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Eat Natural Business Plan

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Business Plan

Executive Summary

Eat Natural is a new quick service restaurant chain that will offer healthy, fresh, and ethically produced food to its customers. Restaurants will offer self-service food that is ready to eat. Customers will pick up the food and they will proceed to the checkout, making the process smooth and fast.

The Spanish restaurant sector is expected to grow at 3% over the next years, with quick service restaurants growing even faster. Barriers to entry are low as it is the required initial investment. The profitability of the restaurant business is in average high, and many big firms invest in restaurants to diversify its activities.

We target two customer segments that are growing fast and where our value added is bigger: health aware people and green and socially conscious customers. We will focus in the quality of the and in customer retention, as we cannot compete with the marketing budget of big restaurant chains.

Not all restaurants will require a kitchen, reducing average square meter of the locals, equipment needs, and staff needs as most of the food served will not require manipulation. Self-service food will be prepared in restaurants with kitchens, owned by the company, and delivered to our franchisee's outlets. One restaurant with kitchen will be able to serve prepared food to two extra outlets. Preparing food in few kitchens will also allow us to reach some economies of scale reducing and staff needs and improving our productivity.

This system will allow us to grow faster through franchisees. The investment needed to open a new outlet and the staff required will be much lower. We estimated the cost of opening a new outlet to be only €90,000. Its operations could be carried out by just 4 people, which make it a perfect investment for a family or a couple of friends. Expertise is not required as most of the products will arrive ready to eat, and the manipulation process will be really easy and training will be delivered. Procurement will be done through the mother company

and we will deliver the food to the outlets simplifying the process for our franchisees. We will also be in charge of the marketing like any other chain.

We will have 3 main sources of revenue. At the beginning the only source will be the sale of food and drinks in our restaurants. Once we start having franchisees we will have two new revenue streams, one coming from the franchisee fee over sales and the other coming from the sale of the prepared food to our franchisees' outlets.

Under our average scenario we expect the company to have by 2019: 4 restaurants with kitchen, one outlet without kitchen, and 6 franchisee's outlets. The revenue in 2019 is expected to be €3.9 millions with a net profit slightly above €400,000.

The internal rate of return of the venture is 41%, well above the WACC of 32%. The venture has a Present Value of €792,350. We need €400,000 to start the business, €100,000 will come from the entrepreneurs and we need €300,000 from external investors. For the amount of €300,000 the investors will receive convertible preferred shares accounting for 30% of the business.

1. Business Idea

Eat Natural is a new quick service restaurant chain that will offer healthy, fresh, and ethically produced food to its customers.

Restaurants will offer self-service food that is ready to eat. Customers will pick up the food from the shelves and they will proceed to the checkout. Examples of products that will be available on self-service shelves are: salads, pasta salads, sandwiches and desserts (patisserie, pieces of cake, muffins, cupcakes, etc.). Some restaurants equipped with grill will also offer organic hamburgers for our customers. Customers will order the hamburger at the checkout and they will receive an “advisor” that will indicate them when the hamburger is ready to be picked at the checkout. Regarding our drinks, in addition to the standard sodas that every chain offers, we will offer: coffees, beer, homemade lemonades, juices and smoothies. Customer will also have the option of buying our products through our web site or our phone app; the food will be delivered at the customer’s home or office, increasing the convenience of our service.

Our goal is to offer tasteful and at the same time healthy food to our customers, differentiating ourselves from standard fast food chains that do not usually offer healthy choices. Much effort will be put in selecting and working with our suppliers, so we can have first quality ingredients and we can assure that everything is done accordingly to our code of ethics: farmers are fairly treated, animals are ethically raised, and the environment is respected. This will be a great value added for the segments we are targeting.

We will focus our marketing in two particular segments where our value added is bigger: people that is health aware and green and socially conscious customers. These two segments are growing fast in the Spanish market and they are already big, however their needs are still not clearly addressed by any of the big restaurant chains. In general any current fast food customer might also be our customer, anyone with little time to eat, however due to restriction in the marketing budget our focus will be put on the two segments we mentioned at the beginning as our value added for them is bigger.

Our marketing budget will be low when compared with other chains. We will need to focus in low budget marketing and offer a great value to our customers to increase customer retention and mouth-to-mouth customer acquisition. Our service and outlets will be cautiously designed to exceed our target customers' expectations. The experience has to be perfect so these customers will come back and they will recommend our chain to acquaintances, which is very important because recommendation of a friend or acquaintance is the main reason to try a new restaurant.

We will start with one restaurant, with its own kitchen, that will offer all the products mentioned above. Patisserie production will be outsourced, as this activity requires employees with more training and extra equipment. Also baking at the restaurant would require our employees to come early in the morning so everything is ready for breakfast, increasing our staff requirements. Self-service food will be prepared in the kitchen during the morning and put on the shelves for lunch. Some self-service food might be acquired ready to be put on the shelves, especially at the beginning, if suppliers are able to do so, reducing staff needs. Hamburgers and homemade drinks will be mostly prepared when the customer orders them at check out. Some drinks as lemonade will be ready to be served, other like coffee and smoothies requires little time to be prepared, however hamburgers might require some more time, especially at off peak hours, therefore customers will receive and advisor as we mentioned before.

Most future restaurants will not require a kitchen, reducing average square meter of the locals and equipment needs, and therefore rents and equipment leases or initial investments. It will also reduce staff needs, as most of the food served will not require manipulation. Self-service food will be prepared in restaurants with kitchens, owned by the company, and delivered before lunch to restaurants without kitchens to be put on the shelves. These restaurants will require coffee machine, blender and juice maker to prepare drinks, and the might or might not include a grill to cook hamburgers depending on the local characteristics and the popularity of these in the future. We have estimated that a restaurant with an average kitchen will be able to serve prepared food up to 2 restaurants without kitchen.

There are several reasons why we believe this approach will help us to reach better levels of profitability. Preparing food in few kitchens will allow us to reach some economies of scale reducing staff needs and improving productivity. Some of the food we prepare like salads and pasta salad can be highly automatized but it does not make sense to buy the required equipment for every small restaurant. Sandwiches are more difficult to automatize however a bigger scale production can deliver better productivity through better equipment and better division of tasks. Also automatic packaging machines will increase the productivity and will improve the conservation of the food, however it does not make sense to acquire these for small restaurants. Another reason is that this approach will assure a standard product among all the outlet of the chains, one of the biggest concerns of any restaurant chains. The mother company will own the kitchens; franchisees will receive the exact same food than any other restaurants, solving the standard product problem. Home made drinks and hamburgers will need to be monitored to assure a standard quality, however the ingredients will be bought to us; assuring that our recipes are clear and that processes and cooking instructions are followed, the quality should be the same for these products as well.

We also believe this system will allow us to grow faster. This model will reduce the investment needed to open a new outlet and the staff required for its operations, which not only makes easier organic growth but also makes the business really interesting for prospective franchisees. The unemployment in Spain is sky high at 25% and people is looking for opportunities to open its own business and get out of unemployment, however they lack the capital and the expertise. Our outlets will require a really low initial investment when compared whit other restaurants, most of them below € 100,000, and its operations could be carried out by just 4 people, which make it a perfect investment for a family or a couple of friends. Expertise is not required as most of the products will arrive ready to eat, and for the rest the manipulation process will be really easy and training will be delivered. Procurement will be done through the mother company and we will deliver the food to its outlet simplifying the process for our franchisees. We will also be in charge of the marketing like any other chain. For these reason we believe this is a very attractive opportunity for prospective franchisees that will allow us to grow faster.

2. Entrepreneurial team

The initial team will be composed of three complementary persons that will cover the different needs of the new venture.

Alberto is an Economics graduate from the University of Zaragoza in Spain, he is currently finishing the double degree master program in Finance and Business Administration between Nova School of Business and Economics and Louvain School of Management. He has experience in running coffee shops; as a free lance he was in charge of the management of a bar during the months of July and August from the year 2005 to 2009. Alberto will be the CEO¹ of Eat Natural and he will be in charge of all administrative issues (licenses, taxes, bookkeeping, etc.) the financial side of the company (bank and investor relationships, treasury, financial control, etc.). He will also be in charge of the marketing and the expansion of the firm (looking for franchisees, strategic plans, etc.).

Maite is a graduate in Arts by the University of Bilbao; he is currently finishing its degree in History at UNED (“Universidad Nacional de Educación a Distancia”). Maite has wide experience in the hospitality industry. She worked more that two years in the management of its family owned hotel in Spain. Now she is living in London where she has worked as a headwaiter for different restaurants and as a housekeeper coordinator in a hotel. She will be Eat Natural’s COO². She will be in charge of the daily operations and logistics of the company, from the purchase of ingredients to the delivery of food to our franchisees. She will also be the restaurant manager for the first restaurants of the company, organizing employees, cleaning and food delivery to customers.

Our chef has more than ten years of experience and media presence in the country. He has TV and radio presence in the country. He was finalist in the contest Chef of the year 2012 in Spain, and semifinalist in the TV-show Top Chef 2013 (aired from September 2013 to

¹ CEO = Chief Executive Officer

² COO= Chief Operating Officer

December 2013). He has worked as a chef and as a head of chefs for several restaurants, including one restaurant awarded with a Michelin star. He also teaches cooking lessons and is gastronomic advisor for several restaurants. He will be in charge of designing our menu and advising us about ingredients, processes, etc. There is not doubt that his experience and advise will be a priceless asset for Eat Natural and he will be able to put together a menu that will delight our customers.

We strongly believe that the team has the experience and the knowledge required to succeed in the market. Now we proceed with the market analysis to bring some light on the market in which Eat Natural will develop its activities.

3. Market analysis

In this section we try to better understand the market in which Eat Natural will develop its activities. We have divided the market analysis in 8 sections and we attempt to cover every stakeholder that will surround the company in its activity (customers, suppliers, competitors, public administration, interest groups, etc.).

In Section I we try to get a general overview of the market, analyzing current size and future trends of the restaurant sector in Spain, focusing in quick service restaurant and fast food, which we believe is the category that better suits the new venture.

Section II is dedicated to the customer. We attempt to find out the average customer preferences, habits and reasons to choose one restaurant over another.

In Section III we briefly describe the competition in the restaurant market. We will individually see the biggest players in the Spanish market and we will try to describe its business in the country.

Section IV is dedicated to the suppliers of the market. We try to better understand how the supply chain works in the Spanish restaurant market; get an overview of prices, barriers, supplier power, etc.

Section V is dedicated to other stakeholders that might affect or be affected by the new venture's activities. This include: the Estate, city councils and other public and regulatory bodies; animal rights groups that might be concerned about the way animals are raised; health groups concerned about health issues of the restaurant's food, etc.

We wrap up in Sections VI, VII by conducting a Porter's Five Forces and a PESTLE analysis on the industry to better assess the opportunity.

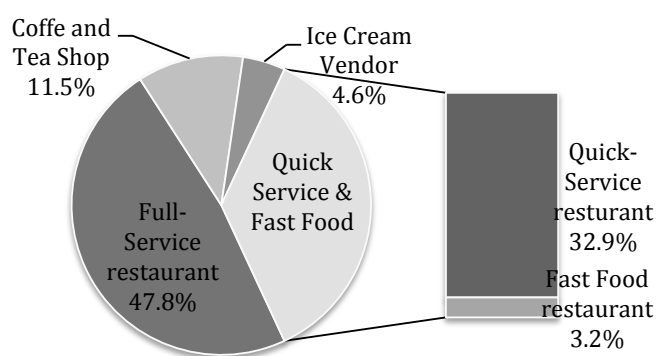
In section VIII we give our opinion about the opportunity and the future of the segment, explaining the reasons why we believe the Spanish restaurant market is a good place to start a new business.

I. Restaurant market overview

The total revenue of the Spanish restaurant industry was €37.7bn in 2013 according to Marketline (2014), and it employed almost a million people (956,800 workers). With these numbers the Spanish restaurant sector accounts for 10.8% of the total European restaurant industry, only behind UK (19.1%) and France (15%). According to Canadean report (2012), the restaurant channel is the second largest contributor to the foodservice industry revenues, with a share of 37.1% in 2011; this is higher than any other country in Europe.

We can divide the restaurant sector in four main categories: full-service restaurants; quick-service and fast food restaurants; coffee and teashops; and ice cream vendors. The two main categories, according to the Canadean report are the full-service restaurants, with a 47.8% of the total restaurant share, and quick-

Graph 3.1. Sales by Sub-Channel 2013 (% Sales)



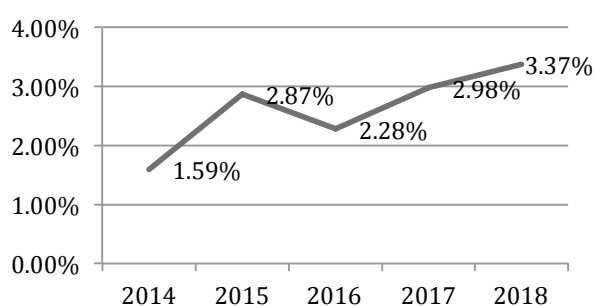
Sources: Canadean (2012) & MarketLine (2014)

service/fast food restaurants, with a 36.1% share. It is good to point out that Canadean uses the wide definition of fast food and quick service restaurants, including all restaurant that do not offer full service in table, therefore they include here business like “tapas bars” or self-service restaurants (e.g. EXKI). If we split quick service restaurant and fast food restaurant categories, the share of fast food restaurants, such as McDonalds or Telepizza, goes down to only 3.2% according to Marketline, this is a really low number when compared with other European countries. Splitting the categories fast food and quick service will leave quick-service restaurants (e.g. tapas bar) with a share of around 32.9% of the restaurant market. In our opinion Eat Natural should be allocated in this category, quick-service restaurants.

Market Growth

The restaurant sector in Spain is expected to grow at an average rate of 2.24% over the period 2014-2016 according to a Marketline report conducted in 2014, while Canadean estimated the annual growth at 1.46% in its report conducted during 2012. For the years 2017 and 2018 we only have data from Marketline that estimated growth rates of 3.0% and 3.3%. However there are huge differences in trends among the different categories within the restaurant industry, the quick service and fast food category is expected to growth

Graph 3.2. Restaurant Sector Sales Growth



Source: MarketLine (2014)

annually at a rate of 3.9% (2014-2016), according to Canadean, while the other three categories are expected not to change significantly. Due to this difference the quick service and fast food category is expected to grow from a share of 34.3% of the restaurant market in 2011 to a share of 38.8% in 2016.

We see that the restaurant market is a promising sector in the Spanish economy, expected to grow above the Spanish GDP growth during the next five years. Quick-service restaurants are gaining share in a growing restaurant market, which makes this category really interesting for investors and entrepreneurs. We explain two main trends that explain this growth in quick-service restaurants.

The first trend is the economic crisis that has brought a rise in the unemployment and a reduction in the salaries; this constrains the customer's budget and makes them prefer quick service and fast food restaurants to full service restaurants due to its lower cost. The average transaction price of a full-service restaurant was €17.8 in 2011 while in a quick-service restaurant it was only €6.3. This trend is expected to continue in the following years as the country is leaving the crisis behind mainly by increasing its exports at the same time it tries to reduce its public deficit; this will demand moderation of salaries in both public and private sector which will benefit low cost restaurants over the traditional full service model.

The impressive success of “100 Montaditos” (Restalia) by offering small “bocadillos” (sandwiches in baguette bread) for €1 is an example of the low cost trend in the market.

The second trend is the adaptation of the Spanish labor market to the European working hours. This is a process that has been going on for more than a decade. Traditionally office and retail workers had 2-3 hours break for lunch and afterwards they stayed until late in the office. With companies becoming more internationalized this system is difficult to sustain as it makes more difficult to work with neighbor countries. Companies have been changing that for years but the process is still on. This implies a reduction in the lunch break to 30 minutes or 1 hour, which leads workers to look for a faster alternative to full service restaurant, benefiting quick-service restaurants.

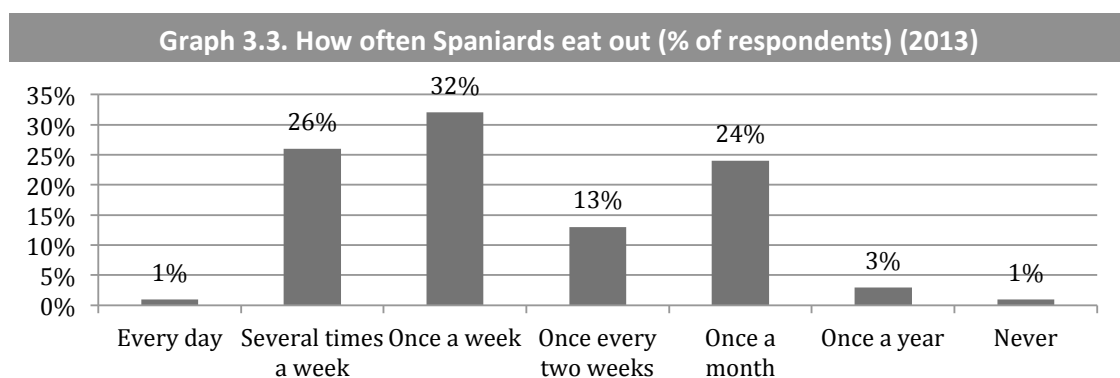
II. Customer overview

As we have seen in the previous section Spanish people like to eat out, the share of restaurants sales in the foodservice industry is higher than in any other European country. According to the INE survey “Household Budget Continuous Survey” (2012), the average household spent €2,296 in foods and beverages away from home during 2012, which means 8.16% of the average household budget and an average expenditure per person of €897.

Quick-Service restaurant is probably the most interesting area to invest due to its fast growth. In 2011 as many as 2.3 billion transactions were done in quick-service and fast food restaurants, which means almost 50 transactions per Spaniard¹, and this number is expected to continue raising. According to Feebbo survey (2013), 59% of Spaniards eat out at least once a week and 96% do it at least once a month, which gives a feeling of the potential market that we are targeting.

¹ Based on a population of 46.8 million (Census 2011)

To understand better the opinion and habits of the average Spaniard on quick service and fast food restaurants we have mainly consulted a survey done by Feebbo on the 19th of December 2013¹ and market research done by the Ministry of Agriculture and Alimentation (2008a).



Source: Feebbo (2013)

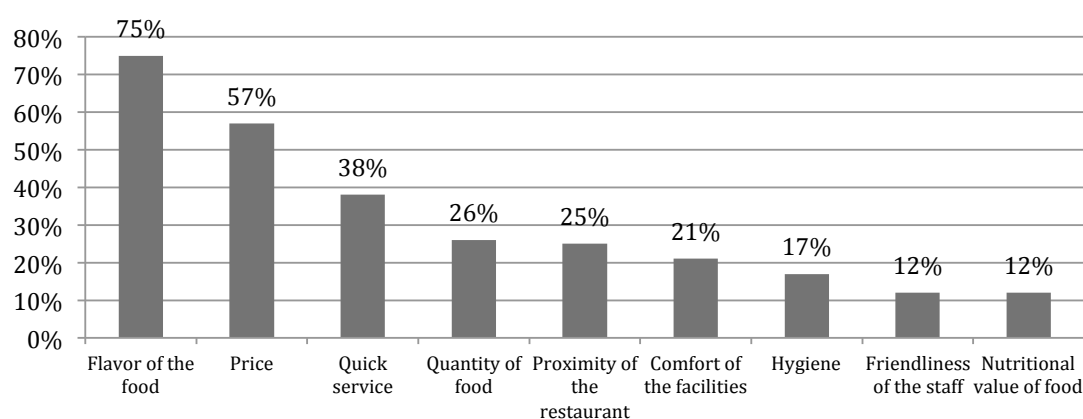
In Feebbo survey 39% of respondent said that they eat in fast food restaurants at least once a week and 91% do it at least once a month. It is good to remark that 63% of respondent usually go to fast food restaurant for dinner, while only 29% do it for lunch.

McDonalds and Burger King are the two clear preferred restaurant chains, with 32% and 25% of the respondents pointing them as their favorites in 2013. However the brand loyalty is not high, only 23% said that they go most of the times to its favorite chain, while 49% said they like to eat in different places even if they have a favorite chain, and 26% said that they do not have a preferred chain. In the market research done by the Ministry of Agriculture and Alimentation (2008a), 57% of respondents declared they would prefer to try a new restaurant if they have to choose between remaining loyal to the restaurants they already know or try new ones. Also according to this research, the main reason to go to a new restaurant is the recommendation or opinion of a friend or acquaintance, with 65,3% of respondents answering that, followed by proximity to home or work with 10.9% and price with 9.5%.

¹ The interviewer affirms to have used a stratified random sampling for the survey with a sample of 500 individuals, which for a large population leads to a margin of error of approx. 4.38% for a 95% confidence level, an acceptable level for our purpose. ($\text{Margin of error at 95\% confidence} = 0.98/\sqrt{\text{sample}}$)

It is worth noticing that McDonalds and Burger King are the only two “burger restaurant” in the preferred top ten fast food brands, however 47% of the Feebbo interviewed said that hamburgers are its favorite fast food, followed by pizza with 25%. This passion for hamburgers, the expected growth of the market and the low brand loyalty of the Spanish customer open an opportunity for new restaurants enter in the segment, on the other hand the high concentration with just two big players can increase the risks for a new entrant as the current players will try to defend its market share.

Graph 3.4. Reasons to choose a favorite restaurant (% of respondents indicated) (2013)



Source: Feebbo (2013)

The reasons to choose a restaurant as favorite are different (respondent were able to chose multiple reasons), the most important ones are: the flavor of the food (75%), the price (57%) and the quick service (38%). Other important factors are: the quantity of food (26%), the proximity of the restaurant (25%), the comfort of the facility (21%) and the hygiene (17%). Therefore these are the most important factors to take into account for the new venture. A factor that is not mentioned in the previous list is the health issue, however when people where asked if fast food affects its health, 73% answered that they are certain or they believe that fast food can affect its health. In our opinion offering a healthier product than the ones now in the market could increase sales, taking into account health is a real concern for almost three out of every four customers.

Offering new products is very important for 45% of customers while other 45% consider that this is somehow important, and 10% answered that this is not important at all. Of the

respondents, 77% said that they rarely or never ask for dessert in a fast food restaurant while 16% do it always or almost always.

The qualitative study on the selection criteria of the average Spanish customer, included in the market research done by the Ministry of Agriculture and Alimentation (2008a), is also a helpful source of information to better understand the customer. In this survey the authors have enumerated different restaurant selection criteria to understand its importance for the customers. The results are divided between weekdays and weekend because the importance of these factors vary depending on the situation. Results are presented in the table below.

Table 3.1. Most valued aspects when eating out		
Selection Criteria	Weekdays	Weekend
Quality of the food	Demand a "minimum"	Demand higher quality
Price	Looking for reasonable prices for lunch. Willing to spend more for dinner	Customer willing to accept higher prices
Price/quality relationship	Looking for a good relationship price/quality	Customer accept higher prices but expect an equilibrium price/quality
Hygiene	Basic hygiene measures to repeat	Key aspect
Quick service	Essential not to lose time, especially at lunch	Less important, customer has more time and ask for more elaborated dishes
Service / Friendliness of the staff	Demand an adequate "minimum" for the kind of restaurant	Key aspect, good service is demanded
Ambiance	Valued but not decisive	Very important
Originality	Not really important	Important for breaking the routine

Source: Ministerio de Agricultura (2008a), Observatorio del consumo y la distribución alimentaria

Regarding payment method, according to the Ministry of Agriculture and Alimentation (2008a), only 5.3% of customers use credit/debit card while 94.7% use cash in fast food restaurants, and only 17.6% leave a tip. If we consider other restaurant chains (no fast food) the percentages change, 33.1% pay by credit card while 66.3% pay in cash, in this kind of establishments 63.9% of customers leave a tip.

III. Competitors

With the exception of a small number of big multinational chains, the restaurant market in Spain is highly fragmented with a large amount of small and medium businesses. According to the INE (2013b), in 2013 there were 64,520 restaurant businesses¹ in the country; 20% of them had no employees, only owners worked in the restaurant, 72% had between 1 and 9 employees, and only 9 companies had more than 1,000 employees. We see the fragmentation of the market with 92% of restaurant companies having less than 10 employees, and 99.4% having less than 50 employees.

Regarding the legal form of the companies in the restaurant business, 42.9% were physical persons, approximately the same percentage (43%) were limited liability companies (“Sociedades de Responsabilidad Limitada”), and only 1.77% were public limited companies (“Sociedades Anónimas”).

According to the FEHR (2012), in 2012 there were 5.6 million places available in the country, leading to an average capacity per restaurant of 62 customers.

The restaurant in Spain is growing rapidly, especially quick service restaurants, this has reduced the competitive pressure present during the beginning of the crisis. In the fast food area the market is more concentrated; mayor brands such as McDonalds and Burger King can afford expensive marketing campaigns to protect its market share. If we move to quick service (no fast food) and full service restaurants the market is highly fragmented and overall the product is not differentiated, therefore the competitive pressure is high. Some restaurant are becoming more specialized in order to reduce the competitive pressure, however a change in consumer eating habits is a greater threat in this kind of restaurants.

¹ According to CNAE 2009 classification that includes under the denomination 561 restaurant and food stand businesses.

McDonalds

McDonalds has the biggest share in foodservice among all the chains, it accounts for 19.1% of the chained consumer foodservice sales, and it has 452 outlets in the country. It offers hamburgers, salads, breakfast and desserts. It focus especially in the low cost customer, the marketing includes campaigns such as the campaign 1x1 where the company shows all products that it offers for €1. Historically the Spanish public opinion has had concerns about the origin and hygiene of the meat served at McDonalds. Recently the company started emphasizing the Spanish origin of the meat served and obtained the label “Q de Calidad”, a quality label for tourism related companies that certified that the company only serves quality products, follows strict hygiene and food security measures, offers good customer service, it is involved in the sustainability of its operations, and it is a good employer.

Burger King

Burger King is the second player by sales with 10.8% of the chained consumer foodservice sales and 546 outlets in Spain. The products in the menu are comparable to the ones in McDonalds’ menu. The company also focuses in the low cost customer with regular campaigns targeting the segment. The EuroKing Campaign is similar to McDonalds’ 1x1 campaign, showing all products they offer at €1. The main difference in marketing is that Burger King focuses more on the flavor of its food with no mention to the origin or issues related to hygiene, food security or sustainability.

Telepizza

Telepizza has the largest number of outlets, a total of 636, however is only third by sales with a share of 10.1% of the chained consumer foodservice. The company concentrates its menu on pizza, this have created problems for the company lately as customers have been changing to frozen or refrigerated pizzas to save money. This problem led the company to start including hamburgers, pasta and salads in its menu. The company’s strength is in its delivery/take away segment where it has a big market share (75.7% of the chained pizza delivery/take away).

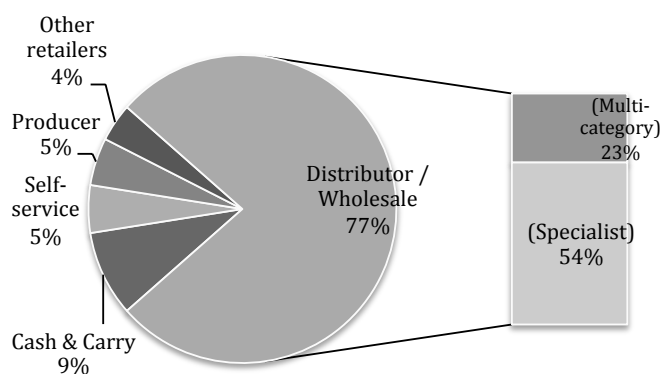
Agrolimen SA (Pans & Company)

As a company Agrolimen gets a share of 5.6% of the chained consumer foodservice sales, 3.2% coming from Pans & Company, its most successful brand. Pans & Company has 181 outlets in the country. Pans & Company main products are “bocadillos” (sandwich in baguette bread).

IV. Suppliers

Restaurant suppliers are highly fragmented and restaurants usually work with several suppliers. According to the Ministry of Agriculture 2013 report, in average an independent restaurant works with 9.5 different suppliers, for big chains this numbers goes up to 200 suppliers, though in these cases the orders are done are delivered through logistics operators. The average manager of an independent restaurant spend and average of 4h 38’ a week in procurement related activities. The time spent explains why some suppliers have seen an opportunity in reducing its specialization and offering a more complete service for its customers, this save restaurant managers’ time and allows the supplier to increase the profitability of the customer.

Graph 3.5. Restaurant expenditure by kind of supplier



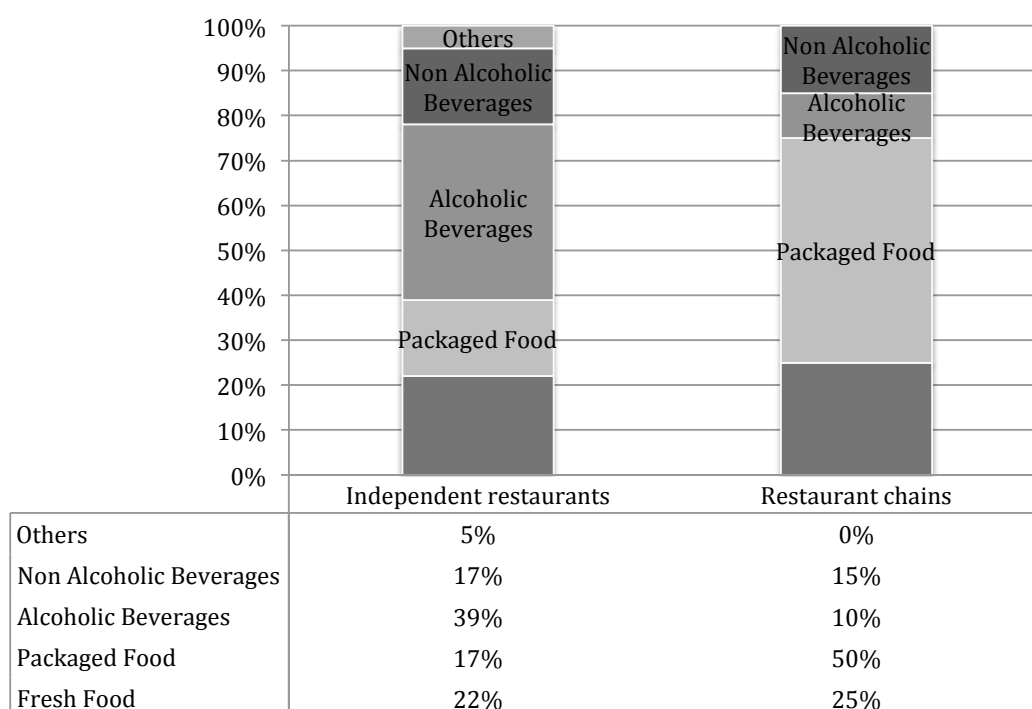
As we see in the graph 3.5, most of purchases (77%) are

Source: Ministerio de Agricultura (2013)

done through distributors and wholesale operators. These are convenient for restaurant managers as they are the ones visiting the restaurant to take the command, usually during the morning when the restaurant is less busy; they also take care of delivering the product in the restaurant. A growing trend is the multi-category distributor; they supply more than one

category of products saving time to the restaurant managers. Cash & Carry is also growing, with a current share of 9%, however this system requires going to the store. The main player in this segment is Makro with 37 stores in Spain. In the future another concurrent in this category will be the American company CostCo. CostCo have opened its first store in Seville and is planning to open stores in every mayor city of the country.

Graph 3.6. Restaurant expenditure by kind of input (2013)



Source: Ministerio de Agricultura (2013)

Regarding the kind of input restaurants purchase, it is important to differentiate between independent restaurants and restaurant chains. The details can be found in graph 3.6 above. We see that there are huge differences between both kind of restaurants regarding the expenditure in inputs, the reason is that different organization structures are usually a consequence of a different business model; almost all full service restaurants are independent restaurants while restaurant chains are predominantly quick service and fast food restaurants. We see that for independent restaurants the main inputs are alcoholic beverages (39%) and fresh food (22%). In full service restaurant customers have usually more time and they may be trying to break its daily routine, it is for that reason that

customers demand more alcoholic beverages and high quality food. On the other side the main input for chains is packaged food (50%). This kind of food easier to cook and handle by unskilled labor, which reduces the training needs and helps to assure a standard product in every outlet of the chain, one of the main concerns for restaurant chains. Packaged food has a longer life, which helps to reduce waste and assures that the product arrives in perfect condition to every outlet in the national geography. Moreover customers of quick service restaurants are concern by time, packaged food is faster to process and this reduces the waiting time.

V. Other stakeholders

Public administrations

The Spanish political and legal system is a complex one. There are five layers of public administration: European Union, central government, regions (“Comunidades Autónomas”), provinces (“provincias”) and city councils (“ayuntamientos”).

Legislation

Legal forms of corporations and other general framework for business activities, such as labor law, is usually determined by the central government. EU legislation is also very important, especially in food related issues. Regions have exclusive competences on tourism legislation. Collective Labor Bargaining (“Convenios Colectivos”) is usually signed at provincial level. Opening license, modification and works in the local, patio licenses, etc., are usually handled by city councils.

Taxes

Corporate Tax (“Impuesto de Sociedades”) and VAT (“IVA”) are determined and handled by the central administration; except in two regions (Navarre & Basque Country) where they are handle, but not determined by the regions. Social Security charges are competence of the central government alone. The Income tax for physical persons (“IRPF”) is determined by

the central government, however regions can modify the rate within a band (“franja autonómica”). Regions sometimes impose environmental taxes for some activities, and they can also modify special taxes (alcohol, tobacco, fuel, etc.). City councils have two more taxes: tax on economic activities (“Impuesto de Actividades Económicas”) that charges carrying out business activities; and a Real Estate tax (“Impuesto de Bienes Inmuebles”) that charges the ownership of Real Estate.

The system is complex however there is a good network of companies legally advising and filling tax returns for small companies at a reasonable price.

Animal Rights Groups

During the last years concerns on how animals are raised and killed have been increasing. Animal rights groups are increasing the pressure to set regulations and trying to raise awareness in customers about this issue. This pressure is expected to continue increasing in the future.

Customers are expected to start demanding more information on how animals were raised, and at some point in time more EU regulations might come into place. An example of these regulations is the egg industry, where the EU has imposed a number code from 0 to 3 indicating the way the animals were kept and raised, and banning battery cages as egg production method.

Pressure on health issues

The Spanish National Health Survey (INE, 2011-2012) indicates that 17% of adults in Spain are obese and other 36.7% have overweight problems. In average the country is slowly changing from a Mediterranean diet to one based in fast food and carbonated drinks. Young people is usually not able to cook traditional dishes or do not have the time; this will make the overweight problem worse in the future. However Spaniards are becoming increasingly worried about its diet, therefore in the future it is expected more regulation. Possible regulations expected: disclosure of more nutritional information in the menu; limits of publicity for food with high fat and added sugar contents, in line with the limits already in

place to advertise “king size” menus; and less probable but possible, taxes over added sugars and saturated fats in food, in line with the Denmark “fat tax”.

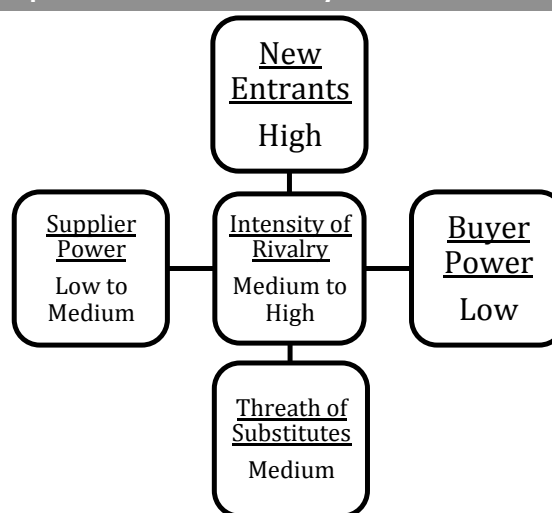
VI. Five force’s analysis of the restaurant market

We have conducted a Porter’s five forces analysis¹ on the restaurant market to determine the attractiveness of the industry in which the new venture will operate.

Supplier’s bargaining power

The two main operating costs of the restaurant business are labor costs and food; both inputs are also key success factors of a restaurant. In average we assess the supplier bargain power in the industry between low and medium.

Graph 3.7. Five force’s analysis restaurant market



Sources: Marketline, Canadean, Euromonitor & FEHR

High employee turnover is common in the restaurant industry. Finding employees is relatively easy however finding and keeping talented employees is much more difficult in an industry where many business tend to impose intensive shifts and little opportunities to conciliate private and professional life. Statutory minimum wages and collective agreements impose restrictions on businesses, however new labor laws imposed by the new government make easier and cheaper to hire and dismiss employees, which increases the flexibility of restaurants.

¹ We derived our analysis from the information contained in Marketline (2012,2014), Canadean (2012) and Euromonitor International (2013) industry reports, as well as the 2012 report from FEHR (Fundación Española de Hostelería).

Average bargain power of food suppliers within the restaurant industry is low as suppliers are highly fragmented and restaurants can change easily its suppliers. However for some specific goods supplier bargaining power is higher. For goods only offered by large companies serving several businesses, such as beverage distributors, the lower fragmentation, and in some cases the regional exclusivity, reduces the pressure to keep the prices down.

Customer's bargaining power

The main source of buyer power is the lack of switching costs. However the large number of transactions and the small purchase size minimize the power of the buyer. The impossibility of duplicating the meals at home and the ambiance of the restaurant also reduce the buyer power, in particular for specialized and differentiated restaurants. In general we assess the bargaining power of the customers as low.

Threat of new entrants

Barriers to entry are usually low. Entry to the market does not require a large capital investment, it is possible to rent the facilities and lease the equipment. In case you decide to buy the equipment the sunk costs will be still low as most of the equipment can be sold. Accessibility to skilled labor at a reasonable cost is also easy.

The restaurant industry is highly regulated because the risk to human health regarding the food hygiene, restaurants in Spain are required to follow legislation set by the European Food Safety Authority (EFSA). However compliance is usually more related to good practices than costly equipment.

Threat of substitutes

Restaurants are to some extent not essential for customers. For some customer the switching cost is the time spent in the kitchen, however for customers unable to cook or customers with no time to cook, the only alternative might be precooked food or snacks.

Home-cooked food and snacks are usually cheaper than restaurants while precooked food does not need to be necessarily cheaper.

When considering restaurants as a leisure activity, you can also imagine that other leisure alternatives like movie theaters could be a substitutive product for restaurants, however at the same time it is a complementary product as many customers meet up for cinema and afterwards they go dinner. Therefore we do not consider these alternative leisure activities as a big threat.

We saw before that Spaniards like to eat out, the restaurant industry has a big share in the foodservice industry, bigger than in any other European country, and we do not see this changing in the short run. We assess the threat of substitutive products as low.

Intensity of rivalry

The restaurant industry is growing rapidly and the market is still not saturated. Overall the market is highly fragmented and allows new entrants to be competitive at the beginning as the economies of scale are not an insurmountable obstacle; however the large number of competitors keeps the rivalries high. Some big players can afford expensive marketing campaigns to protect its market share and benefit from the negotiation power coming from its size, this is specially important in the hamburger segment that is dominated by Burger King and McDonalds.

There is also a relative ease of expansion that increases the competitive pressure. On the other hand the exit costs are not high, restaurants do not represent a high sunk cost and the lay off of most employees will not require high payments, which reduced the competitive pressure. Some restaurants are becoming specialized and have been able to differentiate its products from competitors' products, this reduces the threat of competition but at the same time it increases the risks if customers change its eating habits.

Overall we assess the intensity of rivalry as high for undifferentiated restaurants while we consider that for differentiated and specialized restaurants the intensity is medium.

VII. PESTLE analysis of the restaurant market

Political Analysis

The People's Party (PP) won the parliamentary elections by an absolute majority in November 2011, next general elections are expected by the end of 2015. In spite of the crisis, the high unemployment rates, and the austerity measures, the country has not seen a rise in "populist" parties and it keeps its pro-euro stance. In general we see the political landscape of the country as stable, with the main source of potential destabilization being the tensions with the regional Catalan government.

The importance of tourism in the Spanish economy, 10% of the GDP, makes the sector a critical one. Political parties tend to be very careful with the sector; they see policy continuity as important for business regardless of the party in power, making this sector especially stable.

Economic Analysis

According to the Spanish Ministry of Economy, real GDP of the country is expected to growth by 1.2% this year and by 1.8% in 2015. Unemployment is still high, around 25%, and it is expected to slowly decrease during the following years. The expected unemployment rate for 2017 is 19.8%.

In general we see that the country is slowly leaving the crisis behind and that private consumption is growing again. The economic reforms imposed by the new government have increased the productivity and flexibility of Spanish businesses, which helped the country to show trade surplus last year. However debt is still an issue, public debt will soon reach 100% of GDP and private debt is slightly above 200% of the country's GDP.

Social Analysis

The social issues in Spain are similar to those experienced in many other European nations. The main challenges for the country are the aging of the population and the growing income inequality.

The new labor law has made the labor market more flexible and cost-competitive. The law decentralizes collective bargaining, increases internal flexibility, eliminates wage indexation systems, makes easy the termination of permanent contracts, and reduces dismissal costs. The government believes that this will make Spanish's exports more competitive in the international market.

Technological Analysis

Customer access to Information Technologies is similar to other developed countries. Many restaurants offer free Wi-Fi to its customers and, according to the Spanish Industry and Energy department, 68% of households have access to Internet. According to Telefónica Foundation, Spain has one of the highest smartphone's penetration rates in Europe; in 2012 63.2% of mobile phones were "smart", this means higher penetration than in the UK (62.3%), France (51.4%), Italy (51.2%) or Germany (48.4%).

Legal Analysis

The Spanish legal framework is transparent and comparable to other EU nations. The Spanish system, however not officially, is similar to other federal systems, with Spanish regions having large legislative and executive powers.

Spanish law allows foreign investment up to 100% of equity and capital movement is completely liberalized. However having national and regional laws sometimes ruling over the same topics can deter some foreign investors from starting businesses in the country. Restaurant and food regulations are similar to other European countries. VAT for restaurants is 10%, corresponding to the reduced rate and 11 percentage points below the standard rate of 21%.

Environmental Analysis

Basic environmental laws are in line with EU norms. The country has strong energy dependence and the government is focusing in renewable energies to reduce this deficit, this could increase the prices of electricity in the future. The increasing desertification is a factor that could increase the price of water. Growing concerns about the polluting effect of food production could also affect the restaurant business if regulation is to be set.

VIII. Conclusion

We consider that the restaurant industry is a good place to start a new business right now. The restaurant sector is expected to grow at 3% over the next years, with quick service restaurants growing even faster, which make it a unique opportunity in a country expected to grow slowly in the medium term.

Barriers to entry are low. Opening a new restaurant does not require a big initial investment and sunk cost are usually low. Access to suppliers is easy and qualified labor at a reasonable cost is abundant. The sector is also seen as really stable, reducing therefore the risk of the investment.

The profitability of the restaurant business is in average high, and many big firms invest in restaurants to diversify its activities. However while is easy to enter it will require a great product and a deep understanding of the target customer to be highly successful, we cannot forget that competition will be abundant too.

We strongly believe that by offering the right product and targeting the right customer Eat Natural could grow fast and be highly profitable. In the next sections we explain the business model that will allow Eat Natural to grow faster than the 4% average in the quick service restaurant sector and be highly profitable.

4. Strategy

I. Key success factors in the restaurant industry

In this section we try to describe the main factors that a restaurant needs in order to be successful. We have noticed that market reports and articles usually only focus on the factors that attract customers to restaurants; however speaking with chefs and restaurant owners we have realized that factors “behind the scenes” are also crucial for the success of a restaurant. Restaurant with high customer success sometimes go out of business due to mismanagement or problems with the business model. After doing the research we try to put together a list with the factors we consider are crucial. We include both kind of factors: customer acquisition/retention factors (value factors) and business processes factors (efficiency factors). No single factor alone is a guarantee of success and some are certainly more important than others, however the list is helpful to design a business strategy likely to succeed.

- i. **Quality of the food.** Offering good food is not always synonym of success, however having bad or mediocre food will almost always lead to failure. Having food that your customers can enjoy is probably the most important requirement for a restaurant to survive. It might seem obvious but it is good to remark that the more your customers like your food, the easier will be for you to attract and retain customers.
- ii. **Know your customer.** Many restaurant owners do not put much effort in understanding its customers. Understanding what drives the demand for your products (impulse, convenience, etc.), knowing your customer profile (demographic, needs, etc.), and getting customer feedback are key to success. Knowing your customers is the best way to improve their experience and increase the effectiveness of your marketing strategy. For example, you could adapt the design of your local to your target customer preferences, improving the ambiance and the overall experience for them. For these reasons some people think that

experienced management and having the owners physically present in the daily life of the business increase the chances of success.

- iii. **Location.** Location is key for the success of a restaurant. Traffic of potential customers makes customer acquisitions easier and cheaper; the store will help you market your product, and the convenience for the customer will make both acquisition and retention easier and cheaper. Once you have chosen the segment of the market you are going to target, you should choose your location in accordance; in case your location is predefined, you should adapt your service to the potential customer present in that location.
- iv. **Price.** Price is often one of the most important factors when customers choose a restaurant; therefore we have to be really careful when setting prices. Some restaurants try to set their prices by, for example, adding a mark-up to the cost of the food, but unless you own a 3 star Michelin restaurant this approach does not work. Your food is comparable to the food offered by some of your competitors and customers will compare. Prices have to be set by looking at the market; you need to understand your customers, collect data from them, and look at the competitors. If you just set a markup you might be losing the opportunity to increase your profit if your target segment is willing to pay a higher price for your services; this could happen if you are being more cost efficient than your competitors or if you are able to deliver some extra value added at the same cost. On the other hand if using this approach you set a higher price you will lose customers and it will damage your brand.
- v. **Realistic financial plan.** We said that prices need to be set by looking at the market but we can never forget about the costs of the business. Some restaurant managers, especially with chef background, believe that just by filling up the restaurant everyday profitability will eventually come, they forget about the other half of the equation, the costs. An example of this are some Michelin starred restaurants in the country, they have a waiting list of months however few of them are profitable, chefs focus more on the experience for the customers and in some cases the cost of food is above 40% of the ticket price and personnel up to 50%.

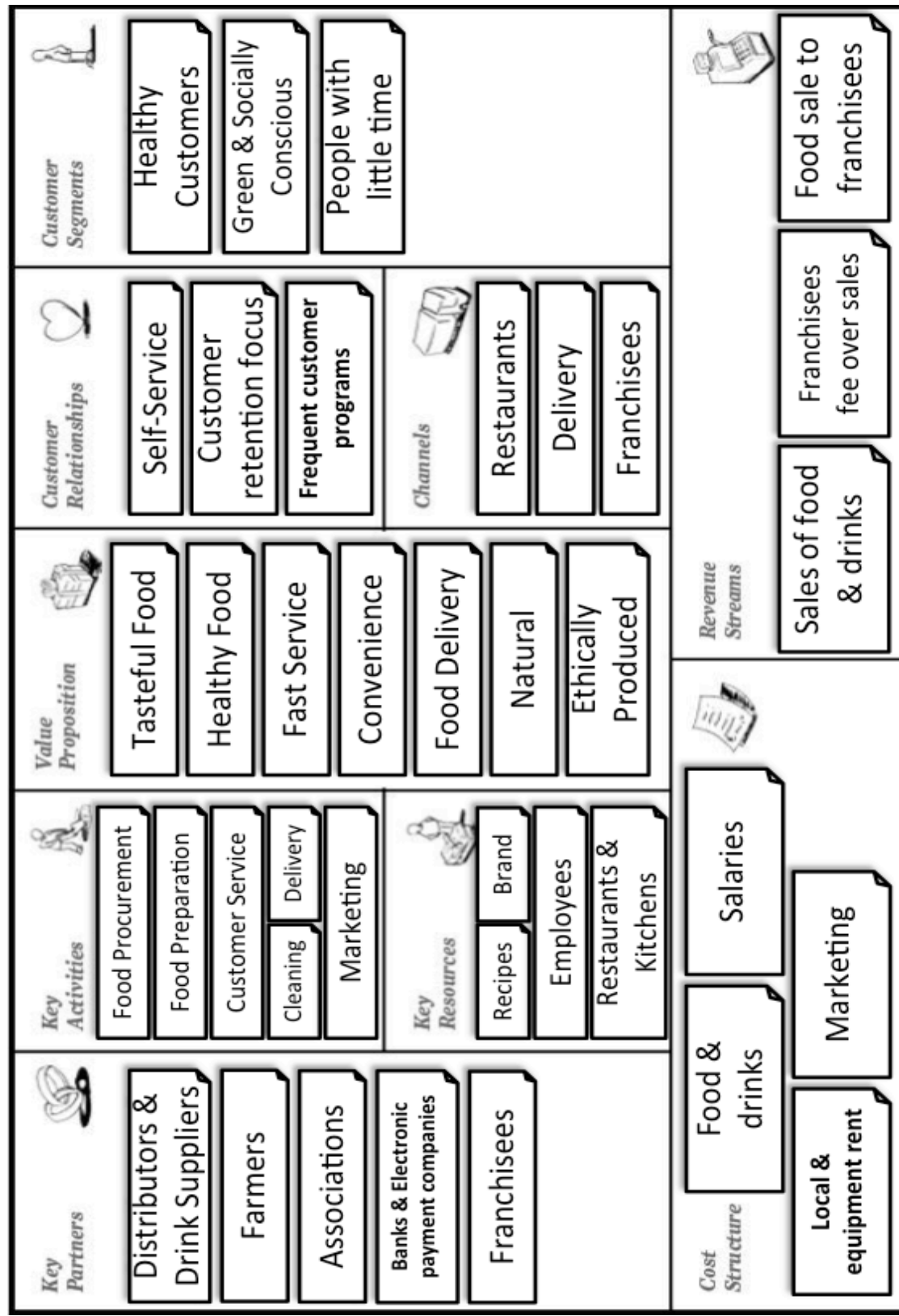
Being a good manager that understand the cost drivers of its business is key for success. Realistic analysis of gross margin, fixed costs, break even point and cash flows are key to understand if the business can be profitable or if it is just a “hobby”.

- vi. **Quality of the staff and service.** We cannot forget that the staff of a restaurant is the face of the restaurant for its customers. Therefore having good and motivated personnel is key to success. Professional and honest employees are able to deliver a good and quick service to customers. Good service will improve the overall customer experience and the ambiance at the restaurant, as well as help to retain customers reducing the required marketing expenses. Some restaurants focus too much in reducing salaries in order to reduce costs, however if this practice affects the motivation of your staff it can damage the business. Low employee commitment could affect customer retention rates, increasing the marketing cost required to fill up the restaurant. It could also increase employee turnover, which increases recruitment and training costs. Too often we see that restaurant do not have a human resource strategy, the just hire and fire employees looking at the short term needs of the business and offering a salary close to the minimum wage. These practices make the restaurant industry be among the ones with the highest employee turnover rates and the lowest employee commitment. In our opinion human resources must be at the core of the business strategy of a restaurant if this want to be successful.

II. Business model

In this section we describe Eat Natural’s business using the Business Model Canvas framework (Osterwalder, A. & Pigneur, Y. 2010). In the next page you can see the canvas with the nine elements of the business model, and then we proceed to describe every block of our business model.

Illustration 4.1. Business Model Canvas of Eat Natural



1. Value Proposition

Eat Natural will offer **tasteful** and **healthy** products to its customers. According to Feeboo survey (2013) 75% of customers indicated that flavor of food is key when choosing a restaurant, but also 73 % of customers worry about its food being unhealthy. Therefore we believe that offering both will make the decision of choosing our restaurant easier for many customers.

We are also planning to offer **convenience** and **fast service**. With the current trends in the restaurant market that we mentioned in the market research section, we understood that the market is moving towards a faster service and lower cost restaurant in detriment on the standard full service restaurant. Allowing customers to have a tasteful and healthy meal at a reasonable price, even when they have little time, is a great value added. We are also planning to offer **food delivery** at home or office, this make even more convenient our service and it can boost the sales of the restaurant. The risk of offering delivery service is very low, as it does not require almost any incremental investment.

The menu will be designed to be ready to eat when the customer arrives to the restaurant without losing any flavor of freshness. When a customer enters in the restaurant he just have to pick up the product he wants, not losing any time and reducing the personnel needs of the restaurant.

Finally we will take very seriously the design and ambiance at the restaurant, and the **ethical and natural** origin of our food. The idea is to make the customer feel well at the restaurant and with the food they are eating. Concerns about the environmental impact of food production, the way animals are raised, and about genetically modified food are growing fast in the country. Selecting cautiously food suppliers to address these concerns will be a great value added for some of our customers and it will allow us to differentiate Eat Natural from competitors in the fast food industry. The brand Eat Natural has to be synonym of healthy and ethically produced food for our customer. The design of the restaurant, packages and in general all the marketing has to reinforce this image.

2. Customer Segments

We are mainly targeting three different customer segments, however different these segments are closely related and the same customer might be assigned to two or all the three segments at the same time. Below we describe the three segments.

We are targeting the **healthy customer** that would not go to a standard fast food restaurant or that does not go often because he is worry about the health consequences of eating standard fast food. We can also include customers that go to fast food restaurants but would prefer a healthier alternative sometimes. For these customers nutritional information and disclosure of the ingredients is key. They worry about what they are eating, therefore the origin of the food is also important for them. Organic food would be the best alternative for these customers, however due to its cost this will not be possible for every ingredient. Genetically Modified Organisms are clearly out of the table because these have a really bad reputation in the country. When possible we will offer cautiously selected organic food, for the rest of the cases we will cautiously pick up our suppliers to assure the quality and freshness of the food we offer, so we can satisfy this customer segment. Our food being fresh and healthy is our differentiation point from traditional fast food chains, we need to look after this when selecting the suppliers, dealing with customers and designing the marketing strategy.

Second we target the **green and socially conscious customer**. The main concerns of this customer are: the way animals are raised, the way farmers are treated by corporations, and the use of GMOs, pesticides and other chemical agents that can damage the environment. This kind of customer is also growing in number and we can see that labels¹ like Fair Trade, EU organic label and Rainforest certified products are becoming mainstream and customer are starting to ask for them. Labeled products will not always be the solution, however we need to cautiously chose our suppliers and be careful and honest with our communication

¹These and other labels certified that the products comply with certain regulation. An example would be the EU organic label; this label certifies that the producer complies with EU regulation of organic production of food, which means GMO free, not use of chemical fertilizers, pesticides or antibiotics, crop rotation, animal welfare and regular inspections and control.

and marketing strategy. Partnership with farmers, awareness of the way the meat we buy was raised, and avoidance of GMO, are key. This means we will need to make an extra effort to know and understand the whole supply chain, but it will also be a big value added for this kind of customer that will allow us to differentiate our brand from other competitors.

The same way other quick service and fast food restaurants we target **people with little time to eat**. As we said previously the market is moving towards a faster service and a lower cost, this segment will grow fast in the following years and we believe we can offer a differentiated product that the segment will value. These customers are looking for quick service, they do not want to waste its time waiting for the food to come, and we need to study every move so we can serve them as fast as possible. Most of our products will be self-service, so the customer can pick the food he wants and check out really fast; some other product will require some small preparation (e.g. coffee). The value for this segment will be to offer tasteful food really quick, however we believe that we can differentiate ourselves by making this food healthy, socially and ecologically responsible. In addition, as we will explain in the marketing strategy, we want to retain our customers and we want them to come often to the restaurant, so we need to offer a relatively large variety of products so frequent customers do not get bored. Because most of our products will be already prepared for the customer to serve himself, we can afford this increase in variety without reducing the speed of the service, this is almost impossible for standard fast food models.

3.Channels

Our customer will be able to get the products in our **restaurants**, either to eat in or to take away. Our average dinning room will have 60 square meters and around 45 seats for customers. The can also order food to be **delivered** in our web site or through a phone app.

In the future the food will be also available in our **franchisee's outlets**, the customer will be able to either pick the food and eat in the restaurant or take away.

4. Customer Relationship

Most of the products will be **self-service**, the customer will pick them up and proceed to the check out, making the purchase process really fast. Some other products, especially some drinks like coffee, will require some personnel involvement making organization important to avoid losing time.

We will pay attention to **customer retention**. We want to be able to offer good value and retain customers that visit often the establishment. This kind of customer is much more profitable than the one time visitor following a big marketing campaign or a new product. Therefore at the core of our marketing strategy is customer retention. We cannot compete with the marketing budgets of big chains but we know that the main reason to go to a new restaurant is the recommendation or opinion of a friend or acquaintance. Therefore we will need to focus on understanding our customers and improve all qualities that add value for them.

To be able to gather information from our customers and to increase customer loyalty we will develop a **frequent customer program**. Taking into account the segments we are targeting, we believe that instead of offering the standard discounts always present in these programs we will give 3% of the frequent customer's bill to associations helping organic farmers and other ethical food initiatives. We will introduce a marketing budget of €3,000/month per restaurant and franchisee restaurant, this budget will be enough to distribute some flyers, introduce some promos and some ads in small media (local radio, etc.).

5. Revenue Streams

At the beginning the only revenue stream will be the **sale of foods and drinks** both at the restaurant and online to be delivered. Restaurant can offer breakfast, lunch and dinner depending on the demand. Customer can choose between bundles or individual items, the same way as in other restaurants.

Once we start having franchisees we will have two new revenue streams, one coming from the **franchisee fee over sales** and the other coming from the sale of **the prepared food to our franchisees' outlets**, this is the food that franchisees will later put on their shelves to be sold to customers. This system will reduce the initial investment required to start a new outlet for our franchisees, they will not require a kitchen and they will require less staff and training. On our side this will solve the problem of differences in food quality among the chain, it will mean an extra source of revenue and a more efficient use of our kitchens and equipment.

6.Key Resources

Recipes and know-how about our food are a key resource that we need to own to be successful. Our chef will be in charge of designing the menu. He is an experienced chef with media presence in the country. He was finalist in the contest Chef of the year 2012 in Spain, and semifinalist in the TV-show Top Chef 2013 (aired from September 2013 to December 2013). He is able to design tasteful products ready to eat without losing any flavor or freshness.

Restaurants & Kitchens are also required resources. Most customers will buy the food at our restaurants therefore these have to be convenient and offer an ambiance that our customers will enjoy. In the kitchens is where we will prepare most of our food for both our restaurants and for franchisees' outlets in the future; therefore these are crucial for the business.

Brand. We are focusing on customer retention and we are targeting customer segments that need to identify with what the brand represent, therefore for us the brand is also a big asset that we need to build carefully.

Employees. We want to offer good food, good service and good ambiance in order to retain our customers; well-trained and motivated employees are key to accomplish this mission. Moreover you cannot create a socially responsible brand if your employees feel mistreated and you have a bad human resource strategy. Eat natural will offer its waiters and cooks a gross salary of around €16,000 a year, above the sector average.

7.Key Activities

Food procurement. As we said before we will need to carefully select our suppliers to be consistent with our brand image and to assure quality and freshness of the products.

Food preparation. Most of the food will need to be prepared in our kitchens before being put on the shelves.

Customer service. We want our customer to have a pleasant experience at our restaurant, we want to serve them fast and to make them feel at home, and that is why we need motivated and well-trained staff.

Cleaning. To have a pleasant and healthy experience good hygienic conditions in the restaurant and the kitchens need to be assured.

Delivery. We want to offer convenience to our customer, we believe that delivering food bought through our web site or app to offices and houses can increase our sales.

Marketing. To attract the segment we are targeting, we need to create a powerful brand, a brand that is associated with fast service, healthy, tasteful food, and ethics.

8.Key Partnerships

Distributors, farmers and drink suppliers. As we said previously we have to be cautiously when choosing suppliers to assure they are coherent with our brand image. Some suppliers will only provide ingredients while others might provide products ready for its sale. An example of the last one is a bakery; it does not make sense for us to train our employees in the difficult process of how to bake cakes and patisserie.

Associations helping organic farmers and other ethical food initiatives. They will benefit from our frequent customer program and will help us to improve our brand image.

Banks and electronic payments services. We need to be able to accept credit cards in our outlets; we might also need financing from banks.

Franchisees. In the future we will start opening franchises to expand faster Eat Natural brand. These franchisees are clear partners of the business and the brand.

9. Cost Structure

Food and drinks (variable cost). Food and drinks are one of the main costs of any restaurant; a non-written rule says that for a restaurant to be profitable the cost of food and drinks has to be maximum 30% of the revenues. Our target is to keep this cost closer to 25% than 30%, however as we plan to offer fresh, healthy and ethically produce food, we need to be careful with our procurement strategy to avoid food and drink costs from rising too much affecting the profitability of the company. For our second line of business, sales to our franchisees, this ratio is unattainable as it is a different model; the COGS will be 50% to 55% of the price charged to our franchisees.

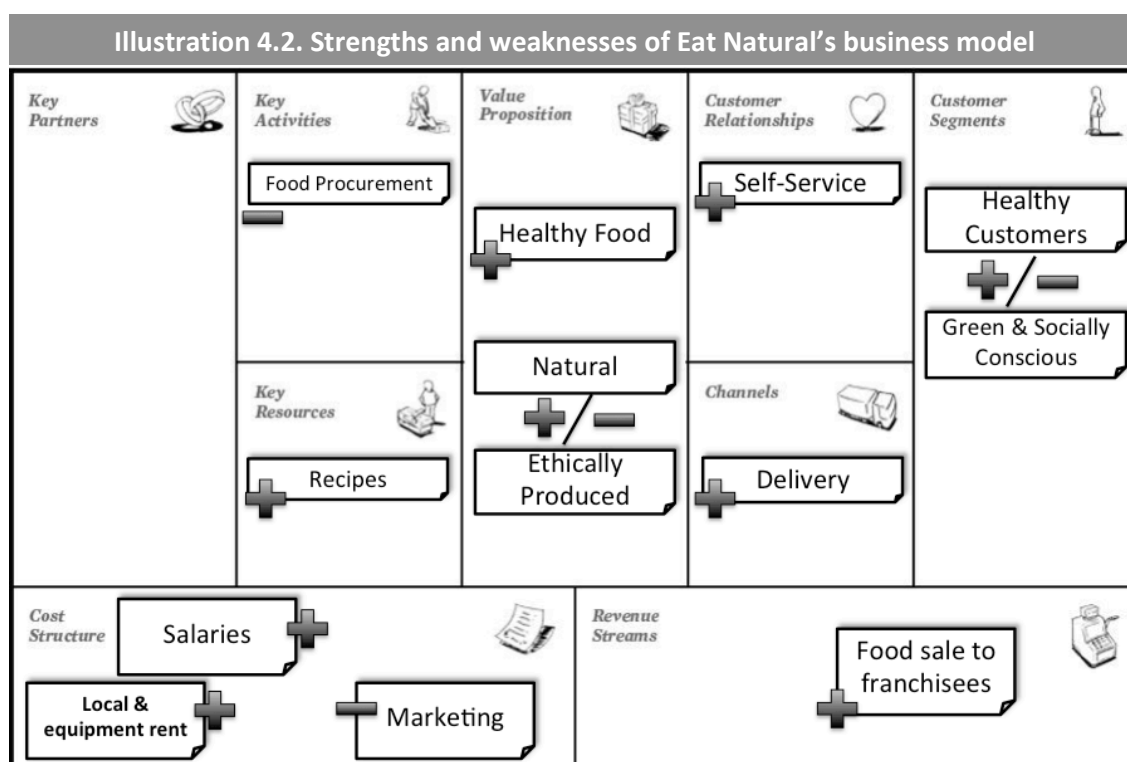
Salaries (semi variable cost). Salaries are usually the other big cost for restaurants. These depend more on the specificities of each business. An average full service restaurant will try to keep this cost below 35% of revenues, and fast food restaurants tend to have lower ratios. In our case, being mostly self-service, we estimated that this cost would be closer to 25% for our own restaurants, while for the overall of the business (including revenues from our franchisees) we expect to reduce this ratio to around 20%.

Local rent and equipment leasing (fix costs). These are the main fix costs for a restaurant that does not acquire the local and the equipment. Only a few of our outlets will require kitchen, this will imply a smaller local in average and lower fix costs. Therefore under our business model the company will be in an advantage position when compared to traditional business models in the restaurant industry.

Marketing. Marketing is another important cost that varies enormously from business to business. In our case we will try to be as efficient as possible to keep this cost to a minimum, however we cannot neglect this cost especially if we plan to grow fast. . As we said previously we will introduce a marketing budget of €3,000/month per restaurant and franchisee restaurant.

III. SWOT analysis

In this section we have analyzed the business model we have just explained to better assess its strengths, weaknesses, opportunities and threats. In Illustration 4.2 you can see in the business model canvas all the points we have analyzed. At the end of the section there is a summary of the SWOT analysis (Table 4.1).



Strengths

The fact of being self-service will increase the speed in our restaurants, avoiding wasting customer's time. The staff will not need to cook or serve food; they focus on checking-out and preparing some drinks. This will reduce the amount of staff needed, which will be translated in lower salary expenses.

Having an experienced chef with media presence will assure our customers that our recipes are tasteful and the food is high quality, making customer acquisition easier. It can also be a source of free media exposure.

Deliver the food at home or at the office will increase the convenience of our service, most of the big chains do not offer this service, in part because of the characteristics of its food (among the 4 main players only Telepizza delivers at home). Our food can be delivered in perfect conditions, which is an added value for our customer that can boost our sales and attract more people to our restaurants.

Weaknesses

Our marketing budget will be low when compared with other chains, which might threaten our growth. We will need to fight against this fact and focus on low budget marketing, like guerrilla marketing, and offer a great value to our customers to increase customer retention and mouth-to-mouth customer acquisition.

Our focus on natural and ethically produced food will require an extra effort when searching and monitoring suppliers. Keeping a good relationship with our suppliers will be key to assure timely supply and quality according to Eat Natural requirements.

Opportunities

The differentiation of our food (healthy, natural and ethically produced) should reduce the competitive pressure for the segments we target (healthy, green & socially conscious customers). These customers will see the extra value added in our service, which will protect us from a pure price/quantity competition with big brands.

Most restaurants will not require a kitchen, they will just receive the food ready to be put on the shelves for the customer to pick and eat. This will reduce the required size for new restaurants and therefore the rent. Also not having to cook will also reduce the equipment needed to open a new restaurant and therefore the initial investment or the equipment lease amount. This will increase the profitability of our outlets and our franchisees' outlets.

The system previously mentioned will allow us to get an extra source of revenue by selling prepared food to our franchisee's outlets. These franchisees will receive the food ready to be put on the shelves for its customers. Usually franchisees in other chains are forced to buy

ingredients from approved suppliers or from the franchisor that have centralized the procurement of the whole chain. However the ingredients purchased are not modified by the franchisor and therefore this activity adds little value (other than logistics and purchase power). In our case we will manipulate the ingredients offering the franchisee a finished product and capturing that value.

Offering healthy and ethically produced food might help us to avoid regulatory issues and other bad press that fast food chains usually have. It might also be a source of free public exposure in the media.

	Helpful	Harmful
Internal Origin	<p>Strengths:</p> <ol style="list-style-type: none"> 1. Self-service increases speed and reduces salary expenses. 2. Recipes. We have on board an experienced chef with media presence. 3. Delivery of food increases the convenience of the service. 	<p>Weaknesses:</p> <ol style="list-style-type: none"> 1. Low marketing budget when compared with big brands. 2. Food procurement requires extra effort to comply with ethics and health principles.
External Origin	<p>Opportunities:</p> <ol style="list-style-type: none"> 1. The differentiation of our food (healthy, natural and ethically produced) should reduce the competitive pressure for the segments we target. 2. Absence of kitchens in every restaurant will reduce rents and equipment needs. 3. Selling prepared food directly to franchisees generates an extra source of revenue that chains do not usually have. 4. Selling healthy, natural and ethically produced food should avoid regulatory issues that other chains might have in the future. 	<p>Threats:</p> <ol style="list-style-type: none"> 1. The customer segments we target will scrutinize our claims. We need to be extra careful with our communication strategy and supply chain to avoid damages to the brand image. 2. The threat of new entrants is always present in the restaurant industry, however the market is growing fast which reduces the possibilities of a “zero sum game”.

Threats

Claiming that our food is healthy and ethically raised will attract the attention of people wanting to scrutinize if our claims are true. We need to be very careful when selecting and monitoring suppliers and also with our claims, otherwise our brand image might be affected,

and our customer might lose confidence in our products, losing therefore our differentiation point.

Barriers to entry are low in the restaurant industry; therefore the threat of new entrants is always present. However we have seen that the quick service restaurant market is expected to grow fast, reducing the risks of falling in a “zero sum game” where the only way to grow is stealing market from your competitors.

IV. Roadmap

In this section we just include a short overview of our planned growth strategy indicating our plans to open new restaurants depending on the success of the company. Details for our three scenarios (pessimistic, average and optimistic scenario) can be found in the financial forecasts of the company.

Our first restaurant will open in Madrid by January 2015. It will have a kitchen that will allow the restaurant to serve food to two extra restaurants. Under an optimistic scenario we expect to open a second company-owned restaurant within 6 months that will be ready for the summer season. This second restaurant will not have a kitchen and the first one will supply the prepared food. However if the first restaurant takes more than 6 months to reach its full potential the opening of the second restaurant might be delayed to the end of 2015.

If the concept is a great success we will take advantage of the momentum and we will open one new restaurant with kitchen in Barcelona during the first semester of 2016. This restaurant is expected to be able to serve two extra restaurants without kitchen. We also expect our two first franchises to open restaurants without kitchen, one in Madrid and one in Barcelona during 2016.

However if the model is just a relative success we will not open two new restaurants in 2016. We will delay our new restaurant in Barcelona until the summer, and we will try to get a franchisee in Madrid that will be served by our first restaurant in Madrid.

After Madrid and Barcelona, another cities that we will try to target are: Valencia, Zaragoza, Seville and Malaga. As we mentioned at the beginning, a detailed plan can be found in the financial forecasts.

Of course this expansion is based on the company being a great success or at least successful enough to generate value. In the case our first restaurant is not able to create positive value we will not continue with the expansion, as this will destroy value for the entrepreneurs and all the shareholders. In this case we will try to solve the problems with the model so the business is able to generate value before we grow or we will sell the business.

V. Legal Structure, governance & other management issues

The company will most probably take the legal form of an SA (Sociedad Anónima), which is similar to public limited companies in other countries. The minimum capital required is €60,000 (only 25% of this capital is required for the creation of the company, the rest can be paid later). Unless otherwise stated in the company bylaws the shares can be freely traded. "SA" is a better than "SL" (Sociedad Limitada) if the company plans to grow and raise capital. The "SA" legal form allows share trading and easier creation of new shares; it allows the company to do an IPO and be publicly traded on a stock exchange, and it also allows selling debt on the public markets.

The company will also require a board of directors. The board will be in charge of controlling and advising the management of the company and it will also determine the overall strategy of the business. For a company of this size we believe that 5 people on the board will be a good number. We believe that in an optimal board should be included the CEO to represent management of the company, our chef that has extensive experience in the sector, an independent chef with extensive experience, and the two business angels/investors that ideally will have experience in the sector.

5. Financial plan

I. Assumptions, Inputs & Investments

We have estimated the initial investment needed for the new venture in €400,000. The start up costs of the company is expected to be slightly below €10,000, this includes paperwork, taxes, etc. The cost of opening a new restaurant with kitchen will be around €130,000, while a restaurant without kitchen will cost around €90,000 (these amounts do not include net working capital requirements, etc.). These numbers are in line with the information we got from chefs and restaurant owners for restaurant this size and from some restaurant chains. Some restaurant chains like McDonalds require a much bigger capital to start a new franchise, however “100 Montaditos”, with a business model closer to ours, requires an initial capital to new franchisees of €125,000; this amount include restaurant reforms but also net working capital, etc.

For the model we have used nominal prices. The inflation forecast to update the prices is shown in the table below. The corporate tax rate we use is 25%, this is the current rate for small and medium companies in Spain.

Table 5.1. Spanish Inflation forecast (%)						
	2014	2015	2016	2017	2018	2019
Inflation forecast	0.1%	0.8%	1.5%	1.5%	1.5%	1.5%

Sources: ECB & PWC

We have estimated the average ticket to be €5,50 at 2014 prices, which is slightly above the average of the fast food sector. The average ticket of the fast food sector was €4.90 in 2012 according to Euromonitor International (2013). We have estimated in 240 the average number of meals served in a day, and around 25 deliveries. The average of the sector was 320 meals a day according to Euromonitor International (2013). Our restaurants will not be selling 240 meals a day from day one. From our conversations with chefs and restaurant owners it was clear that a successful restaurant can take up to 6 months to reach its final potential, and even more if the model or the marketing strategy was not designed properly

from the beginning. Customers need time to get to know the restaurant and to include it into its “frequent restaurant list”. To reflect this fact in our forecast, we have included a “discount rate” for new restaurants. In the average scenario a restaurant will start selling 120 meals a day, this number will increase month by month until it reaches the final number of 240 daily meals by month 6.

II. Financial pro forma statements

We have forecasted 3 different scenarios depending on the success of the model: average scenario, optimistic scenario and pessimistic scenario. We have assigned a probability for each one and we have designed different growth strategies for each one.

In the average scenario we have estimated the average number of meals served per restaurant in a day to be 240. After 5 years in business (end 2019), we expect the company to own 4 restaurants with kitchen, one outlet without kitchen, and to have 6 franchisees. The revenue in 2019 is expected to be €3.9 millions and a net profit slightly above €400,000. We have assigned a probability of 70% to this scenario. Financial forecasts for this scenario can be found in the appendix 1.

In the optimistic scenario a restaurant is expected to serve around 300 meals a day. We have only assigned a probability of 5% to this scenario, as we do not see it very likely but still possible if the business model turns to be a huge success. After 5 years in business (end 2019) we expect the company to own 5 restaurants with kitchen, one outlet without kitchen, and to have 8 franchisees. We expect the total revenue to be around €6.6 millions in 2019 with a net profit of €1.2 millions. Financial forecasts for this scenario can be found in the appendix 2.

The third scenario we have forecasted is the pessimistic one with a 25% probability. However difficult to estimate this probability, we try to mirror the failure rate of the restaurant business in Spain. In this scenario our restaurant will sell less than 180 meals a day after the 6th month and it will burn €12,000 a month. We will not open a second

restaurant as this will increase our cash burn rate, and we do not see likely that any franchisee will be willing to open an outlet. We have proposed two solutions for this scenario: close down the business or sell it. By the end of 2015 the company is expected to have around €80,000 in cash (down from the €400,000 invested); a tax credit of €50,000 (coming from the €200,000 loss in 2015); furniture and equipment bought for €45,000 (that would have loss some value); and it would have incurred in €15,000 of start up costs (of some value only if the company is sold). If the company is closed by the end of 2015 we can expect to recover some of the €80,000 in cash (minus some costs related to the closing) and some cash from the sale of the furniture. If we can sell the company the tax credit and the start up costs might be of some value for the purchaser, however in the current environment we do not see the sale as very likely. We expect to recover around €100,000 under this scenario. Financial forecasts for this scenario can be found in the appendix 3.

III. The economics of the business

In this section we describe the economics of the business for a standard business unit and for our average scenario in 2019. We have assigned only a probability of 5% to the optimistic scenario and under the pessimistic scenario (probability of 25%) we plan to sell or close the business, so we believe it is more interesting to focus the analysis on the average scenario.

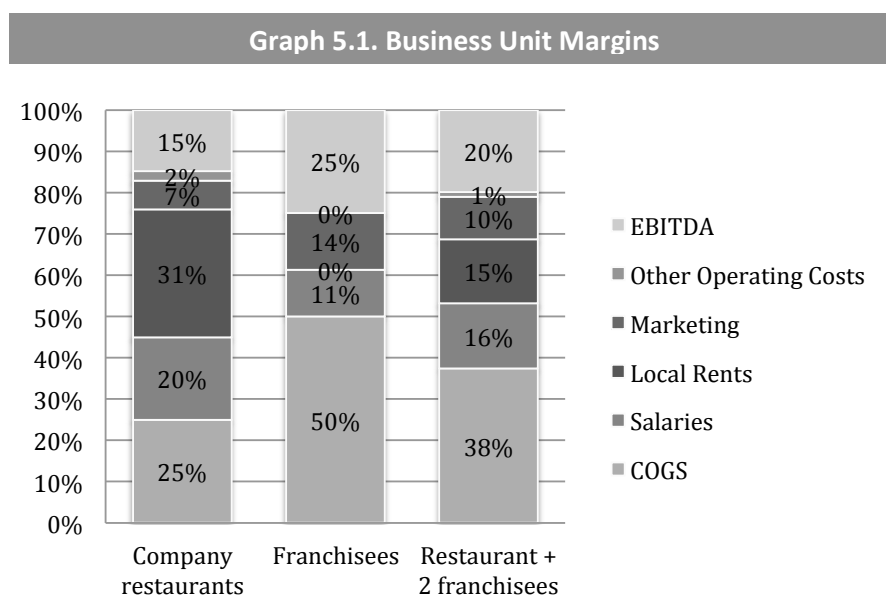
Standard Business Unit Margins

To better understand the margins of the company we show the numbers of a standard business unit of the new venture in the year 2019. When we described the strategy, we said that every company restaurant with kitchen is expected to serve prepared food to two franchisee owned outlets without kitchen, we called business unit to each one of these “packs”. In table 5.2 and graph 5.1 we show the economics and the margins of one of this business units.

We see that every company owned restaurant will generate under our average scenario almost €560,000 in revenues and an EBITDA of almost €83,000, leaving an EBITDA margin of almost 15%. COGS, salaries and local rents are the most important costs as we see in table 5.2 and graph 5.1.

From each of our franchisees we expect to receive almost €280,000 in revenue and an EBITDA of almost €70,000, leaving an EBITDA margin of almost 25%. The main costs for us will be COGS, but also salaries (people working in our kitchen preparing the food to be sell to our franchisees and people delivering the food to their outlets) and marketing.

Table 5.2. Business Unit Margins			
	Company restaurant	Franchisee	Restaurant + 2 franchisees
Revenues	€559,234	€279,617	€1,118,469
COGS	€139,809	€139,809	€419,426
Salaries	€111,950	€31,839	€175,627
Local Rents	€173,316	€-	€173,316
Marketing	€38,515	€38,515	€115,544
Other Operating Costs	€12,957	€-	€12,957
EBITDA	€82,688	€69,455	€221,598



For the business unit composed of one restaurant with kitchen and 2 franchisee outlets we expect to get revenues of €1.2 million and an EBITDA of €221,598, leaving an EBITDA margin of 20%. Here COGS is the biggest one reaching 38% of the revenues, followed by salaries and rents that are around 15% of the revenue, and finally marketing close to 10%. It is good to remark that these numbers correspond to single business units, for the overall company the margins will be slightly different. Here we have not included company management salaries and other costs that do not make sense to assign to any particular restaurant; also not all business units are complete as the company is still growing. In the next section we describe margins for the company as a whole in 2019.

Company margins in 2019

For company owned restaurants we expect the cost of goods sold to be around 25% of the revenue, in line with the industry and slightly above standard fast food chains (we only include in COGS the raw materials, this will give us a better inside of the business as salaries and rents are fix costs). For the sales to our franchisee restaurants the ratios are different as the business model is different, in this case the cost of goods sold will be around 55% of the price charged to our franchisees for our prepared food. We will also get a sales fee of 5% of revenues from our franchisees for marketing, training, and other purposes.

Therefore the gross margin $\left[\text{Gross margin} = \frac{\text{Revenue} - \text{COGS}}{\text{Revenue}} \right]$ for our owned restaurants will be around 75% and around 50% for our franchisee' restaurants. In 2019 the expected gross margin of the company as a whole will be around 66%.

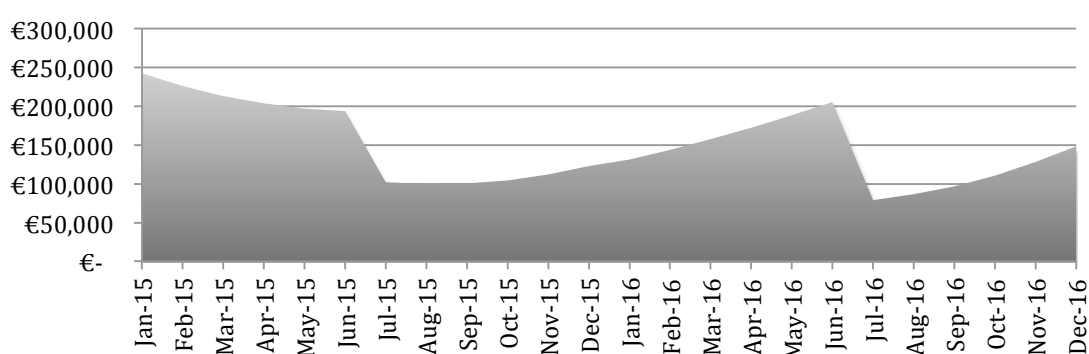
Salaries in company owned restaurants are expected to be around 30% of the revenues. For the overall company this ratio will be closer to 20% as the weight of salaries for revenues coming from our franchisees is lower. The amount spent in rents will be close to 30% in company owned restaurant while for the overall business is expected to be around 18%.

The EBITDA margin for the overall company in 2019 is expected to be around 15% with a net profit margin between 10% and 12%.

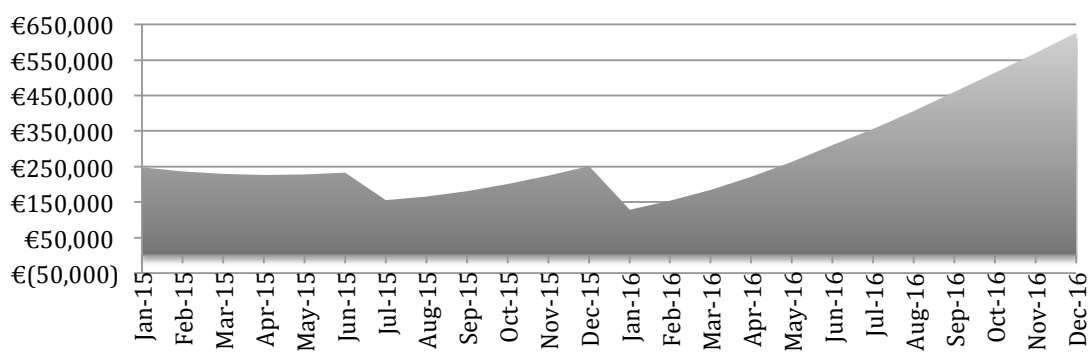
Months to positive cash flow

In the average scenario the company is expected to deliver positive cash flows by September 2015, under the positive scenario de positive cash flows start in May 2015; and under the pessimistic scenario the company is expected to burn cash every month until is closed or sold. In the graphs we can see the cash that the company will have available in every scenario at the end of each month for the first two years.

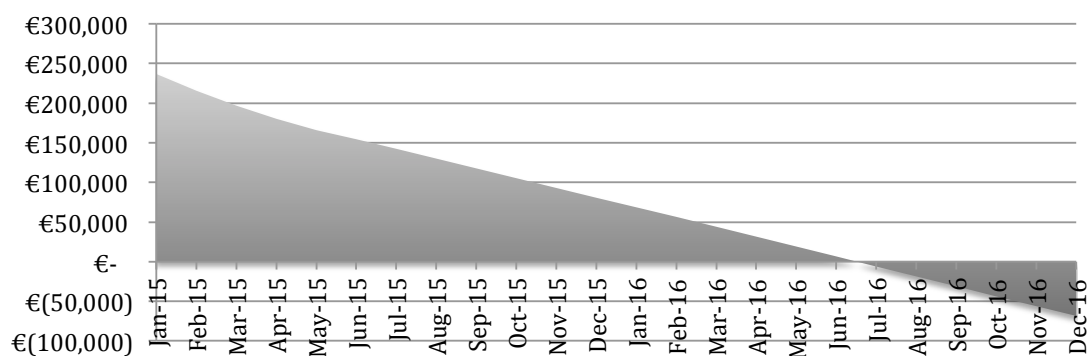
Graph 5.2. Cash End of Period Average Scenario



Graph 5.3. Cash End of Period Optimistic Scenario



Graph 5.4. Cash End of Period Pessimistic Scenario



IV. Company Valuation

We have used the discounted cash flow method to value the company. We assigned a probability of 70% to the average scenario, 5% to the optimistic scenario and 25% to the pessimistic scenario. The initial investment is €400,000 that will be paid out by January 2015. In the pessimistic scenario the only cash flow back correspond to the cash left in the business and the value of the furniture sold. We estimated this amount to be €100,000 that will be received in 2016. For the other 2 scenarios we valued the cash flows coming from dividends that the company will pay out, and the continuing value of the company in 2019. Appendix 6, table 1, shows the cash flows and the valuation of the company.

We estimated the Weighted Average Cost of Capital for the company to be 7%; this percentage rises to 32% if we take into account the illiquidity premium of 25% that often is included in the valuation of new private ventures. We estimated the average beta of the industry to be 0.89, which leads to an unlevered beta of 0.69; appendix 6, table 2 shows more details about the industry beta. The risk free rate is 3.5% corresponding to the average yield of the Spanish 10 year government bond during the last 2 years, and a market risk premium of 5%. For the continuing value we used a nominal grow rate of 4% in perpetuity. The company is expected not to have debt, so we have not estimated the cost of debt. Appendix 6, table 3 shows the details of the WACC.

The internal rate of return of the venture is 41%, well above the WACC of 32%. Including the illiquidity premium the company has a Present Value of €792,350, once discounted the initial investment the net present value of the venture is €392,350.

We have also estimated the value of the venture according to the Venture Capital method. According to this method the venture capitalist sets a high hurdle rate (in our case 50%) and discounts the cash flows of the success scenarios to estimate the value of the company. Under this method the Net Present Value is €637,321. Appendix 6, table 4 shows the details.

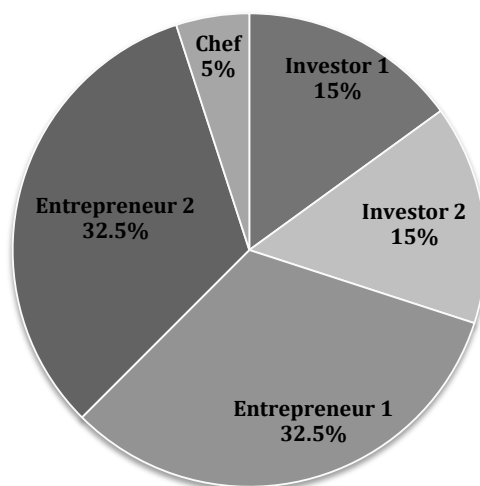
V. Proposed company offering

We need €400,000 to start the business, €100,000 will come from the entrepreneurs while €300,000 will come from external investors. We will offer our external investors convertible preferred shares, to avoid moral hazard issues and to reduce the downside risk for the external investors and therefore the required share of the business.

For the amount of €300,000, the investors should receive 37.9% of the company if these were to receive common shares. Investors however will receive convertible preferred shares, that are more valuable in our pessimistic scenario as the investors would receive the total amount left after closing down the business, while the entrepreneurs would get nothing. According to our discounted cash flow method, we have estimated in 30% the required share of the business that our investors will need for the €300,000 investment. Appendix 7, table 1 shows the details.

We will also give our chef a 5% share of the business valued in almost €40,000 for the design of the menus, public relations activities, and the use of its personal brand for marketing purposes.

Graph 5.5. Company Ownership Structure



Therefore the company ownership will look as table 5.5 shows. The two entrepreneurs will own 65% of the venture (common shares) for an investment of €100,000 (32.5% each for an

investment of €50,000). The two external investors will own 30% of the business through convertible preferred shares for an investment of €300,000 (15% each for an investment of €150,000). The chef will own 5% of the company (common shares) in exchange for his services and the use of his personal brand.

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Annexes

Appendix 1. Average Scenario Annual Financial Statements Forecast

Table 1. Income Statement Forecast

Income Statement Average Scenario					
	2015	2016	2017	2018	2019
Total revenue	€ 658,627	€ 1,504,140	€ 2,239,163	€ 3,064,769	€ 3,914,640
COGS (final customer)	€ 164,657	€ 317,541	€ 407,121	€ 533,752	€ 611,663
COGS (franchisees)	€ -	€ 116,989	€ 305,340	€ 464,881	€ 733,995
<i>Gross profit Margin</i>	75%	71%	68%	67%	66%
Gross Profit	€ 493,970	€ 1,069,611	€ 1,526,702	€ 2,066,137	€ 2,568,983
Total Rent	€ 217,728	€ 359,115	€ 448,618	€ 626,102	€ 722,152
Salaries and social charges	€ 268,531	€ 394,842	€ 486,002	€ 666,324	€ 764,133
Insurance	€ 1,814	€ 3,069	€ 3,738	€ 5,059	€ 5,777
Utility bills	€ 9,072	€ 15,347	€ 18,692	€ 25,297	€ 28,886
Kitchen equipment leasing	€ 6,048	€ 9,208	€ 12,462	€ 18,973	€ 22,467
Marketing	€ 54,432	€ 128,913	€ 205,616	€ 284,592	€ 385,148
<i>EBITDA margin</i>	-10%	11%	16%	14%	16%
EBITDA	€(63,655)	€159,116	€351,573	€439,789	€640,420
Depreciation	€25,049	€40,352	€49,356	€67,907	€77,322
<i>EBIT margin</i>	-13%	8%	13%	12%	14%
EBIT	€(88,704)	€118,763	€302,217	€371,882	€563,099
<i>Corporate Tax (Yt)</i>	€(22,176)	€29,691	€75,554	€92,971	€140,775
<i>Deferred Tax Loss (Yt-1)</i>	€-	€22,176	€-	€-	€-
<i>Corporate Tax-Deferred Tax</i>	€(22,176)	€7,515	€75,554	€92,971	€140,775
Final Corporate Tax	€-	€7,515	€75,554	€92,971	€140,775
<i>Net profit Margin</i>	-13%	7%	10%	9%	11%
Net Profit	€(88,704)	€111,249	€226,663	€278,912	€422,324

Table 2. Balance Sheet Forecast

Balance Sheet Average Scenario					
	2015	2016	2017	2018	2019
Assets					
Cash	€123,256	€141,124	€197,087	€205,826	€204,835
Raw Materials & Inventory	€2,195	€4,457	€6,785	€9,183	€12,816
Accounts Receivable	€-	€20,055	€61,068	€82,645	€125,828
Gross Real State works	€131,040	€212,890	€212,890	€297,213	€382,801
Accumulated depreciation	€10,584	€27,780	€49,069	€78,791	€112,791
Real State works	€120,456	€185,109	€163,820	€218,422	€270,010
Gross Furniture & Equipment	€80,640	€126,680	€126,680	€174,112	€222,256
Accumulated depreciation	€12,600	€33,332	€58,668	€93,491	€133,127
Furniture & Equipment	€68,040	€93,348	€68,012	€80,622	€89,128
Gross Start up costs	€21,168	€27,307	€27,307	€33,631	€40,050
Accumulated depreciation	€1,865	€4,289	€7,019	€10,382	€14,066
Start up costs	€19,303	€23,018	€20,288	€23,249	€25,984
Deferred Tax Loss	€22,176	€-	€-	€-	€-
Total Assets	€355,426	€467,112	€517,061	€619,948	€728,601
Liabilities + Equity					
Shareholders Equity	€400,000	€400,000	€400,000	€400,000	€400,000
Retained Earnings	€-	€(88,704)	€(177,455)	€(150,793)	€(221,881)
Net Profit	€(88,704)	€111,249	€226,663	€278,912	€422,324
Tax loss carried forward	€22,176	€-	€-	€-	€-
Total Shareholders' Net Worth	€333,472	€422,545	€449,207	€528,119	€600,443
Accounts Payable	€21,954	€44,567	€67,853	€91,828	€128,158
Total Liabilities + Equity	€355,426	€467,112	€517,061	€619,948	€728,601

Table 3. Cash Flow Statement Forecast

Cash Flow Statement Average Scenario					
	2015	2016	2017	2018	2019
Earnings Before Interest and Tax	€(88,704)	€118,763	€302,217	€371,882	€563,099
Corporate Tax	€-	€7,515	€75,554	€92,971	€140,775
Depreciation	€25,049	€40,352	€49,356	€67,907	€77,322
Change in Net Working Capital	€(19,759)	€(296)	€20,055	€-	€10,486
Operating Cash Flow	€(43,896)	€151,897	€255,963	€346,819	€489,160
<i>Real State works</i>	€131,040	€81,850	€-	€84,324	€85,588
<i>Furniture & Equipment</i>	€80,640	€46,040	€-	€47,432	€48,143
<i>Start up costs</i>	€21,168	€6,139	€-	€6,324	€6,419
Capital Expenditure	€232,848	€134,029	€-	€138,080	€140,151
Investing Cash Flow	€(232,848)	€(134,029)	€-	€(138,080)	€(140,151)
Increase/decrease in Shareholders Equity	€400,000	€-	€-	€-	€-
Dividends	€-	€-	€(200,000)	€(200,000)	€(350,000)
Financing Cash Flow	€400,000	€-	€(200,000)	€(200,000)	€(350,000)
Net Cash Flow	€123,256	€17,868	€55,963	€8,739	€(991)
Beginning Cash	€-	€123,256	€141,124	€197,087	€205,826
Ending Cash	€123,256	€141,124	€197,087	€205,826	€204,835

Appendix 2. Optimistic Scenario Annual Financial Statements Forecast

Table 1. Income Statement Forecast

Income Statement Optimistic Scenario					
	2015	2016	2017	2018	2019
Total revenue	€ 823,284	€ 2,339,773	€ 3,731,938	€ 5,165,342	€ 6,640,908
COGS (final customer)	€ 205,821	€ 480,489	€ 657,330	€ 839,368	€ 1,026,719
COGS (franchisees)	€ -	€ 208,908	€ 551,309	€ 903,935	€ 1,267,015
<i>Gross profit Margin</i>	75%	71%	68%	66%	65%
Gross Profit	€ 617,463	€ 1,650,376	€ 2,523,299	€ 3,422,039	€ 4,347,173
Total Rent	€ 217,728	€ 441,988	€ 616,849	€ 796,857	€ 982,126
Salaries and social charges	€ 268,531	€ 478,820	€ 656,477	€ 839,356	€ 1,027,574
Insurance	€ 1,814	€ 3,683	€ 4,985	€ 6,324	€ 7,703
Utility bills	€ 9,072	€ 18,416	€ 24,923	€ 31,621	€ 38,515
Kitchen equipment leasing	€ 6,048	€ 12,277	€ 18,692	€ 25,297	€ 32,096
Marketing	€ 54,432	€ 165,745	€ 280,386	€ 398,429	€ 519,949
<i>EBITDA margin</i>	7%	23%	25%	26%	26%
EBITDA	€59,837	€529,445	€920,986	€1,324,154	€1,739,210
Depreciation	€25,049	€49,356	€67,633	€86,184	€105,013
<i>EBIT margin</i>	4%	21%	23%	24%	25%
EBIT	€34,789	€480,090	€853,354	€1,237,970	€1,634,197
<i>Corporate Tax (Yt)</i>	€8,697	€120,022	€213,338	€309,493	€408,549
<i>Deferred Tax Loss (Yt-1)</i>	€-	€-	€-	€-	€-
<i>Corporate Tax-Deferred Tax</i>	€8,697	€120,022	€213,338	€309,493	€408,549
Final Corporate Tax	€8,697	€120,022	€213,338	€309,493	€408,549
<i>Net profit Margin</i>	3%	15%	17%	18%	18%
Net Profit	€26,091	€360,067	€640,015	€928,478	€1,225,648

Table 2. Balance Sheet Forecast

Balance Sheet Optimistic Scenario					
	2015	2016	2017	2018	2019
Assets					
Cash	€242,991	€206,221	€215,295	€228,964	€256,173
Raw Materials & Inventory	€2,744	€6,964	€11,309	€15,783	€20,389
Accounts Receivable	€-	€50,138	€101,780	€154,960	€209,713
<i>Gross Real State works</i>	€131,040	€212,890	€295,967	€380,290	€465,879
<i>Accumulated depreciation</i>	€10,584	€31,873	€61,470	€99,499	€146,087
Real State works	€120,456	€181,017	€234,497	€280,792	€319,792
<i>Gross Furniture & Equipment</i>	€80,640	€126,680	€173,411	€220,843	€268,987
<i>Accumulated depreciation</i>	€12,600	€37,936	€72,618	€116,787	€170,584
Furniture & Equipment	€68,040	€88,744	€100,793	€104,056	€98,402
<i>Gross Start up costs</i>	€21,168	€27,307	€33,538	€39,862	€46,281
<i>Accumulated depreciation</i>	€1,865	€4,595	€7,949	€11,935	€16,563
Start up costs	€19,303	€22,711	€25,588	€27,926	€29,717
Deferred Tax Loss	€-	€-	€-	€-	€-
Total Assets	€453,534	€555,795	€689,263	€812,482	€934,187
Liabilities + Equity					
<i>Shareholders Equity</i>	€400,000	€400,000	€400,000	€400,000	€400,000
<i>Retained Earnings</i>	€-	€(273,909)	€(463,841)	€(673,826)	€(895,348)
<i>Net Profit</i>	€26,091	€360,067	€640,015	€928,478	€1,225,648
<i>Tax loss carried forward</i>	€-	€-	€-	€-	€-
Total Shareholders' Net Worth	€426,091	€486,159	€576,174	€654,652	€730,299
Accounts Payable	€27,443	€69,636	€113,089	€157,830	€203,888
Total Liabilities + Equity	€453,534	€555,795	€689,263	€812,482	€934,187

Table 3. Cash Flow Statement Forecast

Cash Flow Statement Optimistic Scenario					
	2015	2016	2017	2018	2019
Earnings Before Interest and Tax	€34,789	€480,090	€853,354	€1,237,970	€1,634,197
Corporate Tax	€8,697	€120,022	€213,338	€309,493	€408,549
Depreciation	€25,049	€49,356	€67,633	€86,184	€105,013
Change in Net Working Capital	€(24,699)	€12,164	€12,534	€12,913	€13,301
Operating Cash Flow	€75,839	€397,259	€695,113	€1,001,748	€1,317,360
<i>Real State works</i>	€131,040	€81,850	€83,077	€84,324	€85,588
<i>Furniture & Equipment</i>	€80,640	€46,040	€46,731	€47,432	€48,143
<i>Start up costs</i>	€21,168	€6,139	€6,231	€6,324	€6,419
Capital Expenditure	€232,848	€134,029	€136,039	€138,080	€140,151
Investing Cash Flow	€(232,848)	€(134,029)	€(136,039)	€(138,080)	€(140,151)
Increase/decrease in Shareholders Equity	€400,000	€-	€-	€-	€-
Dividends	€-	€(300,000)	€(550,000)	€(850,000)	€(1,150,000)
Financing Cash Flow	€400,000	€(300,000)	€(550,000)	€(850,000)	€(1,150,000)
Net Cash Flow	€242,991	€(36,770)	€9,074	€13,669	€27,209
Beginning Cash	€-	€242,991	€206,221	€215,295	€228,964
Ending Cash	€242,991	€206,221	€215,295	€228,964	€256,173

Appendix 3. Pessimistic Scenario Annual Financial Statements Forecast

Table 1. Income Statement Forecast

Income Statement Pessimistic Scenario					
	2015	2016	2017	2018	2019
Total revenue	€ 345,779	€ 401,104	€ 407,121	€ 413,227	€ 419,426
COGS (final customer)	€ 86,445	€ 100,276	€ 101,780	€ 103,307	€ 104,856
COGS (franchisees)	€ -	€ -	€ -	€ -	€ -
<i>Gross profit Margin</i>	75%	75%	75%	75%	75%
Gross Profit	€ 259,334	€ 300,828	€ 305,340	€ 309,920	€ 314,569
Total Rent	€ 163,296	€ 165,745	€ 168,232	€ 170,755	€ 173,316
Salaries and social charges	€ 230,792	€ 234,254	€ 237,767	€ 241,334	€ 244,954
Insurance	€ 1,210	€ 1,228	€ 1,246	€ 1,265	€ 1,284
Utility bills	€ 6,048	€ 6,139	€ 6,231	€ 6,324	€ 6,419
Kitchen equipment leasing	€ 6,048	€ 6,139	€ 6,231	€ 6,324	€ 6,419
Marketing	€ 36,288	€ 36,832	€ 37,385	€ 37,946	€ 38,515
<i>EBITDA margin</i>	-53%	-37%	-37%	-37%	-37%
EBITDA	€(184,347)	€(149,509)	€(151,751)	€(154,027)	€(156,338)
Depreciation	€18,749	€18,749	€18,749	€18,749	€18,749
<i>EBIT margin</i>	-59%	-42%	-42%	-42%	-42%
EBIT	€(203,096)	€(168,257)	€(170,500)	€(172,776)	€(175,087)
<i>Corporate Tax (Yt)</i>	€(50,774)	€(42,064)	€(42,625)	€(43,194)	€(43,771.66)
<i>Deferred Tax Loss (Yt-1)</i>	€-	€50,774	€92,838	€135,463	€178,657
<i>Corporate Tax-Deferred Tax</i>	€(50,774)	€(92,838)	€(135,463)	€(178,657)	€(222,429)
Final Corporate Tax	€-	€-	€-	€-	€-
<i>Net profit Margin</i>	-59%	-42%	-42%	-42%	-42%
Net Profit	€(203,096)	€(168,257)	€(170,500)	€(172,776)	€(175,087)

Table 2. Balance Sheet Forecast

Balance Sheet Pessimistic Scenario					
	2015	2016	2017	2018	2019
Assets					
Cash	€80,935	€(68,463)	€(220,101)	€(374,014)	€(530,236)
Raw Materials & Inventory	€823	€836	€848	€861	€874
Accounts Receivable	€-	€-	€-	€-	€-
<i>Gross Real State works</i>	€80,640	€80,640	€80,640	€80,640	€80,640
<i>Accumulated depreciation</i>	€8,064	€16,128	€24,192	€32,256	€40,320
Real State works	€72,576	€64,512	€56,448	€48,384	€40,320
<i>Gross Furniture & Equipment</i>	€45,360	€45,360	€45,360	€45,360	€45,360
<i>Accumulated depreciation</i>	€9,072	€18,144	€27,216	€36,288	€45,360
Furniture & Equipment	€36,288	€27,216	€18,144	€9,072	€-
<i>Gross Start up costs</i>	€16,128	€16,128	€16,128	€16,128	€16,128
<i>Accumulated depreciation</i>	€1,613	€3,226	€4,838	€6,451	€8,064
Start up costs	€14,515	€12,902	€11,290	€9,677	€8,064
Deferred Tax Loss	€50,774	€92,838	€135,463	€178,657	€222,429
Total Assets	€255,911	€129,842	€2,092	€(127,363)	€(258,549)
Liabilities + Equity					
<i>Shareholders Equity</i>	€400,000	€400,000	€400,000	€400,000	€400,000
<i>Retained Earnings</i>	€-	€(203,096)	€(371,353)	€(541,853)	€(714,629)
<i>Net Profit</i>	€(203,096)	€(168,257)	€(170,500)	€(172,776)	€(175,087)
<i>Tax loss carried forward</i>	€50,774	€92,838	€135,463	€178,657	€222,429
Total Shareholders' Net Worth	€247,678	€121,485	€(6,390)	€(135,972)	€(267,287)
Accounts Payable	€8,233	€8,356	€8,482	€8,609	€8,738
Total Liabilities + Equity	€255,911	€129,842	€2,092	€(127,363)	€(258,549)

Table 3. Cash Flow Statement Forecast

Cash Flow Statement Pessimistic Scenario					
	2015	2016	2017	2018	2019
Earnings Before Interest and Tax	€(203,096)	€(168,257)	€(170,500)	€(172,776)	€(175,087)
Corporate Tax	€-	€-	€-	€-	€-
Depreciation	€18,749	€18,749	€18,749	€18,749	€18,749
Change in Net Working Capital	€(7,410)	€(111)	€(113)	€(115)	€(116)
Operating Cash Flow	€(176,937)	€(149,397)	€(151,638)	€(153,913)	€(156,222)
<i>Real State works</i>	€80,640	€-	€-	€-	€-
<i>Furniture & Equipment</i>	€45,360	€-	€-	€-	€-
<i>Start up costs</i>	€16,128	€-	€-	€-	€-
Capital Expenditure	€142,128	€-	€-	€-	€-
Investing Cash Flow	€(142,128)	€-	€-	€-	€-
Increase/decrease in Shareholders Equity	€400,000	€-	€-	€-	€-
Dividends	€-	€-	€-	€-	€-
Financing Cash Flow	€400,000	€-	€-	€-	€-
Net Cash Flow	€80,935	€(149,397)	€(151,638)	€(153,913)	€(156,222)
Beginning Cash	€-	€80,935	€(68,463)	€(220,101)	€(374,014)
Ending Cash	€80,935	€(68,463)	€(220,101)	€(374,014)	€(530,236)

Appendix 4. Monthly Income Statement for the first year

Table 1. Average Scenario

Income Statement 2015													
	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Total 2015
Total revenue	€21,954	€26,345	€30,736	€35,127	€39,518	€43,908	€65,863	€70,254	€74,644	€79,035	€83,426	€87,817	€ 658,627
COGS (final customer)	€ 5,489	€ 6,586	€ 7,684	€ 8,782	€ 9,879	€ 10,977	€ 16,466	€ 17,563	€ 18,661	€ 19,759	€ 20,857	€ 21,954	€ 164,657
COGS (franchisees)	€ -	€ -	€ -	€ -	€ -	€ -	€ -	€ -	€ -	€ -	€ -	€ -	€ -
<i>Gross profit Margin</i>	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	
Gross Profit	€16,466	€19,759	€23,052	€26,345	€29,638	€32,931	€49,397	€52,690	€55,983	€59,276	€62,570	€65,863	€ 493,970
Total Rent	€13,608	€13,608	€13,608	€13,608	€13,608	€13,608	€22,680	€22,680	€22,680	€22,680	€22,680	€22,680	€ 217,728
<i>% of revenue</i>	62%	52%	44%	39%	34%	31%	34%	32%	30%	29%	27%	26%	
Salaries and social charges	€19,233	€19,233	€19,233	€19,233	€19,233	€19,233	€25,523	€25,523	€25,523	€25,523	€25,523	€25,523	€ 268,531
<i>% of revenue</i>	88%	73%	63%	55%	49%	44%	39%	36%	34%	32%	31%	29%	
Insurance	€101	€101	€101	€101	€101	€101	€202	€202	€202	€202	€202	€202	€ 1,814
Utility bills	€504	€504	€504	€504	€504	€504	€1,008	€1,008	€1,008	€1,008	€1,008	€1,008	€ 9,072
Kitchen equipment leasing	€504	€504	€504	€504	€504	€504	€504	€504	€504	€504	€504	€504	€ 6,048
Marketing	€3,024	€3,024	€3,024	€3,024	€3,024	€3,024	€6,048	€6,048	€6,048	€6,048	€6,048	€6,048	€ 54,432
<i>EBITDA margin</i>	-93%	-65%	-45%	-30%	-19%	-9%	-10%	-5%	0%	4%	8%	11%	-10%
EBITDA	€(20,508)	€(17,215)	€(13,921)	€(10,628)	€(7,335)	€(4,042)	€(6,567)	€(3,274)	€19	€3,312	€6,605	€9,899	€(63,655)
Depreciation	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€2,612	€2,612	€2,612	€2,612	€2,612	€2,612	€25,049
<i>EBIT margin</i>	-101%	-71%	-50%	-35%	-23%	-13%	-14%	-8%	-3%	1%	5%	8%	-13%
EBIT	€(22,070)	€(18,777)	€(15,484)	€(12,191)	€(8,898)	€(5,604)	€(9,180)	€(5,886)	€(2,593)	€700	€3,993	€7,286	€(88,704)
Final Corporate Tax													€-
<i>Net profit Margin</i>													-13%
Net Profit													€(88,704)

Table 3. Pessimistic Scenario

Income Statement 2015													
	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Total 2015
Total revenue	€16,466	€19,759	€23,052	€26,345	€29,638	€32,931	€32,931	€32,931	€32,931	€32,931	€32,931	€32,931	€ 345,779
COGS (final customer)	€ 4,116	€ 4,940	€ 5,763	€ 6,586	€ 7,410	€ 8,233	€ 8,233	€ 8,233	€ 8,233	€ 8,233	€ 8,233	€ 8,233	€ 86,445
COGS (franchisees)	€ -	€ -	€ -	€ -	€ -	€ -	€ -	€ -	€ -	€ -	€ -	€ -	€ -
<i>Gross profit Margin</i>	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	
Gross Profit	€12,349	€14,819	€17,289	€19,759	€22,229	€24,699	€24,699	€24,699	€24,699	€24,699	€24,699	€24,699	€ 259,334
Total Rent	€13,608	€13,608	€13,608	€13,608	€13,608	€13,608	€13,608	€13,608	€13,608	€13,608	€13,608	€13,608	€ 163,296
<i>% of revenue</i>	83%	69%	59%	52%	46%	41%	41%	41%	41%	41%	41%	41%	
Salaries and social charges	€19,233	€19,233	€19,233	€19,233	€19,233	€19,233	€19,233	€19,233	€19,233	€19,233	€19,233	€19,233	€ 230,792
<i>% of revenue</i>	117%	97%	83%	73%	65%	58%	58%	58%	58%	58%	58%	58%	
Insurance	€101	€101	€101	€101	€101	€101	€101	€101	€101	€101	€101	€101	€ 1,210
Utility bills	€504	€504	€504	€504	€504	€504	€504	€504	€504	€504	€504	€504	€ 6,048
Kitchen equipment leasing	€504	€504	€504	€504	€504	€504	€504	€504	€504	€504	€504	€504	€ 6,048
Marketing	€3,024	€3,024	€3,024	€3,024	€3,024	€3,024	€3,024	€3,024	€3,024	€3,024	€3,024	€3,024	€ 36,288
<i>EBITDA margin</i>	-150%	-112%	-85%	-65%	-50%	-37%	-37%	-37%	-37%	-37%	-37%	-37%	-53%
EBITDA	€(24,624)	€(22,154)	€(19,684)	€(17,215)	€(14,745)	€(12,275)	€(12,275)	€(12,275)	€(12,275)	€(12,275)	€(12,275)	€(12,275)	€(184,347)
Depreciation	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€18,749
<i>EBIT margin</i>	-159%	-120%	-92%	-71%	-55%	-42%	-42%	-42%	-42%	-42%	-42%	-42%	-59%
EBIT	€(26,187)	€(23,717)	€(21,247)	€(18,777)	€(16,307)	€(13,837)	€(13,837)	€(13,837)	€(13,837)	€(13,837)	€(13,837)	€(13,837)	€(203,096)
Final Corporate Tax													€-
<i>Net profit Margin</i>													-59%
Net Profit													€(203,096)

Appendix 5. Monthly Cash Flow Statement for the first year

Table 1. Average Scenario

Cash Flow Statement 2015													Total 2015
	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	
Earnings Before Interest and Tax	€(22,070)	€(18,777)	€(15,484)	€(12,191)	€(8,898)	€(5,604)	€(9,180)	€(5,886)	€(2,593)	€700	€3,993	€7,286	€(88,704)
Corporate Tax													€-
Depreciation	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€2,612	€2,612	€2,612	€2,612	€2,612	€2,612	€25,049
Change in Net Working Capital	€(4,940)	€(988)	€(988)	€(988)	€(988)	€(988)	€(4,940)	€(988)	€(988)	€(988)	€(988)	€(988)	€(19,759)
Operating Cash Flow	€(15,568)	€(16,227)	€(12,934)	€(9,640)	€(6,347)	€(3,054)	€(1,627)	€(2,286)	€1,007	€4,300	€7,593	€10,887	€(43,896)
<i>Real State works</i>	<i>€80,640</i>						<i>€50,400</i>						<i>€131,040</i>
<i>Furniture & Equipment</i>	<i>€45,360</i>						<i>€35,280</i>						<i>€80,640</i>
<i>Start up costs</i>	<i>€16,128</i>						<i>€5,040</i>						<i>€21,168</i>
Capital Expenditure	€142,128						€90,720						€232,848
Investing Cash Flow	€(142,128)	€-	€-	€-	€-	€-	€(90,720)	€-	€-	€-	€-	€-	€(232,848)
Change in Shareholders Equity	€400,000												€400,000
Dividends													€-
Financing Cash Flow	€400,000	€-	€-	€-	€-	€-	€-	€-	€-	€-	€-	€-	€400,000
Net Cash Flow	€242,304	€(16,227)	€(12,934)	€(9,640)	€(6,347)	€(3,054)	€(92,347)	€(2,286)	€1,007	€4,300	€7,593	€10,887	€123,256
Beginning Cash	€-	€242,304	€226,077	€213,144	€203,503	€197,156	€194,102	€101,754	€99,468	€100,476	€104,776	€112,369	€-
Ending Cash	€242,304	€226,077	€213,144	€203,503	€197,156	€194,102	€101,754	€99,468	€100,476	€104,776	€112,369	€123,256	€123,256

Table 2. Optimistic Scenario

Cash Flow Statement 2015													
	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Total 2015
Earnings Before Interest and Tax	€(17,954)	€(13,837)	€(9,721)	€(5,604)	€(1,488)	€2,628	€3,170	€7,286	€11,403	€15,519	€19,635	€23,752	€34,789
Corporate Tax													€8,697
Depreciation	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€2,612	€2,612	€2,612	€2,612	€2,612	€2,612	€25,049
Change in Net Working Capital	€(6,175)	€(1,235)	€(1,235)	€(1,235)	€(1,235)	€(1,235)	€(6,175)	€(1,235)	€(1,235)	€(1,235)	€(1,235)	€(1,235)	€(24,699)
Operating Cash Flow	€(10,217)	€(11,040)	€(6,924)	€(2,807)	€1,309	€5,426	€11,957	€11,133	€15,250	€19,366	€23,483	€27,599	€75,839
<i>Real State works</i>	€80,640						€50,400						€131,040
<i>Furniture & Equipment</i>	€45,360						€35,280						€80,640
<i>Start up costs</i>	€16,128						€5,040						€21,168
Capital Expenditure	€142,128						€90,720						€232,848
Investing Cash Flow	€(142,128)	€-	€-	€-	€-	€-	€(90,720)	€-	€-	€-	€-	€-	€(232,848)
Change in Shareholders Equity	€400,000												€400,000
Dividends													€-
Financing Cash Flow	€400,000	€-	€-	€-	€-	€-	€-	€-	€-	€-	€-	€-	€400,000
Net Cash Flow	€247,655	€(11,040)	€(6,924)	€(2,807)	€1,309	€5,426	€(78,763)	€11,133	€15,250	€19,366	€23,483	€27,599	€242,991
Beginning Cash	€-	€247,655	€236,615	€229,692	€226,885	€228,194	€233,620	€154,856	€165,990	€181,240	€200,606	€224,089	€-
Ending Cash	€247,655	€236,615	€229,692	€226,885	€228,194	€233,620	€154,856	€165,990	€181,240	€200,606	€224,089	€251,688	€242,991

Table 3. Pessimistic Scenario

Cash Flow Statement 2015													
	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Total 2015
Earnings Before Interest and Tax	€(26,187)	€(23,717)	€(21,247)	€(18,777)	€(16,307)	€(13,837)	€(13,837)	€(13,837)	€(13,837)	€(13,837)	€(13,837)	€(13,837)	€(203,096)
Corporate Tax													€-
Depreciation	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€1,562	€18,749
Change in Net Working Capital	€(3,705)	€(741)	€(741)	€(741)	€(741)	€(741)	€-	€-	€-	€-	€-	€-	€(7,410)
Operating Cash Flow	€(20,919)	€(21,413)	€(18,944)	€(16,474)	€(14,004)	€(11,534)	€(12,275)	€(12,275)	€(12,275)	€(12,275)	€(12,275)	€(12,275)	€(176,937)
<i>Real State works</i>	€80,640						€-						€80,640
<i>Furniture & Equipment</i>	€45,360						€-						€45,360
<i>Start up costs</i>	€16,128						€-						€16,128
Capital Expenditure	€142,128						€-						€142,128
Investing Cash Flow	€(142,128)	€-	€-	€-	€-	€-	€-	€-	€-	€-	€-	€-	€(142,128)
Change in Shareholders Equity	€400,000												€400,000
Dividends													€-
Financing Cash Flow	€400,000	€-	€-	€-	€-	€-	€-	€-	€-	€-	€-	€-	€400,000
Net Cash Flow	€236,953	€(21,413)	€(18,944)	€(16,474)	€(14,004)	€(11,534)	€(12,275)	€(12,275)	€(12,275)	€(12,275)	€(12,275)	€(12,275)	€80,935
Beginning Cash	€-	€236,953	€215,539	€196,596	€180,122	€166,118	€154,584	€142,309	€130,034	€117,759	€105,485	€93,210	€-
Ending Cash	€236,953	€215,539	€196,596	€180,122	€166,118	€154,584	€142,309	€130,034	€117,759	€105,485	€93,210	€80,935	€80,935

Appendix 6. Company Valuation

Table 1. Discounted Cash Flow Method

Discounted Cash Flow	Initial Investment	2015	2016	2017	2018	2019	
<i>Discounting period</i>	-	1	2	3	4	5	
<i>Discounting factor</i>	1.00	0.76	0.57	0.44	0.33	0.25	
Average Scenario							
Cash Flows to Shareholders	€(400,000)	€-	€-	€200,000	€200,000	€350,000	
Continuing Value						€1,571,438	
Present Value of Cash flows	€(400,000)	€-	€-	€87,057	€65,977	€480,374	
Optimistic Scenario							
Cash Flows to Shareholders	€(400,000)	€-	€300,000	€550,000	€850,000	€1,150,000	
Continuing Value						€4,560,549	
Present Value of Cash flows	€(400,000)	€-	€172,307	€239,406	€280,402	€6,000,000	
Pessimistic Scenario							
Cash Flows to Shareholders	€(400,000)	€-	€-	€-	€-	€-	
Sale value			€100,000				
Present Value of Cash flows	€(400,000)	€-	€57,436	€-	€-	€-	
Venture Value		Prob.					
<i>Average Scenario</i>	70%	€(280,000)	€-	€-	€60,940	€46,184	€336,262
<i>Optimistic Scenario</i>	5%	€(20,000)	€-	€8,615	€11,970	€14,020	€300,000
<i>Pessimistic Scenario</i>	25%	€(100,000)	€-	€14,359	€-	€-	€-
Present Value of Expected cash Flows	€(400,000)	€-	€22,974	€72,910	€60,204	€636,262	
Net Present Value	€392,350						

Table 2. Industry Beta

Sector betas	# of firms	Beta	D/E ratio	Tax Rate	Unlevered Beta
Restaurant Industry	84	0.86	25.57%	15.17%	0.69

Source: Bloomberg & NYU

Table 3. WACC

WACC	
Debt/Equity	0.0%
Debt/Value	0.0%
Equity/Value	100.0%
Market Risk Premium	5.0%
Tax Rate	25.0%
Risk-Free Rate	3.5%
Unlevered beta (industry)	0.69
Unlevered Cost of Equity	7.0%
Levered Cost of Equity	7.0%
Illiquidity Premium	25.0%
WACC	32%

Table 4. Venture Capital Method

Venture Capital Method	Initial Investment	2015	2016	2017	2018	2019	
<i>Discounting period</i>	-	1	2	3	4	5	
<i>Discounting factor</i>	1.00	0.67	0.44	0.30	0.20	0.13	
Average Scenario							
Cash Flows to Shareholders	€(400,000)	€-	€-	€200,000	€200,000	€350,000	
Continuing Value						€1,571,438	
Present Value of Cash flows	€(400,000)	€-	€-	€87,057	€65,977	€480,374	
Optimistic Scenario							
Cash Flows to Shareholders	€(400,000)	€-	€300,000	€550,000	€850,000	€1,150,000	
Continuing Value						€4,560,549	
Present Value of Cash flows	€(400,000)	€-	€172,307	€239,406	€280,402	€6,000,000	
Hurdle Rate	50%						
Venture Value							
	Prob.						
<i>Average Scenario</i>	93%	€(373,333)	€-	€-	€81,253	€61,579	€448,349
<i>Optimistic Scenario</i>	7%	€(26,667)	€-	€11,487	€15,960	€18,693	€400,000
Present Value of Expected cash Flows		€(400,000)	€-	€11,487	€97,213	€80,272	€848,349
Net Present Value		€637,321					

Appendix 7. Required Investors Share

Table 1. Required share under Discounted Cash Flow Method

Required Investors Share	Ownership	2014	2015	2016	2017	2018	2019
Present Value of Venture Cash Flows		€(400,000)	€-	€22,974	€72,910	€60,204	€636,262
Investors PV of Cash Flows	30%	€(300,000)	€-	€68,984	€21,892	€18,077	€191,047
NPV for investors	€0						

Table 2. Required Share under Venture Capital Method

Required Investors Share	Ownership	2014	2015	2016	2017	2018	2019
Present Value of Venture Cash Flows		€(400,000)	€-	€11,487	€97,213	€80,272	€848,349
Investors PV of Cash Flows	29%	€(300,000)	€-	€3,322	€28,115	€23,215	€245,348
NPV for investors	€0						

Appendix 8. Entrepreneurs Cash Flows and Returns

Entrepreneurs Cash Flows and Returns		2014	2015	2016	2017	2018	2019
<i>Average Scenario</i>	70%	€(280,000)	€-	€-	€140,000	€140,000	€1,345,007
<i>Optimistic Scenario</i>	5%	€(20,000)	€-	€15,000	€27,500	€42,500	€285,527
<i>Pessimistic Scenario</i>	25%	€(100,000)	€-	€25,000	€-	€-	€-
Venture Cash flows		€(400,000)	€-	€15,000	€167,500	€182,500	€1,630,534
Cash flows to entrepreneurs	65%	€(100,000)	€-	€9,746	€108,831	€118,577	€1,059,415
Internal Rate of Return of the Venture	41%						
Internal Rate of Return for Entrepreneurs	75%						