list of communities listed including Bawlf, Daysland, Strome, Killam, Sedgewick, Lougheed, Hardisty, Amisk, Hughenden, Galahad, Forestburg, Heisler, Bashaw, Stettler, Gadsby, Halkirk, Castor, Fleet, Hanna, Coronation, and Veteran.

Figure 3 - BREOC Trade Area (1 hour driving radius)

Operations

Operations of a fast-food franchise can be divided into three (3) subcategories;

1. Rules and regulations
2. Physical operational considerations, and
3. Human resources

While the operational needs and requirements will need to respect the business model that the entrepreneur(s) wishes to pursue, the following have been provided for key operational consideration

Rules and Regulations

In Canada, the restaurant industry is highly regulated federally by Health Canada and the Canada Food Inspection Agency (CFIA).

At a provincial level, the Alberta Food Regulation Act controls operations. An outline of provincial legislation is below, with links provided to official documents. [1]

Canadian Federal Regulations

Simply put, Health Canada is responsible for establishing policies and setting food safety standards for all food businesses. The Canadian Food Inspection Agency is responsible for enforcing these policies and standards. The two federal acts and regulations governing food safety in Canada are the Food and Drugs Act, and the Safe Food for Canadians Act. The Safe Food for Canadians Act consolidates the authorities of the Fish Inspection Act, the Canada Agricultural Products Act, the Meat Inspection Act, and the food provisions of the Consumer Packaging and Labelling Act. An entrepreneur entering into this industry should seek peer advice or consulting straight from the CFIA.

Province of Alberta Regulations

Provincial food safety laws are set by the Alberta Food Regulation Act according to the Alberta Public Health Act, the Alberta Food Retail and Food Services Code and Alberta Dishwashing Standards. These laws require and ensure that food sold in Alberta is safe and suitable for human consumption and meets all standards set out in the Food Services Code. Food Safety in Alberta is governed by Alberta Agriculture and Forestry and Alberta Health Services.

The public health act for Food regulation can be found here.

https://www.qp.alberta.ca/documents/Regs/2006_031.pdf.

Alberta's Food Regulation (section 31) requires food businesses to employ staff that have obtained Food Handler Certification. To

[1] The Rules and Regulations were determined using secondary research and are subject to change. The entrepreneur is responsible for the adherence and knowledge of all pertinent rules and regulations.

receive Food Handler Certification, Food Handlers are required to complete an Alberta approved Food Handler Certification course.

At a minimum, Alberta food businesses must comply with the following legislation. If there are five or fewer Food Handlers (including waitstaff) working on the premises, then there must be at least one person with a valid Food Handler Certificate who works for the business. If there are six or more Food Handlers (including waitstaff) working on the premises, then at least one person must have a valid Food Handler Certificate. The person(s) who holds the Food Handler Certificate must be a member of management or hold a supervisory position and be present in the business.

All food businesses must be prepared for random visits from a Certified Food Safety Inspector. They will inspect a business before it starts and then every four to six months after that.

Physical Operational Considerations

The size of the restaurant that is to be built, purchased, or leased, has implications on the capacity of the restaurant. Therefore, before choosing the size of the restaurant, careful consideration must be taken on the eventual desired capacity. If a franchise restaurant is to be created, the franchise will have specific guidelines on the size of the facility, required equipment, and more.

Facility Size and Layout

Within a fast-food restaurant, generally 35-40% of the overall space should be made available for the kitchen and prep area. Another 50% should be attributed to seating, while the remaining space will be bathrooms, offices (if necessary), and storage. Once again, should the franchise model be chosen, a layout and facility size will be planned in conjunction with the corporate site selectors.

To effectively run a fast-food restaurant with the required equipment and space, it is suggested that the building is at least 1,500 square feet. Restaurants can operate with around 1,000 square feet, however this can be cramped for both staff and customer, so future capacity and customer experience need to be considered. A general floorplan for a fast-food restaurant is shown below in Figure 4 as an example.

Figure 4. Example of a fast-food restaurant layout with all required sections and functions

Necessary Equipment

Below is a list of necessary equipment that needs to be included in a fast-food restaurant for proper operation.

- Food preparation counters and tables
- Ovens, Microwaves, Gas or Electric Grill
- Ranges and ventilation
- Food processors
- Sinks
- Point of Sale System
- Washing Equipment
- Deep Fryer with Proper Ventilation
- Oil and Grease Trap/Disposal
- Tables and Chairs
- Serving Equipment - Plates, Cutlery, Glasses

The cost for high quality restaurant equipment is significant. An entrepreneur can expect for this equipment to cost between $100,000 and $300,000 depending on the business model. However, one could look at discounted and used equipment that is still passable by health inspection and operational standards to save money.

Human Resources

The following are the necessary employment positions and their expected roles for the operation of a fast-food restaurant.

Management/Ownership

Management and ownership have a heavy role within the franchise and independent fast food restaurant models. They are responsible for the ordering of required raw materials and equipment, managing staff schedules, as well as overall strategic management and decision making. The culture that management chooses to set within the workplace is a powerful contributor to customer experience, as it permeates through staff and into the customer's perception of customer service.

Restaurant Staff

The restaurant staff are the main drivers of operational efficiency and customer service. At a fast-food restaurant, operational staff would handle a multitude of duties including food preparation, customer service interaction, equipment maintenance and cleaning, and general cleaning. It is recommended, again depending on restaurant capacity, that three (3) people are working at all times, with an available staff of five or six people.

Professional Services

Professional services are required to ensure that a business in the highly regulated restaurant industry is started correctly. Suggested professionals to consult during the start-up stage are listed below:

Legal/Insurance services: These are required due to the liability taken on by a fast-food restaurant in creating consumable products. If a customer consumes your product and faces allergy complications or faces there is damage done to a patient accidentally, there need to be legal services prepared to deal with a situation such as this.

Accounting/Bookkeeping Services: Often times, operators are not prepared or equipped to deal with this part of their business. Outsourcing to a trusted professional can be a great strategy to ensure it is done properly.

Marketing

Within franchises, marketing strategies are already created and fully realized by the corporate brand. This includes customer segments, promotions, pricing, and more. A franchise owner is typically responsible and reimbursed for their marketing efforts done locally.

An independent restaurant owner, on the other hand, will have to create a specific and comprehensive market strategy for the BREOC region. In light of this, some important considerations are listed below.

Product/Services

The choice of the type of product to be served is essential in attracting the local customer base. It is suggested that independent restaurants have one or two menu items that are done exceptionally well. Establishing an identity through a popular food product is a key to success. Below is a list of options that are feasible for fast food restaurant menu items.

Burger and Fries – From beef to chicken, veggie, and fish, there are multiple versions of the classic burger that started the fast-food industry.

Bowls and Salads – Bowls usually contain a protein, a grain, and mixed vegetables with a specific dressing.

Wraps – Wraps contain a protein, and fresh vegetables. This includes burritos, quesadillas, and more.

Smoothies and Mixed Drinks – A mix of protein, fruit, yogurt, fruit juices, and more have become a popular item at places such as Jugo Juice and Booster Juice.

Ice Cream and Ice Cream Products – Many fast-food restaurants have their claim to fame because of their ice cream products, such as Dairy Queen.

International Food Options – Food options such as Chinese, Japanese, Thai, and South American have been extremely popular worldwide.

Pricing

In a franchise system, the corporation will set the pricing for the restaurant, however within an independent restaurant, the owner is responsible for setting their own pricing. It is suggested that when setting the pricing that the restaurant should make a 30-40% profit margin on each meal menu item, meaning the restaurant earns 30 to 40 cents on the dollar. Therefore, the owner must know the cost of the raw food items in order to use the following equation.

Gross Profit Margin = (Menu Price – Raw Food Cost) / Menu Price

Promotions

The following are promotional strategies that will increase the customer base and spread of awareness within the local community. It will also allow for positioning within the region at large.

Website: All restaurants today require a website to have an online presence. It is key for customers to have an awareness of hours, products available, and the businesses' brand. With a franchise, this is handled by the parent company.

Social Media: In the restaurant industry today, it is crucial for businesses to have a strong social media presence. Within a franchise, this is handled for the owner.

Centres of Influence: Important pillars within a community such as hotels, real estate agents, financial advisors, and other business owners, are key to referring visitors, new citizens, and friends, to other businesses. Getting these individuals promotional materials, or even creating and maintaining a strong relationship can be a promotional tactic. In addition, connecting to influencers in the strong foodie cultural will help to build awareness.

Channels of Distribution

While sales through the fast-food restaurant is the main form of distribution for day care services, there are alternative channels through which a customer may access the fast-food product.

Fast-Food Restaurant: The main channel of distribution is through the restaurant, whether eating in or taking out.

Delivery Services: A way to compete across a wider geographic region and access clients with little time to visit a restaurant.

Financials

The following are tables outlining basic financial information for a fast-food restaurant start up in the BREOC region. Included are start-up costs, operating costs, and income statements.

Start-Up Costs

Generally, most fast-food restaurants range from $140,000 - $1,000,000 in start-up costs. The specific start-up, however, will depend on the business model the entrepreneur(s) decide(s) on and the size they envision the fast-food restaurant to be. The biggest difference will come in the decision to lease, purchase, or build the site of operation. Franchise investment costs are listed below in Table 2.

Table 2: Start-up costs for a fast-food restaurant

Item	Cost
Building Rent (Average Cost per Square Foot/Year)	$8.00-$12.00
Building Purchase	$100,000 - $350,000
Building Build	$350,000 - $700,000
Necessary Restaurant Equipment (Listed Above)	$100,000 - $300,000
Insurance	Dependent on capacity and business model
Liability	Dependent on capacity and business model
Errors and Omissions	Dependent on capacity and business model
Building and Equipment	Dependent on capacity and business model
Licencing/Regulations	Dependent on capacity and business model
Raw Materials	$5,000
Professional Fees	$5,000
Legal	$1,500
Accounting	$1,500
Consulting	$0 - $1,500
Marketing Budget	$3,000
Total	$140,000

Listed from most to least popular, Table 4 illustrates the required funds for the top ten fast food franchises in Canada. Typically, within the fast-food industry the businesses with the lowest rate of failure, have the highest initial investment. This is the cost for guaranteeing a successful business and can be observed in Table 2.

Service fees are a staple within the industry and they fund royalties as well as corporate advertising. The franchise fee is an initial one-time payment made by the prospective owner. The total investment is the combined investment the owner must make for the required building, training, permits, inventory, and supplies, grand opening advertising, deposits, insurance, and more.

Table 3: The initial investment, service fee, and franchise fee associated with the top ten (10) fast-food chains in Canada

Fast Food Restaurant	Total Investment (approximate)	Service Fee (% of gross monthly sales)	Franchise Fee
McDonalds	$700,000	4.0%	$45,000
Tim Hortons	$500,000	6.0%	$35,000
Subway	$300,000	12.5%	$15,000
A&W Canada	$270,000 - $1,000,000	5.5%	$30,000
Pizza Pizza	$50,000 - $150,000	Unknown	$50,000
Dairy Queen	$1,000,000 – $1,900,000	9.0%	$45,000
KFC	$695,000 – $1,200,000	10.0%	$45,000
Dominoes	$120,000 - $461,450	8.0%	$25,000
Booster Juice	$300,000 - $350,000	6.0 – 10.0%	$30,000
Wendy's	$320,850 - $646,850	8.0%	$50,000

Operating Costs

In operating a restaurant, the costliest expenses are the salaries associated with staff, as well as the cost for raw materials. As shown in the table below, it is estimated that a fast-food restaurant will cost approximately $20,000/month without insurance and licencing fees considered. The final operating costs will depend heavily on the business model chosen by the entrepreneur.

In the following operating cost model, six (6) staff were used as a metric because of the staff generally needed to run a restaurant. There is a crew manager paid $18.00 per hour, three full time staff and two part time staff, both paid minimum wage of $15.00 per hour.

Table 4: Estimated monthly operating costs for a veterinarian clinic

Item	Cost
Rent/Lease/Mortgage	$2,500
Salaries/Benefits	$12677
Crew Manager x1	$2925
Fast Food Crew Member (Full Time) x3	$7314
Fast Food Crew Member (Part Time) x2	$2438
Raw Materials – Food and Packaging	$4,000
Utilities	$500
Cleaning Materials	$250
Equipment Maintenance and Upgrades	$250
Insurance	Dependent on capacity and business model
Ongoing Licencing and Fees	Dependent on capacity and business model
Total	$20,000

Income Statements

Below is an income statement showing the average cost of goods, and net profit within the fast-food industry. As can be seen in Table 6, restaurants run on a tight budget. They are most likely to be profitable under diligent management and planning, with a low cost of goods, and a reliable customer base.

Table 5: Income statements based off fast food industry average, presented in percentages of revenue

Revenue	***100%***
Cost of Goods Sold	***44.4%***
Wages and benefits	8.6%
Purchases, materials, and sub-contracts	35.8%
Opening inventory	0.8
Closing inventory	0.7%
Operating expenses	***52.8%***
Labour and commissions	23.4%
Amortization and depletion	2.9%
Repairs and Maintenance	2.0%
Utilities and telephone communication	2.8%
Rent	8.9%
Interest and bank charges	0.7%
Professional and Business Fees	1.4%
Advertising and Promotion	2.1%
Delivery, shipping and warehouse expenses	0.4%
Insurance	0.7%
Other Expenses	7.7%
Total Expenses	***97.2%***
Net Profit/Loss	***2.8%***

Critical Success Factors

The following section explores different factors that are critical to success and survival once the business is operational. The entrepreneur starting a business in this industry should pay close attention to the following.

Low Cost of Goods: In order to create a profit that will sustain the business, there needs to be a low cost of goods on the meals provided. Of course, doing this while providing a high-quality meal is a challenge, but it is one that must be met and overcome.

Exceptional customer service: Fast food restaurants can be made or broken based on their customer service. It is in the business's interest to hire individuals that will provide a powerful customer experience.

Creating community buy-in: Having a reliable, regular customer base is key in creating a sustainable restaurant business. Some strategies in doing this are special events, deals, and contributions from the business to the community.

Conclusion

As COVID-19 restrictions continue to lift, individuals are looking for activities to do and places to eat. In general, consumer spending will increase. This coupled with the fact that BREOC does not have traditional fast-food restaurants, provides a great opportunity for an entrepreneur looking to start a new venture. Break new ground and become a leader in the industry in the region.

Contact Us

The Battle River Economic Opportunity Committee is here to help. If you are interested in further exploring this or any business opportunity within the region, contact us today. There are tailored one-on-one business supports for business start-ups, buying/selling a business, growth and expansions of businesses. The first step is to contact your local Economic Development Officer using the information below.

Economic Development Department – Flagstaff County

(780) 384-4100

ecdev@flagstaff.ab.ca

Carol Thomson

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