Executive Summary

Joe's Enterprises for Fast Food, Inc. is a small food service company incorporated in 1997 in Illinois that specializes in providing high-quality fast food via company-owned portable carts in high-density urban office locations. The business is operated under the name *Joe's Redhots*. This plan recommends that the board of directors approve borrowing $1 million from three current banks to expand marketing and distribution of its current six-cart operation in downtown Chicago. Net profit return on investment in three years is estimated at 243 percent for the $1 million in funding, after pay back.

Joe's Redhots estimates 2000 sales to reach $3 million, with net earnings of $212,500 (7.1 percent of sales). Sales are expected to reach $12 million, with net earnings of $1,280,100 (10.7 percent), by the end of 2002. *Joe's* has six contracts and options for 24 more contracts with office buildings on Michigan Avenue and other locations in Chicago for indoor/outdoor year-around food service. These high-traffic locations generate an average of $300,000 in annual sales per cart (i.e., 1,000 sales per week @$6.00 average per sale). *Joe's* has grown to annual sales of $1.8 million in three years with net earnings of $128,900 (7.2 percent), from a single cart in 1995.

Sales Estimates (in $1,000's)

Year	**1999**	**2000**	**2001**	**2002**	**2003**
Sales	$1,800	$3,000	$6,000	$9,000	$12,000
Cost of Goods	540	900	1,800	2,700	3,600
Gross sales revenues	1,260	2,100	4,200	6,300	8,400
Overhead	860	1,428	2,643	3,844	5,034
Marketing	180	300	600	900	1,200
Earnings before interest and taxes	220	372	957	1,555	2,166
Taxes and interest	91	159	445	663	886
Net	**$129**	**$213**	**$512**	**$892**	**$1,280**

Business Positioning Strategy

Joe's Redhots sells premium-quality hot dogs and other ready-to-eat luncheon products to upscale business people in high-traffic urban locations. *Joe's Redhots* is positioned versus other luncheon street vendors as the "best place to have a quick lunch." Reasons why are that *Joe's Redhots* have the cleanest carts, the most hygienic servers, the purest, freshest, products, and the best values. Prices are at a slight premium to reflect this superior vending service. *Joe's Redhots* also is known for its fun and promotional personality, offering consumers something special every week for monetary savings and fun.

Each of the carts carries a sign saying **"Joe's Redhots—Satisfy yourself for $2.00! You deserve it!"** The message is targeted to all passing potential customers who want to indulge themselves inexpensively with a hot dog. There also may be a subliminal message for sinful or forbidden indulgence, too, since most hot dogs are high in fat and unsaturated fats. This unique selling proposition is self-targeting since only consumers who like hot dogs and feel that they deserve an inexpensive indulgence will believe this message is *meaningful* to them. The benefits of this message are relatively unique: "inexpensive satisfaction plus indulgence." Informal, qualitative research revealed that the target market of busy office workers are constantly in conflict with themselves about wanting a juicy, delicious hot dog and trying to watch the fats and amount of meat in their diets.

Moreover, the hot dogs that *Joe's Redhots* serves *aren't* high in fat. They are high quality, all natural products with no preservatives or harmful chemicals. *Joe's Redhots* vendors make it a point to let customers know that indulging themselves is both inexpensive *and* healthy. Although the signs emphasize hot dogs, each of *Joe's* carts offers an extensive menu of healthy and reasonably priced food.

Marketing Strategy

Joe's Redhots was created to attain leadership of mobile, cart serving-units in large urban business centers. *Joe's* targets upscale, urban office workers seeking fast, convenient, portable, breakfast and lunch meals. Each cart, which costs about $20,000, is capable of housing enough food to serve about 200 to 250 meals per day.

Joe's differentiates and positions its business from the competitive fast food and other take-out restaurants with its *products* (providing high-nutrition, 100 percent all-natural, no artificial ingredients, colors, additives or preservatives convenience foods and snacks), its *concern for the environment* (biodegradable, recyclable containers/wrappers and PR tie-ins), and its *service* (a no-questions-asked money-back guarantee of all products sold and the best-trained company server personnel in the category).

Joe's Redhots food products are priced at parity with, or at a slight premium over, competitive offerings, whether all-natural or not. Extensive promotional activity, including free samples and daily specials, help to ensure that *Joe's* customers perceive that they are receiving higher quality products and prompt, courteous service in exchange for the slight premium in price.

Joe's Redhots has been successful in establishing contract alliances with real estate management companies for permanent lease sites inside and outside key office buildings, and for cooperative sale of beverages and minor snack items through existing lobby shops. All existing leases permit storage of the vending cart at a secure site within the building in which it operates.

Customer loyalty is encouraged with development and promotion of new and revolving seasonal menu selections each quarter, daily customer sampling, and bonus specials. Training includes "friendly personality" recruiting, a minimum of six hours of company training, mentoring, and apprentice management programs.

Advertising and Promotion

To support its expansion efforts, *Joe's Redhots* considered using popular media, such as TV, radio, and newspapers to advertise, along with promotional free product samples and coupons. However, informal discussions with suppliers revealed that competitors in the downtown office area were spending little or no money to promote and advertise their cart luncheon business. It appears that the most successful hot dog cart operations spent about 5 percent of net sales revenue for promotion and advertising. Because this business plan anticipates rapid growth through the addition of new carts, *Joe's Redhots* plans to spend at least 10 percent of net sales during the first year.

Based on this decision, advertising and promotional possibilities were prioritized in order of probable effectiveness, with estimated costs:

Advertising	**Promotion**
TV ($500/30-second ad/station)	Free samples ($25/day @$0.25 each)
Radio ($50-100/60-second ad/station)	Coupons ($5/day @$.025 each)
Newspaper ads ($500/ad)	Frequent purchase book ($15/day)

Cart signage ($100)	Soft drink premiums (supplied by drink companies)
Flyers ($100 @$0.10 each)	

In performing the research into advertising and promotions, it was determined that any broadcast option involved additional production costs that were at least as much as the cost of running a single ad. In addition, at least four or five ads had to be run per station to be effective. Breakeven cost coverage would be exorbitant, with over a year's estimated sales needed just to pay for a small TV and radio campaign. And it would be difficult to advertise with available media just to the target group of office workers within a radius of six city blocks. All electronic and print media expenses were also well over the 10 percent budget limit.

Based on this analysis, *Joe's Redhots* decided to have each cart painted ($100) with a clever message, hand out 1,000 flyers ($100) over three months to offices, and do the soft drink premium program (collect can tabs for free gifts provided by local soft drink distributors). Beyond that, efforts would be made to get free PR coverage through local newspapers and downtown TV and radio stations by sending free samples to editorial staff before lunch. *Joe's Redhots* can afford to hand out flyers and samples all year long and stay within the 10 percent budget limit. If business is better than expected, the extra income will be used to accelerate the purchase of additional carts.

Promotions that will be undertaken to support the business expansion will consist of free samples of prepackaged breakfast and lunch items, bonus days (e.g., free salad days with meal purchase). Other marketing expenditures will be for items such as coupons and frequent buyer card promotions.

These activities will help establish *Joe's Redhots* as the only fast food operator in the greater Chicago area that gives out free samples continuously throughout the year, and provides a bonus day free side dish program. In the past, this program has been instrumental in growing the business and maintaining loyal customers despite lower price "value meal" promotions with other area fast food restaurants (e.g., McDonald's, Burger King, Kentucky Fried Chicken, White Hen Pantry, etc.).

Market and distribution situation

The company has a unique advantage in the food service market when compared to regular restaurants and other cart vendor operators. Indoor/outdoor location mobility, efficiency in size, significantly lower overhead, pre-packed portion control products, elimination of cooks or chefs, lower cost-of-goods, elimination of cooking and accompanying equipment and elimination of wait/bus staff provide an overall savings in basic cost of goods and services estimated at 50 percent when compared to ordinary restaurants offering similar pricing per meal.

Joe's Redhots is also protected from existing and new competitors via an aggressive space lease contract and option program in key high-traffic office buildings in Chicago. The company is also the only food cart operation with a company-owned mobile cold-storage vehicle to supply company carts as needed. The company is also exploring the possibility of starting its own canteen warehouse to prepare and supply food items, to further lower the cost of goods and expand new menu selections as new cart locations are achieved.

Product advantage

Joe's Redhots has the highest quality of product image for any cart vendor or fast-food operation in the Chicago area, evidenced by numerous media editorials, customer surveys, and the company's own competitive menu surveys of adjacent area competitive food service outlets. The company's products are 100 percent all-natural, with 30 percent of meal items and snacks qualifying as "low fat," at less than four grams fat per serving. Nutritional product information on all products is also available on request from consumers.

Joe's Redhots varies menu items weekly, with three "specials" per day at a discounted price. Seasonal menu variations include more soups, chili, stews, and hot drinks during winter months, and more salads and frozen/cold items (e.g., Italian ices) during summer months.

Joe's Redhots specializes in pre-packaged, all-natural breakfast and lunch sandwiches, salads, soups, and snacks. Low-fat mayonnaise, fresh vegetable toppings and fruits, low-sodium meats, fresh-baked whole-grain breads, and hand-made soups, stews and side dishes provide a unique menu selection for customers. All ingredients are made without artificial colors, additives, or preservatives, another source of product uniqueness when compared to the competition. *Joe's Redhots* co-ops sales of all-natural beverages from existing office tobacco/candy shops in each building, increasing sales for both businesses.

All *Joe's Redhots* employees and cart operators are screened for scholastic achievement (i.e., top 30 percent of students) and receive six hours of entry-level customer service training. Cart managers must have a minimum of one year of experience and training with the company.

Key personnel

Joe Hirasawa, company founder and president, graduated from the University of Wisconsin and has several years of food service experience as a chef and restaurant manager, in several of the Chicago area's top restaurants. His family owns a convenience food products company that sells primarily to distributors, and utilizes sales brokers. Joe grew up with work experience in almost every phase of the family business. He has traveled the world extensively, studying food service techniques and food nutrition as practiced by restaurants worldwide. He is fluent in Spanish and Italian, and is an active member of the Food Industry Advisory Board for the Pan-American Restaurant Association. In 1995, he was the recipient of the Entrepreneur-of-the-Year award from the Chicago Restaurant Owners Association.

Company valuation and return on investment (ROI)

Joe's Redhots is committed to increasing shareholder valuation by increasing sales and net profits, along with consideration of sale, merger, joint-ventures and possible issuance of stock in public markets at a future date. Company valuation is estimated conservatively at $7.7 million to $12.8 million (i.e., six to 10 times net earnings) in five years.

ROI for the original 1992 paid-in common stockholders (i.e., 1 million shares @$0.50 = $500,000, or 20 percent of outstanding company shares at the time of the original investment in Year 1) is estimated to be 300 percent to over 500 percent by 1999, based upon a six to ten times P/E ratio (e.g., 20 percent of $7.7—$12.8 million), and a conservative valuation for similar food companies. Dividend issuance is another means of increasing stockholder ROI that the company may consider as early as 1996.

Joe's Redhots 5-Year Forecast (in $1,000's)

YEAR	'99	%	'00	%	'01	%	'02	%	'03	%
SALES	$3,000	100	$6,000	100	$9,000	100	$12,000	100	$15,000	100
Cost of Goods	900	30	1800	30	2700	30	3600	30	4500	30
GROSS MARGIN	$2,100	70.0	$4,200	70.0	$6,300	70.0	$8,400	70.0	$10,500	70.0
OPERATING EXPENSES										
Ads/Promotion	300	10.0	600	10.0	900	10.0	1200	10.0	1500	10.0
R & D	15	0.5	15	0.3	23	0.3	30	0.3	37	0.3
Dues/Subscriptions	3	0.1	6	0.1	9	0.1	12	0.1	15	0.1
Freight	12	0.4	24	0.4	36	0.4	48	0.4	60	0.4

Insurance	30	1.0	39	0.7	45	0.5	60	0.5	75	0.5
Maintenance	3	0.1	6	0.1	9	0.1	12	0.1	15	0.1
Materials	150	5.0	300	5.0	450	5.0	600	5.0	750	5.0
Miscellaneous	60	2.0	78	1.3	85	1.0	90	0.8	105	0.7
Office Supplies	90	3.0	120	2.0	135	1.5	150	1.3	150	1.0
Outside Services	30	1.0	60	1.0	90	1.0	120	1.0	150	1.0
Accounting/Legal	30	1.0	45	0.8	67	0.8	72	0.6	75	0.5
Lease Equipment	45	1.5	90	1.5	135	1.5	180	1.5	225	1.5
Lease Facilities	45	1.5	90	1.5	135	1.5	180	1.5	225	1.5
Telephone	15	0.5	30	0.5	45	0.5	60	0.5	75	0.5
Travel/Entertainment	15	0.5	30	0.5	45	0.5	60	0.5	75	0.5
Utilities	15	0.5	30	0.5	45	0.5	60	0.5	75	0.5
Sales Commissions	150	5.0	300	5.0	450	5.0	600	5.0	750	5.0
Wages and Salaries	600	20.0	1200	20.0	1800	20.0	2400	20.0	3000	20.0
Total Expenses	$1,608	53.6	$3,063	51.1	$4,504	50.1	$5,934	49.5	$7,357	49.1
EBDIT*	$492	16.4	$1,137	19.0	$1,796	20.0	$2,466	20.6	$3,143	21.0
Depreciation	120	4.0	180	3.0	240	2.7	300	2.5	360	2.4
EBIT**	$372	12.4	$957	16.0	1,556	17.3	$2,166	18.1	$2,783	18.6
Interest Expense	45	1.5	67	1.1	90	1.0	113	0.9	135	0.9
Pretax Earnings	$327	10.9	$890	14.8	$1,466	16.3	$2,053	17.1	$2,648	17.7
Income Taxes	114	3.8	378	6.3	573	6.4	773	6.4	975	6.5
Net Income (Loss)	**$213**	**7.1**	**$512**	**8.5**	**$893**	**9.9**	**$1,280**	**10.7**	**$1,673**	**11.1**

*Earnings before depreciation, interest, and taxes
**Earnings before interest and taxes

Balance Sheet as of 6/30/99			
Assets		**Liabilities**	
Current assets		*Current liabilities*	
Cash	$5,000	Accounts payable	$11,650
Accounts receivable	0	Short-term notes payable	0
Inventory	10,400	Long-term notes	7,450

		payable	
Prepaid expenses	3,600	Current site leases payable	1,200
Temporary investments	0	Sales taxes payable	2500
Total current assets	**$19,000**	Employment taxes payable	2150
Long-term assets		Accrued payroll	4,400
real property	$185,000	**Total current liabilities**	**$29,350**
vehicles	38,000	*Long-term liabilities*	
vending carts	120,000	Vending cart loans	$32,000
food preparation equipment	24,350	Mobile storage vehicle loan	26,750
food storage equipment	13,500	Mortgage	144,700
furniture and equipment	7,400	**Total long-term liabilities**	**$203,450**
(less depreciation)	(32,875)	*Total liabilities*	**$232,800**
Total long-term assets	**$355,375**	*Owner's equity*	**$141,575**
Total assets	**$374,375**	***Total liabilities & owner's equity***	**$374,375**