

Analysis of Restaurant Opportunities

This section explores market opportunities for new restaurants in the Sauk Prairie Trade Area. The section begins with a summary of industry trends that provide background on changing consumer preferences. Then an analysis of the Sauk Prairie market is presented.

Industry Trends

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

In the 1990s fast food restaurant proliferation included "channel burners," fast food restaurants incorporated into gas stations, Wal-Marts and Targets. The result was fast food market saturation. By 2002 full service restaurants bypassed fast food restaurants in the total food away from home spending, according to the Economic Research Service of the USDA's report, *The Demand for Food Away From Home: Full Service or Fast Food?* published in January 2004. This report predicts that changing demographics including a larger ageing population, less traditional households and generally higher per capita incomes will result in the increase in the number of full service restaurants.

Another trend is the growth of highly sophisticated companies specializing in sit-down restaurants such as Cheesecake Factory (American), P.F. Chang's China Bistro (Chinese), Morton's (Steak), and Olive Garden (Italian). In 2002, large chains for the first time captured more of the dining out market than independent restaurants. These and other chains have expanded throughout the country and many are publicly traded (fueling their expansions).

Consumer Preferences

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

According to research by C&R Research for the National Restaurant Association, there are four broad food attitude segments among today's restaurant patrons. The distribution of diners among these four segments is fairly even, although differences will be found in different communities:

- Adventurous diners are consumers enthusiastic about trying new types of foods and ingredients. They are frequent diners who are "upscale," educated and more likely to live in urban areas.

- Traditional diners are the least experimental and tend to live in smaller cities. They are often older, less frequent patrons who enjoy comfort foods.
- Health-conscious diners make food choices based on health concerns as well as specialized diets such as vegetarian, kosher and high protein/low carbohydrate.
- Carefree diners are the opposite of health-conscious diners and want to forget about eating healthy. These consumers are typically males under the age of 50.

In general, National Restaurant Association research points to increased preferences for salads, seafood, chicken and bottled water. Trends specific to full service and quick service restaurants follow.

Full Service Restaurant Trends

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

In many smaller communities, the "supper club," with its aging customer base, is being replaced by casual dinner house restaurants. Casual attire is seen in this style of restaurant, and it appeals to all age groups allowing intergenerational dining. Menus feature variety from hamburgers to steaks, sandwiches to entrees, appetizers to desserts. While the normal variety of alcoholic beverages is available, these restaurants are more likely to focus on wine or beer with a meal as opposed to spirits. According to Nation's Restaurant News, dinner houses are driving growth in the restaurant industry. Prominent dinner houses include such powerhouses as Red Lobster, Olive Garden, Chili's and T.G.I. Friday's.

Quick Service Restaurant Trends

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

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

According to a National Restaurant Association survey, consumers desire carry-out and delivery and many view takeout as essential to their lifestyle. Restaurants will face continuing competition from grocery stores, convenience stores and others courting the takeout market. More consumers are also becoming more value-conscious expecting better value in terms of price paid, service consistency and food quality. Consumers are becoming more interested in using technology like self-service terminals.

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

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

Sauk Prairie Location Analysis

Analysis of the restaurant market must look beyond the local residential base to include all people who travel through, or to, the community (residents and non-residents). In this analysis, traffic patterns provide an important indicator of the level of exposure a restaurant would receive at a specific location. "Demand generators" are examined as they contribute to restaurant utilization levels. Additionally, company offices, manufacturing firms, schools and retail businesses generate restaurant business, often from non-residents entering the area.

Traffic Volume and Direction

The trade area's highest traffic volume occurs on Highway 12 just east of Water Street, before crossing the Wisconsin River, on the edge of the Sauk City's downtown business district. The average daily traffic volume is 15,000 vehicles per day. In the morning, traffic is heavier southbound; in the evening, the reverse is true. During the summer, weekend traffic is heavier.

Average daily traffic volume on Water Street in downtown Sauk City is roughly 10,700 vehicles per day. In the summer, traffic increases on Water Street but not to the extent seen on Highway 12.

Prairie du Sac's highest traffic volume is found at the intersection of Broadway and Water Streets. At that intersection, the average daily traffic volume is approximately 8,600 vehicles per day.

Eagle watching season in Prairie du Sac creates steady pedestrian traffic downtown from mid November through mid March. Otherwise, pedestrian traffic is heaviest in the morning as people walk to work or to buy coffee. Lunchtime traffic is fair, due to a limited number of restaurants.

Visibility, Accessibility and Parking

The intersection of Highway 12 and Water Street in downtown Sauk City has high visibility and good accessibility; however, the corner is not inviting and does not provide a reason for travelers to turn downtown.

In downtown Sauk City, the two downtown blocks of Water Street have 80 angled parking spaces. During the day, parking is somewhat difficult. Municipal parking lots feature an additional 125 spaces one block east and west of Water Street. More parking is available but unmarked. After 5:30 p.m., parking on Water Street is much easier. Signage should be increased to improve public awareness of off-street parking areas, as well to denote the downtown business district.

Traveling north on Water Street from Sauk City, the entrance into the Prairie du Sac's central business district has high visibility and good accessibility. Parking on Water Street in downtown Prairie du Sac is difficult in the northern half of Prairie du Sac, although it eases up after 5:30 p.m. The number of street and parking lots spaces within the 3 downtown blocks is 138. An additional 63 stalls are within one block of Water Street.

Major Demand Generators

The primary daytime demand generators in the community are the major employers. In Sauk City, Fiskars and Unity Health Insurance are located in the industrial park directly off Highway 12. Both businesses have cafeterias. McFarlane Mfg. Co is located on Water Street just south of the Sauk City business district. Fuch's is situated off highway 12 on the opposite side of the Wisconsin River.

Prairie du Sac's major employers include Sauk Prairie Memorial Hospital, Sauk Prairie School District and Milwaukee Valve, located in the Prairie du Sac Industrial Park. While the Hospital is located within a few blocks of Water Street, it does contain its own cafeteria. The school district offices are just far enough to be outside of walking distance.

While a number of local employers are located on the periphery, they generate traffic through downtown especially during the commuting periods. Accordingly, there may be opportunities to capture this traffic in the morning for coffee and breakfast and in the evening for take-home items. While company cafeterias and eating spaces may limit demand for a lunch customers, there may still be opportunities to serve other employees in the area by setting up regular order and delivery periods, or by offering catering services.

High school students at Sauk Prairie High School in Prairie du Sac have an open campus for lunch. Approximately 20-35 percent of students leave campus on any given day in route to a nearby restaurant or home.

In Sauk City, evening demand generators are limited to two bowling alleys and a few bars. In Prairie du Sac, the Bonham theatre shows weekday movies starting around 7 p.m. The late movie, Friday through Sunday begins around 8 p.m.

Meal Periods Most Likely to Draw Customers

Currently, the meal period most likely to draw customers is lunch, due to a reported lack of restaurants available for the business lunch. Nonetheless, the dinner period provides some opportunities. Currently, few businesses and only two restaurants in each village are open after dinner, limiting the number of evening dining options. The success of an establishment catering to a dinner crowd would be enhanced if it could target customers from outside of the trade area.

Seasonal Trends Affecting Business

Weekend business during eagle watching season, mid November through mid March, produces more tourists and pedestrian activity than usual in both downtowns. Increased summer traffic to the Dells, especially on Highway 12, provides an opportunity to tap into a tourist market for more leisurely meals.

Restaurant Site Alternatives

Location is critical to success in the restaurant industry. There are three possible areas for new restaurants to locate in Sauk Prairie: downtown Sauk City, downtown Prairie du Sac and on Phillips Road. Both downtowns represents excellent opportunities for restaurants to draw the local, commuter and tourist markets as the location on the Wisconsin River and within an historical area adds a positive component that enhances the dining experience. With improved parking signage, a more welcoming entrance to downtown and aesthetic improvements, the two downtown districts could become a unique restaurant destination.

Currently available sites downtown include the former sites of the Waterfront/Riverside Ballroom. Sites on the periphery of the downtowns provide potential sites for new development. On Water Street to the south of Highway 12 a new building development will have four retail spaces on the ground floor.

The other area for potential restaurant development is on Highway 12. The restaurant industry has thrived on freestanding locations with easy access and visibility, which are currently available on Phillips Boulevard. This location may appeal to more harried consumers commuting or running out for a quick lunch.

Sauk Prairie Market Characteristics

Demand

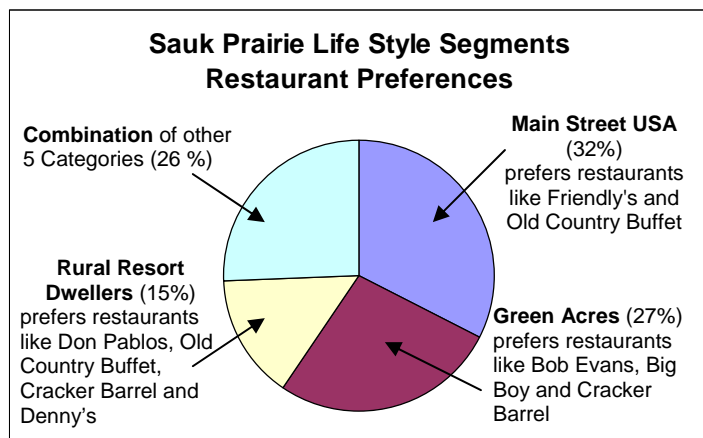
Household spending on food away from home is heavily influenced by a variety of demographic characteristics. Some of the most significant factors are considered in the following table.

U.S. Dining Out Characteristics 2002	Sauk Prairie Trade Area
<p>Household Income – Expenditures on food away from home rises dramatically for households with income before taxes of \$30,000 or more. Households with average income of \$70,000 or more spent more on food away from home than any other group (49.0 percent of their food dollar). In contrast, households with income before taxes between \$15,000 and \$19,999 allocated 34 percent of their total food dollar on food away from home in 2002.</p>	<p>The average household income of Sauk Prairie is 6 percent higher than that of the State, and 13 percent more in Sauk County, suggesting that households in the trade area may have higher expenditures on foods away from home.</p>
<p>Age – Households headed by persons between 55 and 64 spent the most per capita on food away from home in 2002. Adults between 35 and 54 have higher incomes resulting in higher spending. However, adults aged 35 to 44 are also in their prime child-raising years resulting in a larger household size and per capita spending. Spending also decreases among households headed by persons age 65 and older.</p>	<p>The trade area population is slightly older than that of the state. These differences may have a minor influence on dining spending potential.</p>
<p>Household Size – One-person households posted the highest per capita spending on food away from home. Larger households generally allocated a smaller portion of their total food dollar on food away from home and, as a result, posted lower per capita spending.</p>	<p>The trade area has a slightly larger average household size compared to the state suggesting that per capita spending may be slightly lower as compared to the rest of the state. Further, single person households (the highest per capita spenders) represent a smaller percent of the trade area.</p>
<p>Household Composition – Households consisting of only a husband and wife posted the highest per capita spending on food away from home. Households with the oldest child age 18 or older spent about 35 percent more per capita on food away from home than households with the oldest child under age six.</p>	<p>Sauk Prairie has more families with children in comparison with the rest of the state. More than one-third of those households contain children under age 18 resulting in lower spending potential than households without children.</p>
<p>Occupation – Persons employed in managerial and professional occupations posted the highest total and per capita spending on food away from home. Self-employed persons and technical, sales and clerical workers also posted above-average total expenditures on food away from home.</p>	<p>Sauk Prairie has a higher percentage of blue-collar workers than the rest of the state. However, many have higher incomes than white-collar workers signaling that occupation may not influence dining-out spending.</p>

Source: National Restaurant Association's *Restaurant Spending – 2002*

Overall U.S. restaurant expenditure trends are localized and presented here to describe household and per capita spending potential in the Sauk Prairie primary trade area. Local resident lifestyle segments and their demographics are studied to determine the attractiveness of the local market from a restaurateur's perspective.

Tapestry consumer classification data from ESRI™ Marketing systems was used to learn about dining-out activity among household groups in the primary trade area. Overall, Tapestry suggests that the Sauk Prairie primary trade area is a good market for restaurant demand.



According to data purchased from ESRI, residents of the Sauk Prairie primary trade area had \$27,477,693 in consumer spending potential for food purchased away from home in 2004. Dane and Sauk Prairie combined posted \$787,117,677 in food away from home spending potential. The three main lifestyle segments are detailed in the chart above.

Supply

Business Name	Address	Concept
Sauk City Restaurants		
Antique Tap	817 Water Street,	Bar and Grill
Culver's Frozen Custard	716 Phillips Blvd	Franchise
Charlie And Anne's	833 Water Street	Bar and Grill
Dairy Queen	739 Phillips Blvd	Franchise
Dorf Haus	8931 County Road Y	German & American Supper Club / Banquet Facility
Green Acres	7438 State Road 78	Steak House
Java Espresso	Phillips Blvd	Coffee Shack
Jimmy's	101 Jackson Street	Pub Food
Lee's Gardens	207 Water St	Thai or Chinese
Leystra's Venture Restaurant	200 Phillips Blvd	Family Restaurant, homemade food and desserts
McDonald's	727 Phillips Blvd	Franchise
Pizza Pit	51 Polk St	Pizza
Pizza Plaza of Sauk City	837 Water St	Pizza
Press Box	809 Water Street	Tavern featuring soups and sandwiches
Riviera Bowl	51 Polk Street	Pub Food
Roxbury Tavern	8901 Hwy Y	Home Style Cooking and Specialty Foods with no smoking
Sauk City Bowling Lanes	910 Water Street,	Pub Food
Spot the Bar	819 Water Street	Pub Food
Subway Sandwiches and Salads	829 Phillips Blvd	Franchise
T J's Catering	504 Madison St	Catering
Unique Floral and Gifts	806 Water St	Coffee and Sweets
Prairie du Sac Restaurants		
Blue Spoon Creamery Café	550 Water St	Sandwiches, soups, salads, coffees & desserts: outdoor patio
Coach's Place Tavern	638 Water Street	Pub Food
El Paisano	545 Water St	Mexican
Lake Wisconsin Country Club	N1076 Golf Rd	Friday Night Buffet and Sunday Brunch/Banquet Facility
Mr Q'S	614 Water Street	Pub Food
Sauk Prairie Eagle Inn	655 Water St	Family restaurant with homemade food and breakfast all day
Tony's	644 Water St	Pub Food
Steve's Arboretum Lounge	7888 State Road 188	Pub Food
Wytenbach Meats	19th & Prairie Street	Breakfast, Lunch and Carry Out
Major Competitors Elsewhere in Primary Trade Area		
C-G'S Pub & Grub	Merrimac	Pub Food
Candy's Merrimac Cafe	Merrimac	
Casey's Café Devil's Head Resort	Merrimac	Breakfast, Lunch, Dinner, Pub food, Banquet Facilities
Ferry Crossing Bar & Grill	Merrimac	
Hillcrest on Lake Wisconsin	Merrimac	Supper Club on Lake Wisconsin. Steaks, seafood and pasta
Old Schoolhouse Restaurant	Merrimac	Supper Club and Pizza
Heiney's Dining & Spirits	Black Earth	Steak and Seafood – higher end.
Hatfield's Bar and Grill	Black Earth	
Lunch Bucket Cafe	Black Earth	
P & C Gas Company	Black Earth	
Patchin Scott & Maxine	Black Earth	
Picadilly Circus	Black Earth	Franchise
Taco Bell Express	Black Earth	Franchise
Fat Mike's Chicago Pizza	Mazomanie	Pizza
Gordon Drive in Restaurant	Mazomanie	
Mazo Dining and Catering	Mazomanie	
Old Feed Mill	Mazomanie	Supper Club also serving lunch
Parkin Inn	Mazomanie	
Rookie's Food and Spirits	Mazomanie	
Subway Sandwiches and Salads	Mazomanie	Franchise
Walking Iron Depot	Mazomanie	
Whistle Stop Cafe	Mazomanie	

The only branded restaurant concepts in the Sauk Prairie trade area are in the quick service sector. They consist of McDonald's, Subway, Dairy Queen, Culver's, and Pizza Pit. This is a limited grouping of the largest segment in the restaurant industry, but is indicative of the limited "branded" restaurant market that has existed in Sauk Prairie at this point. One would need to travel to Baraboo to experience a broader sampling of this segment.

The remainder of the Sauk Prairie supply consists of independent restaurants providing take-out food (i.e., pizza, Asian), family restaurants, Mexican food, taverns, supper clubs or operations from the café/deli segment.

Taverns and fast food businesses dominate Sauk Prairie's restaurants. These are followed by the two family style restaurants, one in each village, two supper clubs located in Roxbury, and the Lake Wisconsin Country Club. Two of these last three restaurants do not serve meals on a daily basis. Recently, the Roxbury Tavern and Green Acres have been sited by media in the Madison area as eating establishments "worth the travel". Blue Spoon Café in Prairie du Sac has a three level terrace outside facing the Wisconsin River. Unique Floral and Java Café in Sauk City both have a deck overlooking the river.

To date no branded concept from the fast casual or casual dinner house segment has considered this location. A number of operations from these segments have instead selected the Madison market. Sauk Prairie appears to support restaurants in a variety of price markets varying from quick service to supper clubs.

Conclusions

Restaurants are essential to downtown development and revitalization. They help provide pedestrian traffic throughout the day and reaffirm the downtown as a destination. Many of these restaurant concepts will benefit from the character and sense of place afforded by revitalized downtown as the Blue Spoon has, and can serve to draw day visitors in town to enjoy the view of the river, eagle watching or a pleasant detour while on a longer trip.

Thru-travelers on highway 12 will need a reason to explore the downtown, but once they do, restaurants can become a main reason for a return visit. Downtown restaurants should stay focused on concepts that will enhance the district's character in an effort to tap into the commuter and tourist market. Quick service restaurants may be more appropriate on Highway 12 where there may be a market advantage based on location and complementary businesses present.

Determining the success of a restaurant goes beyond the market. The success of an individual restaurant depends greatly on its operator and its concept. Accordingly, this analysis identifies restaurant concepts that may have a greater chance of success within the trade area. A concept is a combination of ideas that forms the foundation for a particular type of restaurant operation. It means making decisions about the components of the restaurant including theme, menu, service style, hours of operation, price point, entertainment and atmosphere.

Looking to the preceding information on restaurant locations, consumer demand and existing supply conditions, a number of restaurant concepts were identified in a preliminary effort to determine restaurant concepts that might be successful in the community. The analysis considered the following:

- Is demand for the type of restaurants considered greater than the supply of restaurant seats now available?
- Which types of restaurant concepts considered have the capability to encourage segments in the primary trade area to dine out more frequently?

Concepts offered by the study committee are presented below:

- Brew Pub - A brew pub with a location on the Wisconsin River could serve to fill the market for a more mid-priced bar and grill while also creating a destination for commuters, tourists and those seeking a place for a business lunch.
- Ethnic Casual Restaurant - An Italian, Asian or Mexican restaurant with mid to low price point and sufficient seating may serve the Sauk Prairie market well. While there is an example of each of these restaurants in the area, it would be possible to add another with a different emphasis, either a varying menu, price point or atmosphere in order to be successful in the market.
- Steakhouse/Supper Club/Casual Dining - A supper club or casual dining establishment has future potential. This concept would have to have name recognition outside of the Sauk Prairie trade area. Recruiting an established restaurant in another community to open an additional location in Sauk Prairie could create this recognition.
- Family Buffet - Based on the number of families and the lifestyle segmentation, there appears to be an adequate market for a family buffet restaurant either more traditional in the realm of an Old Country Buffet or a Chinese buffet.
- Family Restaurant - Based on the number of families and the lifestyle segmentation, there appears to be an adequate market for a family restaurant. While family restaurants already exist within the trade area, it would be possible to add another with a different emphasis, either a varying menu, price point, setting or entertaining atmosphere in order to be successful in the market.

The history of both downtowns, their sense of place and unique setting on the Wisconsin River makes them ideal locations for some of these restaurants to locate, particularly emphasizing the view through the large windows or outdoor seating. There is both a perceived and actual need for restaurants in both downtowns.

It should be noted that these concepts require more thorough and detailed analysis before business expansion or recruitment effort begins. However, much of the required data for a more comprehensive analysis of the restaurant market may be considered proprietary and difficult to obtain. Accordingly, further analysis of the restaurant market should be conducted in a collaborative effort with existing and prospective restaurant industry professionals.