

A Model Study for Establishing a Small Restaurant in Downtown Honolulu

An Analysis Prepared by

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for the

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(Condensed version)

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Introduction:

The primary purpose of this document is to provide the public with some understanding of how census data may be applied to business analyses for Hawaii. The detailed data, analyses and source references are important and should be studied. It is available in a separate document.

Description of proposed business, market, and products:

A local Japanese couple is interested in starting up a small diner. As sole proprietors, in order to capture both individual and group customers, they intend to establish a take-out restaurant with limited dining service. The reason is that research has shown parties (groups) rather than individuals go to restaurants. Individual customers generally purchase take-out items. The target customers are mainly workers, students, and non-family households around the neighborhood. The couple plans to hire three full-time workers, making the total number of employees five. The restaurant will offer fresh Japanese food, such as Udon and Donburi, and local plate lunches in a casual setting.

Location:

A favorable location greatly increases the chances of success for a new restaurant establishment. If the couple targets a lunchtime crowd, the downtown area is a prime location due to the large number of nearby office buildings. Around 45,905 daytime central downtown workers and 1,762 downtown residents, who either walk to work or work at home, form a strong customer base for the small diner. Additionally, convenient banking services, transportation and grocery stores are crucial factors for a successful restaurant operation. The diner has easy access to financial services and grocery supplies. The Honolulu mass transportation system is an asset in bringing in secondary customer targets.

Because downtown Honolulu is such an attractive place for restaurant businesses, the start-up restaurant faces severe market competition. Moreover, the restaurant's business hours will be limited to only 6am to 4pm due to the downtown after work hours.

Before starting a restaurant business plan in the central downtown district, the couple should consider the following statistics as of 2001:

1. a) Number of restaurants and food stores: 179 (Area: From Richards Street to Maunakea Street and from Beretania Street to Aloha Tower Drive)
b) Number of limited-service restaurant establishments: 60
2. Number of business (e.g. retail, finance, and service) establishments: 3,304
3. Number of schools and colleges: 10
4. Number of banks (including commercial and savings banks, and credit unions): 41
5. Number of grocery stores: 14
6. Number of bus routes passing through the downtown area: 33

Data required by the owners of the business:

1. Is there an opportunity for a Japanese diner to succeed?
2. How is the current competition faring?
3. What is the future prospect of the business?
4. What type of food will suit the neighborhood most? Japanese cuisine or others?
5. Can the neighborhood households afford to dine out frequently?
6. How accessible is the restaurant to the general downtown population?

To answer the above questions they need to know: current resident population, households and non-families statistics, and population growth estimates for the region. Household income figures, race characteristics, and the number of similar restaurant establishments are factors which may influence their investment decision. Also of concern to them are the annual sales and average annual payroll estimates of the current restaurants in downtown.

Data Findings:

The following analysis is based upon various types of census geography such as “places”, “census tracts” and “zip code areas”. The reason for these differences is that various data sources offer only certain types of geography.

According to the North American Industry Classification System (NAICS) that is used by the Census Bureau, the food service industry belongs to section 72 and the code for limited-service restaurants is 722211. In these restaurants, patrons can either purchase take-out items or consume their food inside the restaurants. The restaurants may also provide both alcoholic and non-alcoholic beverages.

Over 3,500 workers engage in management and other professional occupations. Other than that, around 2,750 workers are either working for sales business or in offices. The remaining workers have their occupations in service industry as well as a few of them work for production, transportation and so on.

1. An opportunity for a Japanese diner & its future prospect

From analyzing the census data, between 1990 and 2000, a constant growth of resident population (by 1.88%) and non-family households (by 16.32%) occurred in the downtown area. There was a 0.54% drop in family households. The focus of this analysis should be non-family households because they usually do not cook at home. A rising trend of non-family households is steadier than that of resident population. This trend reveals that the start-up restaurant should have a steady source of customers in the short run; also, further growth of the resident population and non-family households is expected. Additionally, based on Census 2000 social characteristics data, it shows that 32.5% of downtown residents are single; also, residents who are widowed, divorced and separated make up around 23.3% of the total downtown resident population. These types of residents, altogether account for over 50% of the total downtown resident population, are the potential frequent-diners, because single individuals seldom stay

home for dinner. Hence, an opportunity for the restaurant to succeed and its future prospect are optimistic.

However, the current restaurants serving other ethnic tastes may lower the prospect of the new restaurant. Although the exact number of Japanese restaurants was not known out of those 153 other-ethnic restaurants in Honolulu, it is logical to believe the new restaurant will hardly fill the gap in serving Japanese cuisine; meanwhile, it will compete with restaurants serving a variety of flavors, such as Chinese, Korean, Italian, and Mexican.

2. Current market competition

In the last four years, the smallest employment-size restaurants (1 to 4 employees) were a strong competitive force in the industry of limited-service restaurants. Furthermore, with 60 such establishments in average for four years, downtown limited-service restaurant were the most numerous. Contrary, similar size diners (5 to 9 employees) were not competitive as the smallest ones, and the four-year average number of establishments was just about 26. The largest size restaurants (10 to 19 employees) did not rival to the 5 to 9 employee-size restaurants. To conclude, it is foreseeable that the new restaurant will operate in a tough business environment, especially competing with the smallest size restaurants.

3. Household income levels

Income distribution among all the household categories was more or less even. In the downtown area, households had annual incomes between \$25,000 and \$74,999. It is reasonable to believe that the neighborhood households can afford to have lunch at the small restaurant weekly.

4. Sales and payroll

The annual sales of limited-service restaurants regardless of size in 1997 were \$285,542,000 or 10.97% of the total sales of a whole industry. The annual payroll of all limited-service restaurants was \$71,057,000. In other words, the average annual payroll for each employee was around \$10,497.41. There is, however, a lack of detailed sales and payroll information specifically for three employee-size restaurants.

5. Taste for the neighborhood

Asians were the largest composition of ethnicity in the downtown area. The Chinese, Filipino, and Japanese made up most of the Asian population. Their taste preferences may be somewhat similar to each other and tend to select oriental foods as their daily meals. Hence, Japanese food may suit most of the Orientals and other peoples who are interested in new foods.

Summary:

The projected population growth, especially non-family households, high-income level, and favorable composition of race show that the downtown area is a suitable place for establishing a restaurant business. The owners can find other advantages to situate their business in downtown, such as sufficient source of daytime customers, comprehensive transportation system, as well as convenient financial services and grocery supplies. However, to a certain

extent, strong rivalries and a saturated food service market adversely affect the survival of the newly founded restaurant.

Conclusion:

The owners should feel confident in opening the small Japanese diner after viewing both academic and empirical findings of the emerging young people market and other favorable conditions. As long as, the restaurant builds a reputation for good customer service and high quality of food, it will succeed in the downtown area.