

# THE HOUSE RESTAURANT BUSINESS PLAN

A Project Presented to the Faculty  
of  
California State University, Stanislaus

In Partial Fulfillment  
of the Requirements for the Degree  
of Master of Business Administration

By  
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CERTIFICATION OF APPROVAL

THE HOUSE RESTAURANT BUSINESS PLAN

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## DEDICATION

I would like to take the opportunity to thank everyone who helped me along my journey in my pursuit toward a Master of Business Administration degree. First, I want to thank Joe Nomellini, a counselor from Modesto Junior College (MJC) who gave me accurate guidance after returning from a long 9-year break from school. He gave me hope and proved not all counselors were created equal. Professor John Carter from MJC helped me with economics and tutored me outside of class for several hours every week for the remaining 2 months of that semester. He helped me overcome the hurdles to pass my class. It was my third time taking that class, and I had no other option but to pass. I passed.

Then I met Tina Akers-Porter, again from MJC. She was my math professor for finite and statistics. Her commitment to her students showed her professionalism, her communication, and her accountability to her students every day. She tutored me several times outside of class whenever I needed further instruction. She made packets and tested the students on that exact information. Her teaching style was refreshing and comforting and provided the personalized learning I needed to succeed. Next was Shelley Akiona, my business law professor at MJC. I remember being the most intrigued in her classes, and the way she presented case studies was like no other teacher I experienced. She found a way to connect to her students- she was fierce and had compassion simultaneously, precisely what you would expect from someone teaching business law.

When I finally arrived at CSU Stanislaus, Theo Chronis and Andrew Hinrichs (marketing and management respectively) were two that had the most significant impact. Chronis taught me everything I know about marketing. I took three classes from them and enjoyed each one. They had very casual energy and a style that meshed well with students. Professor Hinrichs connected with his students through comedy. He also taught me things about myself I never knew. The beginning of the MBA served as self-reflection period. He had us take surveys and small tests that brought some character flaws to light, which led to purchasing of a book to help in my endeavors.

Last from faculty is Professor Jarrett Kotrozo from CSU Stanislaus, from whom I learned the most about strategic management. His previous course I had taken during undergrad excited me so much I wanted to retake the class for fun (summer was too short). Then I found out he was teaching in the MBA program and those excited feelings came back. I have never met a professor who is so meticulous, methodical, and fair all at the same time. He is extremely strict but gives students guidelines. He holds us accountable just as we would be after graduation by employers. His creative group selection and record-keeping stood out the most.

The Capstone simulation made me create an acronym that encompasses much of what Kotrozo taught us. Accountability, Communication, and Ethics (A.C.E) is something I feel can be the embodiment of success within organizations. He taught me that there are many moving parts within production, and everyone must be on the same page for the continuity to continue. He is the perfect teacher to epitomize the

degree experience. He puts you through the wringer (as with this project) but then you feel reborn when you come out the other side.

Lastly, I would like to thank my father. He helped me understand the importance of education and its impact on my family and me. He showed me what higher education could afford me and my family. He taught me about different cultures and always treated me with respect. Without his help, I would not be here today and that I know for a 100% fact. I mentioned him pressing me to continue, but I did not call out the 9-year break I took from school. Before completing my associate degree, I left and thought I would never return. The next 9 years working two jobs and every night, weekend, and holiday showed me I needed to listen to his words.

He knew when to stop and allowed me to learn my own lessons. He used this same approach when he helped me buy my first home. My father, although he lives in Los Angeles, does everything in his power to ensure the success of my future. He is always speaking to me about the bigger picture and forever remains calm in every situation. I have been able to live a life knowing he will always be there for me no matter where he lives. His presence in Los Angeles has given him the ability to have opportunities that have helped him help me my entire childhood, and that is a feeling not many children get. I am fortunate because it motivated me to be resourceful and strive for success with pride early in life and never ask for things I did not need. Now, I will be able to pass that same financial freedom to my children, all because of the journey I took with him and everything I learned along the way. Thanks, Dad; I love you and hope to fill your shoes one day.

## ACKNOWLEDGEMENTS

I would like to acknowledge two very important people in my life, my mother and stepfather. They have shown me what it takes to have grit, determination, and resilience in society. My work ethic comes from having chores bestowed upon me at a very young age and getting punished if I did not complete my responsibilities. I knew that I had five things to do every day after I got home from school. When done correctly, I received an allowance. The savings from this allowance gave me opportunities to buy nice things for myself at a young age. The first item I purchased for myself was a \$300 stereo from Circuit City. I remember being able to buy something with money I earned, and this feeling inspired me from a young age to work hard and be independent.

My stepfather showed me how to play baseball. He would take me to the park and play catch almost every day and hit fly balls to the neighborhood kids and me. He would have the bat in one hand and a glove on the other and keep hitting them until I was tired. The practice started my baseball career and took me several years into the future, where I played a few years of collegiate baseball. I developed a love for the game because of the time he spent with me, and I will always remember that.

My mother is one of a kind. I have never met another woman like her. She is the epitome of a strong, brave, caring, loving, dependable, and great mother. Her attention to detail descended to her children. Her meticulousness trained me to be the same. She worked a full-time job, came home to three children, cooked dinner, did

laundry, and got the house ready for the next day again. She is a great example of a hard-working person who would do anything for her family. The combination of my mom, dad, and stepfather has molded me in a way that I feel has prepared me for the next chapters of life. For that, I must acknowledge all that they have done for me and sincerely show them the gratitude and love they deserve. I love you all and thank you for the specific role each of you has played in my life.

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## ABSTRACT

The motivation behind this project and business plan was the author's life-long goal of owning a restaurant and serving the community. The purpose of this business proposal was to define the complete process for setting up a restaurant that focuses on providing a family atmosphere and serves food representing European cuisine at a competitive price in an area surrounded by chain restaurants. Modesto (CA) currently has almost 100 restaurants serving a variety of cuisine in a traditional chain restaurant setting. The restaurants referenced in the plan do not promote or exhibit home-style service one would expect when invited to a friend's home for lunch or dinner. The market analysis revealed there is potential for growth and opportunity supported by demographics that are conducive to the sustainability of the restaurant. The plan utilizes unconventional marketing techniques such as mobile device, application-driven practices to increase interest in the Gen X target customer to establish a niche market. The financial, operational, and organizational systems assessed are standard for the industry, do not carry additional benefits or risks, and suggest an industry average return on investment. Finally, the research disclosed an extensive commitment in time is required under optimal conditions to survive in a time when businesses are at a disadvantage due to current events such as COVID-19.

## CHAPTER I

### INTRODUCTION

#### **Background of the Research Project**

The author started working in a family coffee shop in Modesto, California as a young man. He worked as a busboy, cook, host, and even managed the cash register. That experience was 28 years ago and has created interest in hospitality ever since. Every job has been in some form of hospitality, but mainly restaurants and direct customer service. Working in the restaurant business, interacting with the public, at a challenging pace has been a passion for many years.

Fast forward to 2008. The author was hired by Applebee's as a waiter and quickly promoted to manager. During an 8-year stint as a manager he learned many aspects of running a business. Most dealt with food safety, provided safe environments for employees and guests to work and dine while having 30 people under supervision at any given time. Also keeping approximately 300 guests happy while simultaneously ensuring the restaurant operated smoothly.

Many cases presented themselves where multitasking was crucial to surviving the dinner rush. The experience and training prepare for future endeavors of being a restaurant owner. The House restaurant will provide a warm, family environment that is friendly to the wallet. This will be executed with the most competent staff and most welcoming managers. The guests will feel like family, and the staff will feel like they are at home. The atmosphere will have characteristics that embraces a feeling of inclusion.

### **Mission Statement**

The mission statement will read as follows: “When you come to The House, you are family. We embrace accountability, communication, ethics, and value in everything we do. Our goal is to provide delicious meals at affordable prices while keeping honesty and integrity at the forefront of every decision we make.”

Following the mission statement will allow The House to address the need for a family-style restaurant in Modesto, California. Many corporate-owned businesses flood the food industry, but very few offer a uniqueness like The House restaurant will offer. Along with the family feel, The House restaurant will be designed with the elements and ambiance of cities worldwide. Guests can call and get the feeling they are making a reservation in Italy, France or perhaps Spain and be served food or a popular dish that one might expect to find in those regions of the world. The House will make a place for itself in the market by combining the family-style atmosphere with global food and recognition, thus further solidifying my project’s focus, inclusion.

## CHAPTER II

### RESTAURANT DESIGN

#### **Physical Appearance**

The exterior of The House will have a modern look with adopted European architecture reminiscent of a French courtyard. It will have an open floor plan in the front, allowing guests to enjoy the natural elements of similar concepts such as Tommy Bahama's, Buffalo Wild Wings (patio area only), Olive Garden, and Outback Steakhouse. Once the customer walks in, there will be a wall separating the indoor patio seating from the remaining rooms. There will be three different regions of the world with matching décor. Spain, Italy, and France are the three The House will be using. In each of these cultures, family is noticeably prevalent, and the food represents all the spices and flavors of the regions, so it makes sense that their attributes coincide with the restaurant's design.

#### **Name and Logo**

The name of the restaurant will be The House. The name was chosen because it can be translated easily in other languages thereby promoting the brand across three different cultures. For Italy and Spain, it is pronounced the same, "Casa." For France it translates to "Maison." Various geographical themes will make up the interior and give a warm ambience to specific regions of the world. The name is synonymous with being home and dining in comfort. The logo will be written in italics with a fork and spoon logo drafted around or behind the name. The name rolls off the tongue quite

nicely and when you are out trying to decide where to eat, you know The House will satisfy your needs.

### **Equipment**

Occurring to an article from Sage, “How much does it cost to open a restaurant?” (Sage, 2020), to open a restaurant it costs approximately \$275,000 or \$3,046 per seat if you are leasing the building. However, if you plan on owning then the cost jumps to \$425,000 or \$3,734 per seat. Some of those costs come from equipment and the tools needed to prepare all menu items. The House and all the materials and equipment required to operate will be owned; however, the land it is built on will be leased based on a 10-year low interest loan from Lending Tree.

For the back of house, several small appliances will be used (mixers and food processors) as well as commercial ovens, food warmers, fryers, dishwashers, sinks, cutlery, and a walk-in cooler and freezer. Some of these items may be purchased used to reduce costs while others need to be purchased new due to the nature of their use. The front of house will display significantly more prominent equipment, décor, and landscaping. It will be inviting, offer a feeling of peace of mind, and provide a relaxing entrance. Therefore, all items need to be purchased new to assure the confidence, loyalty, and trust we want from our consumers. Our consumers’ first impression must be of quality, assurance, and care.

The front of house equipment includes simulated rustic Tuscan chairs from the south of Italy, dark mahogany accented tables with complementing booths, Italian glassware, and silverware that will look like your mother’s special guest ware.

Dishwashers will be located behind the bar and there will be multiple, strategically placed, point-of-sale systems. Display cases will house the top shelf items.

Televisions will be conveniently placed to maximize ergonomic comfort. Lighting will be adjustable to reflect European sunsets, menus will be made from simulated leather, and the countertops will be made of durable marble. The entertainment sound system will be located in its own recessed cabinet to keep it unobtrusive. The front of the house will be fun, engaging, memorable, and ultimately what consumers remember from the experience. The back of house is what they do not see and combined with the front ultimately satisfies consumers and brings them back. To reiterate the importance of strategically balanced operations, the front, customer-facing equipment must focus on appeal and ease of use while the less noticeable equipment requires attention to durability and longevity.

CHAPTER III  
MARKET ANALYSIS

**Industry Analysis**

According to Fast Food Industry Analysis 2020 – (Costs & Trends, 2020) the fast-food industry, globally, generates revenue of over \$570 billion, more than the economic value for most countries. In the United States revenue was \$200 billion in 2015, growing from \$6 billion (or 3,233%) in 1970. Currently, the industry is expected to have an annual growth rate of 2.5% for the next several years.

**Demographics**

Demographics refers to a variety of factors that segment the population and then divide them by various characteristics including age, sex, income, race, religion, and many more. The House will be targeting an audience between 45 and 64 years of age using household income as the main factor. Simply because someone earns more does not mean they spend more; however, when combining age and average household income of \$74,999 (Income by ZIP Code, 2020) it supports a confident choice in Modesto. Per capita income for Modesto is \$26,458 (Income by ZIP Code, 2020) implying people who are single tend to have less expendable income than those in families or relationships. Knowing this will allow the restaurant's design to be centered around the preferences of this age group. See Table 1 provides age and income demographics for Modesto and Stanislaus County.

Table 1

*Income Age Bracket in Modesto CA and Stanislaus County*

|                                | 95350    | Modesto  | Stanislaus<br>County |
|--------------------------------|----------|----------|----------------------|
| Household under 25 years       | \$29,740 | \$35,446 | \$32,976             |
| Household 25 years to 44 years | \$55,097 | \$60,947 | \$61,551             |
| Household 45 years to 64 years | \$59,953 | \$68,941 | \$68,801             |
| Household 65 years and over    | \$38,622 | \$44,304 | \$42,099             |

*Source: US Census Bureau, 2018 American Community Survey*

**Age**

Modesto occupies approximately 37 sq. miles and its demographic makeup is 74% White, 7% Asian, 4% Bi-racial, and 4% African American with other races combined, 11%. (World Population Review, 2020). Table 2 displays education by age for the city of Modesto (Town Charts, Modesto City Education Data, 2019), further solidifying our target age group.

Table 2

*Education Attainment by Age in Modesto CA*

| Education                       | 18-24 years | 25-34 years | 35-44 years | 45 to 64 years | 65 years and over |
|---------------------------------|-------------|-------------|-------------|----------------|-------------------|
| Highschool, no diploma          | 11.1%       | 8.6%        | 9.9%        | 9.4%           | 9.4%              |
| Associates degree               | 5.0%        | 7.8%        | 7.7%        | 9.3%           | 7.8%              |
| Bachelor's Degree               | 4.4%        | 12.2%       | 13.9%       | 12.5%          | 12.3%             |
| Graduate or Professional Degree | .1%         | 4%          | 6.5%        | 7.1%           | 6.7%              |
| Highschool, GED, or alternative | 38.9%       | 30.4%       | 28.6%       | 26.6%          | 25.3%             |
| >9 <sup>th</sup> grade          | 1.5%        | 4%          | 6.8%        | 9.4%           | 13.4%             |
| College, no degree              | 39%         | 32.9%       | 26.5%       | 25.7%          | 25%               |

*Source: Town Charts, 2019 American Community Survey*

**Gender**

According to United States Census Bureau Modesto, California (United States Census Bureau, 2019) data, women comprise 50.8% of the population and men, 49.2%. Appealing to women is important; it is the nature of restaurants that when women feel welcome, men follow. Appealing to the correct people will help The House flourish. We will offer Wine Down Wednesdays for women with all wine half off. The author has personal experience with this promotion working as a manager for various Applebee's Neighborhood Grill and Bar. Most restaurant knowledge

came from those experiences Applebee's offered and The House will implement them to their fullest effect.

### **Income**

As mentioned, per capita income for Modesto is \$26,458 and household income is \$74,999 for the target market The House will be seeking.

### **Education**

According to United States Census Bureau Modesto, California (United States Census Bureau, 2019), 17.9% of people who live in Modesto and are over age 25 hold bachelor's degrees while the remaining have high school education. Knowing this will allow The House to price and design the happy hour menu accordingly. Notice town charts shows a slightly lower percentage. See Table 2.

## **Psychographics**

### **Attitudes, Aspirations, and Values**

Members of Generation X were born between 1964 and 1980 and will be our target in terms of attitudes, aspirations, and values. According to Gordon Food Service, Gen X Food Preferences (Gordon Food Service, 2020), Gen Xers prefer organic food, use review sites and social media, and place high value on family dining. This would lead me to have large tables and steer clear from tables for couples, or minimal if any. Common characteristics many Gen Xers have include valuing work/life balance, individualistic in nature, technologically adept, and flexible to alternate ways of thinking. Serving open-minded guests promotes family fun with a healthy twist.

## **Buying Behavior and Spending Habits**

Generation X is typically more inclined to use the Internet and technology to their advantage when searching for information. “Gen Xers had a front-row seat to America's technological revolution, witnessing an explosion in computer, Internet and cell phone use” (Wroblewski, 2018). This means The House must be transparent in how its' daily operations. Buyers' shopping habits, eating preferences, and hobbies can be linked to the time spent on the Internet browsing for information. One could infer shopping habits by what is searched for and thus bought. According to Flavor & The Menu (Gordon Food Service, 2020), Gen X is less concerned about finances when eating out than any other generation. Generation Xers enjoy quality and are willing to pay a premium for it. Knowing this, The House will entice guests with fresh components and prepare entrees with ingredients people want to put in their body.

## SWOT Analysis

A SWOT (Strengths, Weaknesses, Opportunities, and Threats) was conducted.

|   |   |
|---|---|
| <p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Personal Experience</li> <li>• Value Driven</li> <li>• Cost Structure</li> <li>• Profit Sharing</li> <li>• Virtual Dining</li> </ul>                                 | <p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Limited Capital</li> <li>• Size of Establishment</li> <li>• Modesto Market</li> <li>• Closing for Holidays (financially)</li> </ul> |
| <p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Drive-Thru</li> <li>• Fundraising, Community Giveback</li> <li>• Charitable Donations</li> <li>• Feeding Homeless Weekly</li> <li>• Discounted Dining</li> </ul> | <p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Large Chain Restaurants</li> <li>• Competition COGS</li> <li>• Liquor License</li> <li>• Copycats</li> </ul>                           |

*Figure 1. SWOT Analysis*

### Strengths

The first strength of The House is length of experience the author has. With over 23 years' experience in the food and service industry the author has noticed all guests want to feel included in some way during their visit. From five-star restaurants in Los Angeles to the same in Modesto, California, and many Applebee's in between, the author understands the importance consumers place on the feeling they want when dining.

In the service (casual dining) industry, most people want respect with good food at a great price. It is worth noting, people dine out equally for the experience as

they do the food. This restaurant will deliver on both. It will be driven by customer value with efficient service by a staff who earn 1% of net profits. Accountability, Communication, and Ethics (A.C.E.) are the core drivers that will ensure the business performs well while consumers and employees reap the financial benefit. Employees also want to feel included, and therefore they will collectively earn an annual bonus that will prove to be beneficial through additional employee engagement, appreciation, and overall satisfaction.

### **Weaknesses**

One of the weaknesses in the business is its small size by nature, consequently leading to limited capital. It is also located in Modesto, California where the average income is \$65,701 (Income by ZIP Code, 2020). Revenue will be restricted as we will be closed on holidays to serve our staff and ensure they enjoy time with their families. The lost revenue is viewed as a negative impact and therefore a weakness. Closing on holidays is an attempt to boost employee morale, improve quality of service, commitment to work, and offset the lost sales. The strategy could be interpreted to be a weakness or a strength. Sole propriety could also be a weakness when it comes to human resources, accounting, and other specific pertinent departments of the organization.

### **Opportunities**

There are opportunities for the business to grow and develop in areas not common to restaurant concept or design. This restaurant will have a drive-through, as opposed to curbside pickup. This will entice the consumer more than curbside

because it will be offered throughout the business day as opposed to curbside, which closes at sunset for safety reasons. There is also a convenient benefit from this strategy for the employees during summer and winter seasons. To keep pace with the Generation X consumer and the general competition, the restaurant will also offer a virtual dining experience. Consumers can download the “My House is Your House” application from the App store or Google Play, which will feature an interactive 3D floor plan, choice to turn on geo location to notify the restaurant of consumer estimated time of arrival, and a menu to optimize the experience. This will allow guests to pick their seat much like at a movie theatre. The restaurant will then quote a promised timed based on the table rent concept—much like a parking meter.

We will also offer an incentive for guests to complete their dining stay within 60 minutes with a discount. However, we do not want to rush our guests so the offer will be promoted mainly during lunch and honored at dinner as well. A survey will be distributed to all guests to determine if the same strategy will be used for the dinner crowd. This innovative concept could be an opportunity to increase foot traffic and promote certain menu items with higher margins.

Other opportunities for the business deal with fundraising (giving back to local communities) and feeding the homeless twice a week before we open.

Expanding on these two issues will be another opportunity for us to stand out from our competition.

## **Threats**

Threats is the last area of the analysis. The author focused on two compelling threats that all business owners must seriously consider before getting into the restaurant business, those being similar business competition and liquor licensing competition. Large restaurant chains such as Applebee's, BJ's, Olive Garden, and Outback Steakhouse serve the greater Modesto area. This is a major threat when it comes to the amount of funding the chains have to support their business and the similar type of food they serve. They receive higher discounts on volume ordering and sell more quantity which result in lower prices for consumers and contribute to drive out smaller "Mom and Pop" competition like The House. Another threat that is most important, is the power of a liquor license. Operating a liquor selling restaurant in Modesto either requires an existing business selling its' liquor license permit (to be used in the same location) or having the freedom to open in any location without the liquor permit. Either is an extreme threat to the business.

## **Product**

Products served at The House will be comprised of fresh ingredients ordered multiple times throughout the week to ensure the highest of quality. Some of the menu items will include salads, tacos, pastas, steaks, and desserts. The House will have one authentic specialty dish that changes weekly per region of the world. In this case, three different specialty menu items will be prepared and created for guests to enjoy. Sysco and Fresh Point will be the providers of food and produce, respectively.

## **Price**

The price of menu items will be determined by calculating the ideal food cost. Most menu items range between \$15 and \$25 (single person) or \$40 to \$75 (family size). The House will offer two different menu options to accommodate all guests. One unique advantage The House will have over its competition is the shared family value menu. It is designed and priced like a bottle of wine. The size is made to accommodate four but priced for three. The catch is you may bring up to six family members to enjoy the family savings. If everyone eats a little less, then two additional family members get to eat free. So, The House will essentially charge for three people and serve six.

Another spin on normal restaurant dining will be discounted dining. If guests can dine (and pay) within one hour, they will receive a 10% discount on the bill. This special pricing will be available Thursday, Friday, and Saturday from 12:00 pm to 2:00 pm and 5:00 p.m. to 8:00 p.m. when the restaurant is in most need of table turns. Turning more tables during the dinner rush will create a vibrant atmosphere that will appeal to the family dynamic The House creates. Further details on pricing appear in Chapter V.

## **Place**

The House will be in Modesto, California near or within the 95350 ZIP code. I chose this specific part of Modesto for several reasons. First, this area is well established. Second, the median income in this area ranges between \$55,000 and \$62,000. Lastly, an analysis of the cost of living in Modesto shows it ranks slightly

higher than the national average, 113.7 compared to 100. (Modesto, California Cost of Living in, 2019). This indicates that Modesto is slightly more expensive to live in when compared nationally so, the author chose a community (neighborhood) thought to frequent The House based on certain demographics.

### **Promotion**

The target market is 45 to 64 years of age. Social media might appeal to some of this group however, the older generation prefers the traditional brick and mortar approach. The local paper, radio ads, and physical signs that create engagement all cater to the older part of the target market. According to an article in The Digital Restaurant (Behera, M. 2019), direct mail marketing ranks first when comparing marketing channels, which coincides with the preferences of our target audience. The article also mentions having a sensible marketing budget of 20% to 30% of forecasted revenues. With first year forecasts being \$7,591,220 the marketing budget will be between \$1,518,244 and \$2,277,366.

## CHAPTER IV

### FINANCIALS

#### **Initial Costs**

Considering the many costs including but not limited to equipment, flooring, booths, tables, plate ware, and inventory, The House will have initial costs of \$436,593 as detailed in Table 3.

Table 3

*Initial Costs*

| <b>The House Restaurant-Initial Costs</b> |                   |                   |
|---|-------------------|-------------------|
| <b>Item</b>                               | <b>Cost</b>       | <b>% of total</b> |
| Flooring                                  | \$ 20,000         | 0.09              |
| Walls                                     | \$ 20,000         | 0.09              |
| Ceilings                                  | \$ 5,500          | 0.03              |
| Plumbing                                  | \$ 32,000         | 0.15              |
| Electrical                                | \$ 10,000         | 0.05              |
| Architect fees                            | \$ 7,000          | 0.03              |
| Lights                                    | \$ 10,000         | 0.05              |
| Booths                                    | \$ 8,000          | 0.04              |
| Furniture                                 | \$ 50,000         | 0.23              |
| POS Systems                               | \$ 3,000          | 0.01              |
| Menus                                     | \$ 2,500          | 0.01              |
| Tables                                    | \$ 20,000         | 0.09              |
| Entertainment (TV, Sound System)          | \$ 15,000         | 0.07              |
| First Month FOH Labor (26 employees d     | \$ 10,478         | 0.05              |
| <b>Total Front of House</b>               | <b>\$ 213,478</b> | <b>1.00</b>       |
| Ovens                                     | \$ 27,000         | 0.21              |
| Grill                                     | \$ 15,000         | 0.12              |
| Fryer                                     | \$ 12,000         | 0.10              |
| Walk in cooler/freezer                    | \$ 30,000         | 0.24              |
| Free standing re Fridgeration             | \$ 10,000         | 0.08              |
| Flattop Grill                             | \$ 15,000         | 0.12              |
| Dishwasher                                | \$ 4,500          | 0.04              |
| Smallwares                                | \$ 2,000          | 0.02              |
| Cookwares                                 | \$ 5,000          | 0.04              |
| First Month BOH Labor (11 employees d     | \$ 5,115          | 0.04              |
| <b>Total Back of House</b>                | <b>\$ 125,615</b> | <b>1.00</b>       |
| Licenses/Permits                          | \$ 10,000         | 0.10              |
| Initial Food Inventory                    | \$ 25,000         | 0.26              |
| Initial Alcohol Inventory                 | \$ 20,000         | 0.21              |
| Signage/Awnings                           | \$ 10,000         | 0.10              |
| Security Deposit                          | \$ 30,000         | 0.31              |
| Landscape                                 | \$ 2,500          | 0.03              |
| <b>Total Other Initial Costs</b>          | <b>\$ 97,500</b>  | <b>1.00</b>       |
| <b>Total of all Initial Costs</b>         | <b>\$ 436,593</b> | <b>1.00</b>       |
| Initial capital                           | \$ 77,000         | 0.18              |
| Additional capital required               | \$ 359,593        | 0.82              |

## Projected Cash Flows

The House has first year projections of \$7,591,220 with an after-tax cash flow of \$1,217. Year Two shows 1% growth increasing after-tax cash flow to \$256,094. The payback period is approximately 2 years and 9 months at a 2.5% growth rate as detailed in Table 4.

Table 4

### *Projected Operating Cash Flow*

| The House Restaurant<br>Projected Operating Cash Flow |              |              |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Growth Rate   |              | 1.0%         | 2.5%         | 2.5%         | 2.5%         | 2.5%         | 2.5%         |
|   | <b>2021</b>  | <b>2022</b>  | <b>2023</b>  | <b>2024</b>  | <b>2025</b>  | <b>2026</b>  | <b>2027</b>  |
| Sales   | \$ 7,591,220 | \$7,667,132  | \$7,858,811  | \$8,055,281  | \$8,256,663  | \$8,463,079  | \$8,674,656  |
| COGS  | \$ 4,175,171 | \$4,216,923  | \$4,322,346  | \$4,430,404  | \$4,541,165  | \$4,654,694  | \$4,771,061  |
| Gross Profit  | \$ 3,416,049 | \$3,450,209  | \$3,536,465  | \$3,624,876  | \$3,715,498  | \$3,808,386  | \$3,903,595  |
| Utilities   | \$ 23,200    | \$ 23,200    | \$ 23,200    | \$ 23,200    | \$ 23,200    | \$ 23,200    | \$ 23,200    |
| Marketing   | \$ 2,277,366 | \$2,300,140  | \$2,357,643  | \$2,416,584  | \$2,476,999  | \$2,538,924  | \$2,602,397  |
| Initial Costs   | \$ 421,000   | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| Misc. SG & A  | \$ 759,122   | \$ 766,713   | \$ 785,881   | \$ 805,528   | \$ 825,666   | \$ 846,308   | \$ 867,466   |
| Total SG & A  | \$ 3,480,688 | \$3,090,053  | \$3,166,724  | \$3,245,312  | \$3,325,865  | \$3,408,432  | \$3,493,063  |
| Operating Income                                      | \$ (64,639)  | \$ 360,157   | \$ 369,741   | \$ 379,564   | \$ 389,633   | \$ 399,954   | \$ 410,533   |
| Depreciation  | \$ 100,000   | \$ 100,000   | \$ 100,000   | \$ 100,000   | \$ 100,000   | \$ 100,000   | \$ 100,000   |
| Income before taxes                                   | \$ (164,639) | \$ 260,157   | \$ 269,741   | \$ 279,564   | \$ 289,633   | \$ 299,954   | \$ 310,533   |
| Tax at 40%  | \$ 65,856    | \$ (104,063) | \$ (107,896) | \$ (111,826) | \$ (115,853) | \$ (119,982) | \$ (124,213) |
| Income after taxes                                    | \$ (98,783)  | \$ 156,094   | \$ 161,844   | \$ 167,738   | \$ 173,780   | \$ 179,972   | \$ 186,320   |
| Add back depreciaton                                  | \$ 100,000   | \$ 100,000   | \$ 100,000   | \$ 100,000   | \$ 100,000   | \$ 100,000   | \$ 100,000   |
| After-tax Cash Flow                                   | \$ 1,217     | \$ 256,094   | \$ 261,844   | \$ 267,738   | \$ 273,780   | \$ 279,972   | \$ 286,320   |
| Profit Margin   | 0.02%        | 3.34%        | 3.33%        | 3.32%        | 3.32%        | 3.31%        | 3.30%        |

### Operational Ratios

The House will turn inventory 9.34 times per month. This is higher than the national average of four to eight times. This can be attributed to the concept, affordable pricing, discount offerings, and happy hour to drive sales on slower-selling items. The 13,000 sq. ft. restaurant will amass \$7,667,132 in sales in Year Two, making the revenue per sq. ft. \$589.78 and the revenue per seat \$55.89. The House will operate with 32% food cost and 23% beverage cost totaling \$4,216,923, also in Year Two as shown in Table 5.

Table 5

#### *Operational Ratios*

| <b>The House Restaurant<br/>Operational Ratios</b> |                           |                 |           |
|--|---------------------------|-----------------|-----------|
|  |                           |                 |           |
| <b>Inventory Turnover</b>                          | COGS                      | \$ 4,175,171.00 | 9.34      |
|  | Average Inventory         | \$ 447,000.00   |           |
| <b>Sales per Square foot</b>                       | Total Sales               | \$ 7,667,132.00 | \$ 589.78 |
|  | Restaurant Square Footage | \$ 13,000.00    |           |
| <b>Revenue per Seat</b>                            | Sales per Night           | \$ 21,238.59    | \$ 55.89  |
|  | Total # of Seats          | \$ 380.00       |           |
| <b>Food and Beverage Cost to Sales</b>             | Food & Beverage Cost      | \$ 4,216,922.00 | 55%       |
|  | Sales                     | \$ 7,667,132.00 |           |

Appendix A offers annual projections by shift including lunch, Happy Hour, dinner, and annual revenue.

## CHAPTER V

### OPERATIONS

#### **Business Hours**

The House will be open 7 days a week from 10:00 a.m. to 10:00 p.m. Brunch will be served from 10:00 a.m. to 2:00 p.m., Happy Hour from 2:00 p.m. to 4:00 p.m., and dinner from 5:00 p.m. to 10:00 p.m. The restaurant will close from 2:00 p.m. to 5:00 p.m.; however, the bar will seat guests who frequent during these times. As a family restaurant, mainly in the evening, The House will give younger guests somewhere to come during the day for great comfort food at affordable prices. The goal is to prepare fresh ingredients twice a day to ensure quality and a “farm to fork” appeal. Closing during the slowest time of the day will allow savings on labor, electricity, and keep our bar staff happy with extra money made when other employees are not on company time. See Appendix B for hours of operation.

#### **Menu**

The House will serve familiar food from various parts of the world it represents. The theme will be inclusion and while individual prices are shown on the menu, discount pricing for same item order is available when families dine in. It will offer non-alcoholic beverages for children and beer and wine for adults. The salads are unique and fundamental in their design. The menu is easy to understand, has a soft appeal, and is only two pages in length. The menu appears in Appendix C. The first is the front, the next is the left side (when opening like a book) and the third page is the right-hand, inside page of the menu.

Notice the menu layout and the items that would appear on the points of an inverted triangle. This is the Golden Triangle. The author references to his experiences as a manager for Applebee's, stating many of the most profitable menu items are placed there. An approach that suggests which item to order and, in turn makes the restaurant more money for each guest who orders from the Golden Triangle.

### **Pricing and Food Cost**

Pricing will be set by calculating ideal food cost per menu item. The equation for this is  $\text{Price} = \text{Raw food cost of item} / \text{ideal food cost percentage}$  (Restaurant Menu Pricing, 2019). Assume \$5 in raw food costs and an ideal food cost percentage of 29%. The price of this item would be \$17.24 ( $P = \$5/29\%$ ) so it would be priced at \$17.49 to account for unforeseeable small margins or error. The House will use this equation and compare it to the ideal gross profit margin.

The ideal gross profit margin can be calculated as follows:  $\text{Ideal Gross Profit Margin} = (\text{Menu Price} - \text{Raw Food Cost}) / \text{Menu Price}$  (Restaurant Menu Pricing, 2019). Using the same figures from above we see  $\text{GPM} = (\text{MP} - \text{RFC}) / \text{MP}$ , so  $\text{GPM} = (\$17.49 - \$5.00) / \$17.49 = 71.4\%$ . Most restaurants operate with 35-40% GPM (Woodruff, 2019) so if The House operated at almost twice that, then the pricing model might be a little high and eventually price itself out of the market. This is not to say those gross profits are not favorable, only that they are simply extremely high when compared to the market.

Using a cost-plus system, we see there is 350% markup on this menu item,  $\$5(3.5) = \$17.50$  which is not uncommon considering most red meats are marked up on

average 525% (Kuta, 2017). This would make the menu item \$26.25 compared to \$17.49 and considering it to be red meat, there is room for a price increase.

### **Labor and Scheduling**

Servers will be assigned sections determined by the occupancy of the tables within. Each server will have no more than 32 customers under their service at any given time. This is based on larger, family sized tables that seat eight guests and allow for four fully occupied tables. The House will use a deterministic system that shows the flow of business by hour and item and use this to determine when to send the employees on break. Sending employees on a mandatory, 30-minute lunch break allows the business to cater to slower times and send multiple employees on break at once, thus making up labor. Scheduling the appropriate employee who can handle multiple stations simultaneously is critical to executing meal breaks effectively.

Bartenders will be scheduled based on their speed, efficiency, and recipe knowledge. One to two bartenders per shift will be adequate to cover all days of operation. Hosts and bussers will be scheduled based on total guest count for the day. The House will typically serve 700-900 guests per weekday and 800-1,200 on each day Friday, Saturday, and Sunday. It will have two to three host employees for the morning shift and three to five for the evening shift. Using conservative estimates, we calculate 233 guests ( $700/3$ ) per employee and 160 guests ( $800/5$ ) per employee, so The House will schedule based on this information. Based on size and setup of the restaurant, The House expects 600 to 700 guests during the week and 800 to 900 on the weekend. This would require four, front of house (FOH) host employees during

the week and six on the weekends. Day of week and time of day would determine how many FOH employees are clocked in simultaneously.

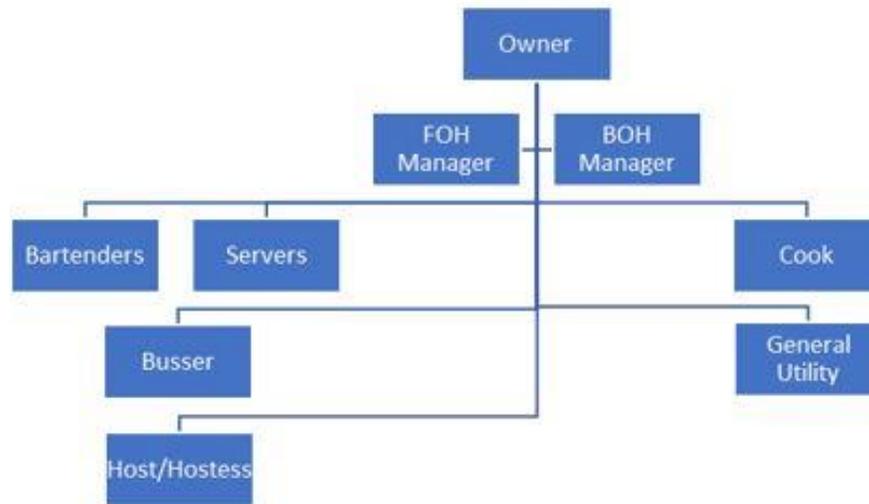
### **External Help**

When searching the 10 best business loans companies, Lending Tree ranked first with Lendio followed by Blue Vine. Lending Tree would be the number one choice because they require \$8,000 in monthly revenue compared to \$20,000 and \$40,000, respectively. Lending Tree also waives the minimum credit score all the other companies require. The amount financed will be \$359,593.

CHAPTER VI  
ORGANIZATIONAL STRUCTURE

**Organizational Chart**

The organizational chart (Figure 2) depicts the structure of the restaurant and the hierarchy between staff. As the restaurant's size will be medium in nature, it will not utilize multiple department managers; rather, one for the front of the house (FOH) and one for the back of the house (BOH). They will oversee their respective departments and other employees will oversee those who hold lower positions. This is typical in most restaurants and works well in corporate structured businesses.



*Figure 2.* Organizational Chart.

### **Front of House**

The front of the restaurant, commonly known as front of house (FOH), is the face of the restaurant and comprises bartenders, servers, bussers, and greeters (hosts). The bartenders generally have the most experience; therefore, they are placed in positions with more responsibility; that is, the safe production of alcoholic beverages. Servers will be responsible for serving drinks to guests who are over 21 years of age. The bussers will ensure the cleanliness of the restaurant while assisting servers with the needs of all guests. The greeter is the first employee guests see when they walk in the door; therefore, they will need to have a bright smile and great customer service skills while being able to multitask proficiently.

### **Back of House**

The back of the house (BOH) is the core of the restaurant. Here the food is created that will determine whether guest decide if the price they pay is worth the food they are putting in their mouth. BOH employees will all be trained in a similar fashion. There will be several stations each preparing different food. There will be a salad station, fryer, grill, and pasta station. Included in the BOH will be general utility employees who will be responsible for cleaning dishes and ensuring all cookware is clean, sanitized, and available for the next use. They too will be trained in the preparation of the food in the event of a busy shift and an extra help is needed on the line.

### **Food Handler Card**

SERV Safe is a food and beverage safety training and certificate program administered by the National Restaurant Association. The program is accredited by American National Standards Institute and the Conference for Food Protection. A sanitation certification is required for most restaurants as a basic credential for their management staff. To date over 5 million SERV Safe Food Protection Manager Certifications have been awarded. (*Wikipedia, 2012*) All employees and managers will be required to pass this test with a 100% success rate, regardless of the 80% minimum required by the state.

### **Alcohol Service**

The beverage service act AB1221 of 2017 mandates that all people who serve alcohol be certified beginning July 2021. Not only will food handlers be required to pass with 100%, but alcohol service members will also be as well. The state-mandated test will allow the hiring of individuals who are competent and understand the importance of food safety. In addition to the state test, The House will test all employees bi-yearly to ensure knowledge is at an optimal level and safety is the first concern.

## CHAPTER VII

### CONCLUSION

#### **Main Findings**

After taking a close look at the financials, it is extremely difficult for restaurants to make a profit. When they do, the profit margins are between 1 and 3%. Furthermore, this is achievable in ideal conditions, but determining every piece of that puzzle in advance and maintaining the conditions is crucial for success.

Research has also shown that sales of \$7 million annually and a net profit of \$250,000 is a tough pill to swallow. While a salary that large is attractive, that assumes all goes well. Experience has shown that even corporations like Applebee's have a tough time making a profit, and they can create contracts and obtain volume discounting. If a salary were desired upwards of a quarter- million dollars, many positions within the restaurant would need to be held in addition to that of owner.

Lastly, it is realized that Modesto may not be the optimal area to open a restaurant. Although the demographics for the area were greatly considered, higher margins would be obtained easier if located somewhere else in California. The recent fact of COVID-19 has given some hope of obtaining a liquor license. Many restaurant owners are walking away from their businesses and leaving behind a liquor license that is available for purchase for pennies on the dollar. It is unfortunate to say, but in times of disaster there is always a rebuild, and in rebuilding many potential entrepreneurs could benefit from price discounts due to the pandemic.

### **Managerial Implications**

My entire life I have wanted to open my own restaurant and pursue a career in hospitality. I thoroughly enjoy working in a restaurant serving people. Each individual or table presents a unique challenge in ensuring their time is memorable when they dine at The House. I have served, tended bar, cooked, bussed tables, and even washed dishes at times. I have seen what it takes in every position to be successful within the team atmosphere. I have also had the privilege of managing all these positions and witnessing the high level of execution needed to produce profit.

Upon analysis and serious consideration, this project has changed my mind and the vision I have had for many years. There are too many variables that are reliant on outside components. Restaurants operate on such small margins that it does not seem of value to put in the required work to make \$250,000 a year. This does not come from a place of laziness, rather a place within me driven by value. To make it as a restaurant owner would require me to dedicate most of my time, leaving minimal time for my family. The tradeoff is not worth it; therefore, this project has saved me from venturing down a path that would have taken me away from my family.

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## REFERENCES

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## APPENDICES

APPENDIX A  
REVENUE PROJECTIONS

*Annual Lunch Projections*

| <b>Lunch Capacity (Two servings)</b> |     |        |             |
|--------------------------------------|-----|--------|-------------|
| Seats x Food Price                   | 380 | \$ 13  | \$ 4,940    |
| Seats x Drink Price                  | 380 | \$ 2.5 | \$ 950      |
| Sub Total                            |     |        | \$ 5,890    |
| Frequency                            |     |        | 2           |
| Total per lunch shift 100% Capacity  |     |        | \$ 11,780   |
| Total per lunch shift 50% Capacity   |     |        | \$ 5,890    |
| Weekly Lunch at 50% Capacity         |     |        | \$ 41,230   |
| Monthly Lunch at 50% Capacity        |     |        | \$ 178,663  |
| Annual Lunch at 50% Capacity         |     |        | \$2,143,960 |

*Annual Happy Hour Projections*

| <b>Happy Hour Capacity (One serving)</b> |    |       |           |
|--|----|-------|-----------|
| Seats x Food Price                       | 20 | \$ 10 | \$ 200    |
| Seats x Drink Price                      | 20 | \$ 10 | \$ 200    |
| Sub Total                                |    |       | \$ 400    |
| Frequency                                |    |       | 1         |
| Total per lunch shift 100% Capacity      |    |       | \$ 400    |
| Total per lunch shift 50% Capacity       |    |       | \$ 200    |
| Weekly Happy Hour at 50% Capacity        |    |       | \$ 1,400  |
| Monthly Happy Hour at 50% Capacity       |    |       | \$ 6,067  |
| Annual Happy Hour at 50% Capacity        |    |       | \$ 72,800 |

*Annual Dinner Projections*

| <b>Dinner Capacity (Three servings)</b> |     |        |             |
|---|-----|--------|-------------|
| Seats x Food Price                      | 380 | \$ 20  | \$ 7,600    |
| Seats x Drink Price                     | 380 | \$ 2.5 | \$ 950      |
| Sub Total                               |     |        | \$ 8,550    |
| Frequency                               |     |        | 3           |
| Total per lunch shift 100% Capacity     |     |        | \$ 25,650   |
| Total per lunch shift 50% Capacity      |     |        | \$ 12,825   |
| Weekly Dinner at 50% Capacity           |     |        | \$ 89,775   |
| Monthly Dinner at 50% Capacity          |     |        | \$ 389,025  |
| Annual Dinner at 50% Capacity           |     |        | \$4,668,300 |

*Annual Shift Projections*

| <b>Annual Revenue by Shift</b>            |  |  |                    |
|---|--|--|--------------------|
| Weekly Lunch at 50% Capacity              |  |  | \$ 132,405         |
| Monthly Lunch at 50% Capacity             |  |  | \$ 573,755         |
| Annual Lunch at 50% Capacity              |  |  | \$6,885,060        |
| <b>Total Annual Sales at 50% capacity</b> |  |  | <b>\$7,591,220</b> |

APPENDIX B  
HOURS OF OPERATION

*Hours of Operations*

|  |  |
|--|--|
| Monday   | 10:00 am – 8:00 pm   |
| Tuesday  | 10:00 am – 10:00 pm  |
| Wednesday  | 10:00 am – 10:00 pm  |
| Thursday   | 10:00 am – 10:00 pm  |
| Friday   | 10:00 am – 10:00 pm  |
| Saturday   | 10:00 am – 10:00 pm  |
| Sunday   | 10:00 am – 8:00 pm   |
| *Closed Easter, Thanksgiving,<br>Christmas Eve, Christmas Day, New<br>Year's Eve, & New Year's Day | *Restaurant closed from 2:00 – 5:00<br>pm daily<br><br>*Happy Hour in bar from 2:00 - 4:00<br>pm daily |

APPENDIX C

MENU

## BEVERAGES

### NON-ALCOHOLIC BEVERAGES \$2

Pepsi products

Sangria

Juice

Iced Tea

Coffee

Hot Chocolate

### ALCOHOLIC BEVERAGES \$6-12

Domestic Draft Beer

Imported Draft Beer

House Red Wine (blend)

Pinot Noir

House White Wine

Pinot Grigio

Champagne

### SWEETS \$6

Chocolate Cake

Cheesecake

Churro's and Ice cream

Sorbet

Gelato



# THE HOUSE

## RESTAURANT

---

3700 Successful Drive  
Modesto CA, 95354  
209-247-0555  
[www.thehouserestaurant.com](http://www.thehouserestaurant.com)

## SNACKS

### FIRECRACKER CURDS \$6

Diced jalapenos and pepper jack cheese, panko crusted and fried golden brown

### FRENCH FRIES \$3

Thick cut and string cut both tossed in black pepper sea salt served with ranch or ketchup

### HABANERO QUESADILLA \$10

Shredded chicken seasoned to perfection smothered in buffalo spicy cheddar cheese and habanero sauce

### FLOUTAS \$3

Served a la carte, perfect for a snack. Choose either chicken, steak, or cheese

### TORTILLA ESPANOLA \$8

Seasoned potatoes, scrambled eggs, onions, a signature dish from Spain

## SOUPS

### FRENCH ONION W/ BRAISED BEEF \$7

### CLAM CHOWDER \$7

### CHICKEN NOODLE \$6

### MINISTRONE \$5

## SALADS

### PROSCIUTTO ARUGULA TOSSED W/ CHAMPAGNE VINAGERETTE \$15

### CHOPPED ITALIAN \$12

### CHICKEN CAESAR \$12

### HOUSE W/ RANCH \$5

## SPICE IS NICE

### TACOS \$13

Seasoned steak, chicken, or pork topped with cilantro, onion, cheese and green or red salsa

### FAJITAS \$18

Mixed shrimp, chicken, steak, onions, bell peppers, and cilantro served with flour or corn tortillas

### NY STEAK (8OZ) \$29

Seared to perfection, you will love this mouth-watering USDA PRIME cut. Served with mashed potatoes and vegetables

### SHRIMP SKEWERS \$18

Three skewers for every shrimp lover out there. Plump, succulent #8 shrimp, grilled and seasoned to excellence, topped with mango pineapple salsa (nine total)

### EMPANADA YOUR WAY \$12

A delicious flaky pastry stuffed with ground beef, potatoes, cheese, and vegetables

## SIGHTS FROM THE EIFFLE TOWER

### SEAFOOD RISOTTO \$32

Salmon, swordfish, asparagus, onions, and peppers all diced served in a scampi gravy

## MICHANGELO'S MASTERPIECE

### BUILD YOUR OWN PASTA \$15 ADD MEAT, ADDITIONAL \$4

### STEAMED MUSSLES \$21

Served with linguini noodles, garlic, and white wine

### GRILLED SALMON \$24

Seasoned with Lemon pepper, salt, and garlic, accompanied by asparagus and baby red potatoes. This catch is one you do not want to get away!

### MUSHROOM SAGE RAGU \$19

Shitake Mushrooms, button mushrooms, garlic, lemon juice, & salt-n-pepper served with gnocchi pellets

### CIOPPINO \$23

Seafood lover's paradise

### CHICKEN AU JUS \$24

Lentils, vegetables, & peppers over chicken breast

### PORKLOIN \$22

Creamy potatoes and vegetables with rosemary

APPENDIX D  
START-UP ACCOUNTS

|   |  |
|---|--|
| <ul style="list-style-type: none"><li>• Accountant</li><li>• Attorney</li><li>• Architect</li><li>• Banker</li></ul>                        | <ul style="list-style-type: none"><li>• Graphics Designer</li><li>• HVAC</li><li>• Interior Decorator</li><li>• Landscaper</li></ul>       |
| <ul style="list-style-type: none"><li>• Contractors</li><li>• Electricians</li><li>• Food Suppliers</li><li>• Equipment Suppliers</li></ul> | <ul style="list-style-type: none"><li>• Plumber</li><li>• Pest Control</li><li>• Marketing Agency</li><li>• Social Media Analyst</li></ul> |