

## **The Red Dawg Cafe: A Case Study of a Local Restaurant**

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### **ABSTRACT**

This case study is designed to guide undergraduate business students to understand various marketing analysis technics, including STP and SWOT analyses, based on a fictitious small restaurant business. Students will have an opportunity to analyze Red Dawg Café's current situation, segment the market, analyze the customers, and position the offerings in addition to preparing the SWOT analysis for the Cafe. In addition, this case includes creating a budgeting based on the goals set by the analyses so that students can familiarize themselves with some accounting knowledge. The budget includes the current actual figures, budgeted figures based on the three goals set by the case, and the variances between the actual and budget. With this hands-on case, business students will be able to apply their classroom learning to a real-world scenario.

Keywords: start-ups, entrepreneur, restaurant business, marketing strategy, budgeting

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## **INTRODUCTION**

The Red Dawg Cafe is a small brunch cafe located in the heart of Athena, California. They offer traditional American breakfast and lunch options and provide high quality service for their customers. Their customers are loyal to the brand and in most cases return to the restaurant to dine again. Over time, the restaurant has thrived from word-of-mouth promotion by providing value and satisfaction to almost each visitor. A thorough analysis of the business provides that the customers are the focus of the business but in high traffic scenarios, not every customer is able to be served appropriately. Internal issues such as processes, communication and the limited size of the restaurant are all qualities affecting the ability to turn over customers at an improved rate. A few issues have been outlined as specified by the owner and suitable solutions have been provided. If the solutions prove to be successful, then the restaurant should become more profitable with minimal costs.

## **SITUATIONAL ANALYSIS – INTERNAL**

The Red Dawg Cafe is a brunch cafe open from 6AM to 2PM. They serve breakfast and lunch items for the entire duration that they are open. They have two large rooms and two smaller rooms which they open on an as-needed basis throughout the day. On weekends, each room is used to full capacity resulting in very long wait times for seating and long wait times for food service. They have a hostess, several bussers, waiters, and waitresses in addition to a full cooking staff on the weekends to meet food demands. Possible contributions to the long wait times might be related to how the customers are processed. The restaurant uses a handwritten ticket system to move the food orders from the customers to the cooks. Additional information and requests are communicated verbally between waiters and chefs.

The restaurant does not own its own website and is not actively using its Facebook page. Their most recent Facebook post was in October of 2015. They have a solid presence on Yelp. The owner, Lauren, takes time to respond to both good and bad reviews and does her best to amend the bad ones. Without any website or active social media channels, the Red Dawg Cafe is unable to launch any digital promotions or advertisements. They have done promotions in the past and have not found them to be too successful.

## **SITUATIONAL ANALYSIS - CUSTOMER**

The cafe's most valuable customers are the loyal customers who return more than once. According to the owner, an average age of most loyal customers ranges between 35 and 45. "Approximately 70% of our customers are regulars, [and] approximately 75% of our first-time customers return for subsequent visits."

## **SITUATIONAL ANALYSIS – EXTERNAL**

The Red Dawg Cafe has been the longest standing brunch cafe in the area. Since Red Dawg Cafe has been established, many more restaurants began to appear to mirror

the 6AM-2PM business hours, creating competition from newer restaurants. Additionally, the Red Dawg Cafe is very receptive to weather. As the weather becomes hotter, less people eat at the cafe because of the hot food. During summer, overall traffic is reduced because families tend to travel out of town rather than eat out on a regular basis.

## **SWOT ANALYSIS**

### **Strength**

The Red Dawg Cafe has its own organizational strengths that takes competitive advantages to help it stay in this industry. It has high percentage of regulars that visit the store every day for the breakfast and lunch providing a stable income to keep the store operating and growing. The high quality and large portion of foods are one of their selling points, with great and friendly service. Customers are willing to spend money with a reasonable and affordable price. Also, the company vision is family oriented, so the Red Dawg Cafe has strong relationships with the customers to keep retention high. Finally, to keep working on the high-quality food and affordable pricing, the Red Dawg Cafe has a very stable supply chain, so it can provide the same or even better services and foods at a competitive price.

### **Weakness**

Currently, the biggest issue that the Red Dawg has is the long waiting time for a table on the busiest days. Most of the new customers complain about this problem, because they don't think it is worth waiting for 30 minutes to get breakfast or lunch. Since the Cafe is busy, the speed of delivery becomes a major problem. This is in part because the Red Dawg Cafe is using a handwritten ordering system to place orders. During the hot summer season, the Cafe is less attractive for the customers who want cold foods or other options. Also, as the owner mentioned, customers are more likely go on vacation during the summertime, so there is less overall traffic for the Cafe. As of now the owner doesn't have any plans for online promotion and advertising because the result was not acceptable when they had spent a lot of money in the past. Therefore, they did not keep the social media pages up to date besides Yelp.

### **Opportunities**

Free social media tools or platforms are available online, and the Red Dawg Cafe has the opportunities to expand on using these tools to increase the awareness and branding. From the geographic data, the Red Dawg Cafe is the only brunch cafe within five miles in the Athena area. It is very attractive for the customers who want to have high quality, traditional American foods with affordable price and friendly service. The Red Dawg Café could take advantages of using SEO (Search Engine Optimization) as a useful technique to gain attention from the new customers who are using mobile or internet to search restaurants.

### **Threats**

The Blue Dawg Cafe is an external threat which is serving the same kind of foods, and it opened just last year. It is just six miles away from the Red Dawg Cafe, has lower pricing with faster speed of food delivery and is more convenient for customers to place orders. They have the newest promotion tools such as social media platforms, restaurant website, and sales promotions. On the other hand, besides Yelp, the Red Dawg Cafe does not use as many social media platforms as the Blue Dawg Cafe does. Moreover, on the internet, there is a Cafe named “Red Dawg Cafe” which is not the same Cafe, but they have their own website and social media platforms. That might have confused customers about the brand. The last uncontrollable threat is the hot weather, because customers are not willing to wait under the hot weather and do not desire a hot meal.

### **TOWS MATRIX: See Appendix 1**

#### **Strength – Opportunity Strategy**

The Red Dawg Cafe is a brunch restaurant specializing in the traditional American dishes. It has a strong base of loyal customers who have been visiting the Cafe over several years. The ages of customers range from 35 to 45 and thus these customers tend to be familiar with social media. Thus, the Red Dawg Cafe can provide an incentive such as free drinks or promotions to its customers to encourage them to “like” their page or repost the content of the Cafe to increase the Café’s awareness. Since Red Dawg has a stable and strong relationship with the supplier, it is possible to offer some daily special combos or meals. This can increase the sales revenue. For regular customers like loyal customers, the Red Dawg Cafe can offer gift cards as a bonus and this will attract new customers after all. Gift card systems do not cost too much, and it is very easy to manage.

#### **Strength – Threat Strategy**

To deter the threats from outside, the Red Dawg Cafe should highlight its high quality and large portions of traditional American breakfast and lunch by using social media platforms and promote the Cafe. Since, the competitor is a “fast food” kind of restaurant, the Red Dawg Cafe is able to use its own strengths against the Blue Dawg Cafe. Beside Yelp’s review and comments, they can create connections through social media platforms which are free and are useful to build the trust and relationship with each customer, even to potentially attract new customers who might see the pictures of foods and the conversation. The Red Dawg Cafe has family dining room for the customers with kids and treats its customers like its own family. Continually building relationship with more customers will help the restaurant grow and the Red Dawg Cafe should keep improving on this practice.

#### **Weakness – Opportunity Strategy**

Social Media Strategy is very useful in today’s marketing to target more audience on the internet, share information, and increase the awareness of the Cafe. Free tools are

still very useful as long as it keeps up to dated and maintained. Facebook users were decreased, but the number of potential customers from Facebook is still high. The Red Dawg Café should launch the Facebook page and keep the information updated with pictures, events, or promotion. Instagram is the most popular platform nowadays, especially in food businesses. Creating an Instagram page will entertain the customers who post pictures about the Red Dawg Cafe and keep in touch with the Cafe. Twitter has its own sets of users, so working on Twitter as well is going to help the Cafe gain exposure to the potential or current customers. Because of the limited cold drinks and meals, the Red Dawg Cafe should develop sales promotion offerings during the summer season, or more cold food selections for the customers who wants cold food instead of hot food.

### **Weakness – Threat Strategy**

The main issue of long wait time can be solved by opening reservations for customers and implementing the speedy food delivery service. The Café should change its handwritten orders to a computer based operating order system. This will make sure customers get their foods on time by the order list and increase the table turnover rate. Currently, the competitor has higher publicity than the Red Dawg Cafe, so it should keep building reputation in the brunch category.

### **DEVELOPING COMPETITIVE ADVANTAGE: See Appendix 2**

The Red Dawg Cafe has the competitive advantages with respect to its quality foods due to its great relationship with its suppliers in addition to the company mission. The Red Dawg Cafe is able to serve its loyal customers and new customers without increasing the food prices. The Cafe has already been operating for more than 10 years, so keeping the loyal customers provides them with the stable income for the cafe. The friendly service that makes new customers turn into loyal customers after a visit along with its great reputation continues to build its family-oriented company culture. Competing with other restaurants, the advantage is that Red Dawg Cafe is the only traditional American breakfast and lunch Cafe in the area. The other competitors are mainly Mexican and Vietnamese restaurants with lower priced foods.

### **MARKETING GOALS AND OBJECTIVES: See Appendix 3**

Some areas that are noted as room for improvements by the owner, Lauren, are:

- Increase the speed of food delivery to the tables
- Lessen waiting times for a table during our busiest days
- Keep hot food hot from plating to delivery 100% of the time

The first two are related to a table turnover rate and the last point is related to customer service. From these objectives outlined by the owner, some overlying goals have been set for the restaurant.

The first goal is to increase daily regulars on weekdays from about 10 to about 20. Reaching this goal will increase revenue on weekdays and if the customers are retained through Summer, then the decrease in the number of summer customers will not be as

drastic. The second goal is to increase table turnover rate by 20%. The largest revenue days are weekends and excess waiting can cap the total amount of customers served or in more severe cases, turn away customers entirely. The last goal outlined is to increase the sales on “hot” and summer days by 20%. Incorporating all these three goals, a sample budget is prepared in comparison to the existing budget in Table 2. Assuming 70 percent of the weekly revenue is generated from the weekend sales and the weekday sales increased by 1.7 times after incorporating these three goals in its operations, the sales will increase by \$25,206 (21%) and the overall net income will increase by \$3,358 (about 19%) for a month. Although some variable costs such as salaries, employee benefits, and utilities increase with the increase in sales, many expenses are fixed leaving the increase in total operating expenses minimal.

### **PRIMARY TARGET MARKET**

The target market for the Red Dawg Cafe is the locals with an average age between 35 to 55. The restaurant invites both males and females and caters as well to families. This target appreciates a traditional American breakfast and can afford up to \$50 for a family of four to eat. They are likely to have heard of this restaurant from someone local. This target is defined by the owner to be their primary customers and target market.

### **SECONDARY TARGET MARKET**

A secondary target market for the Red Dawg Café is also identified. This target is mostly older married couples with an empty nest. They are aged between 56 and 75. We believe this target to have a high tendency to convert into regulars and we believe they appreciate the service just as much as they do the food.

### **MARKETING MIX: THE FOUR Ps**

#### **Product**

The Red Dawg Cafe offers products and provides a service at the same time. Their products consist of traditional American breakfast and lunch items with occasional Hispanic specials. The food is considered to be high quality by customers. Their menu has over 50 unique items and options from omelets and pancakes to beef dips and BLTs. Their services are highly personable, friendly, and courteous. Many returning customers know the employees by name and believe interacting with them to be part of the Red Dawg Cafe consumption experience. Customers who visit the restaurant frequently find themselves building friendships with the employees and other frequent customers.

#### **Place And Supply Chain**

The restaurant is located in a prime location, right along the main road that splits its resident city of Athena in half. It's only a 5-minute drive from exiting the 150-freeway providing a quick stop off of a planned trip. Due to its location along the street with the

parking lot in the back, the signage works as a billboard posted right along the main road. All customer transactions occur at the restaurant itself.

The management mostly uses local vendors to purchase the restaurant's supplies. Terry, another owner, manages relationships with supplies and does well negotiating fair prices and building long-lasting relationships.

### **Price**

Value-based pricing is used to provide a fair pricing reflecting the quality of the food and the services provided while dining in. The Red Dawg Cafe has competitive pricing relative to other restaurants in the area. There are more inexpensive options, but they do not offer the same quality products or the same quality service.

### **Promotions**

The Red Dawg Cafe is currently running no promotion efforts or advertising campaigns. Historically, promotions have not proven to benefit more than the actual costs. Their most effective promotions in the past have been to provide high value for customers resulting in word-of-mouth promotion of the restaurant and their food. They have no website and do not actively utilize available social media such as Facebook and Instagram. Lauren closely monitors and interacts with Yelp to ensure the quality for customers that had a bad experience and to thank those customers who shared their positive experiences.

### **CONSULTATION TO THE OWNERS**

Beginning from the most affordable options, it is recommended that the Café improves the social media presence of the business. The target market of 35-55 is one of the heaviest users of the Facebook. Relaunching the Facebook page as a place to interact with your customers and to introduce new items, specials, local events, new partnerships, and sponsorships is a low-cost way to promote the Cafe. Having a strong Facebook page may not guarantee increased sales but the sense of community can drive customer loyalty to the Red Dawg Cafe brand, reducing the influence of local competitors. Another option is to launch an Instagram page to share pictures of the food and experiences customers had at the restaurant. Instagram has become a staple for sharing images of food. A well-set plate on the right person's Instagram with a link to the restaurant's Instagram page could drive increased trials of new customers.

The next recommendation would require some time and money to implement. To increase the table turnover rate by the margins, a new method of taking and placing orders is outlined. An electronic system where servers no longer communicate orders to the chefs through written or verbal means. This way can reduce conflict, confusion, and miscommunication. Newer systems and technologies also prioritize items that have been in the queue longer so that both sides can see how long each table has been waiting on their order. With a formal means of tracking the time until food delivery, new standards can be imposed upon employees. For example: "Food must be prepared and delivered within the minutes of the order being placed." Ultimately, the less time the customers

spend waiting at their tables, subsequent customers will spend less time in the waiting room resulting in an increase in turnover rate and overall sales.

To address the last issue of reduced sales during hot days and summer months, two unique approaches. The first approach is to offer the summer menu with exclusive omelets, salads, sandwiches using seasonal vegetables and products and promote the limited availability aspect of the products. This could be as simple as creating 5-10 new items that can only be bought during summer months or on days that exceed 90 degrees Fahrenheit. Alternatively, the restaurant can expand their product offerings to include items that are considered refreshing or cooling on hot days.



**Appendix 1**

**Figure 1**

**TOWS Matrix**

External Elements	Internal Elements	Organizational Strengths <ul style="list-style-type: none"> <li>• High percentage of regulars visit the cafe daily</li> <li>• High quality and large size of foods</li> <li>• Great Services</li> <li>• Reasonable pricing</li> <li>• Stable Supply Chain</li> <li>• Family Oriented</li> </ul>	Organizational Weaknesses <ul style="list-style-type: none"> <li>• Long waiting time for a table</li> <li>• Unattractive on the summer season</li> <li>• Speed of food delivery with 100% hot food</li> <li>• Promotion and Advertising</li> <li>• Social Media</li> </ul>
	Strategic Options		
Environmental Opportunities <ul style="list-style-type: none"> <li>• Expansion of social media</li> <li>• The only Brunch Cafe within 5 miles</li> <li>• Attractive for consumers who wants the better foods</li> <li>• Take advantage of SEO</li> </ul>	S-O Strategies <ul style="list-style-type: none"> <li>• Encourage loyalty customers to "like" on Social Media besides "Word of Mouth"</li> <li>• Sales promotion as daily specials</li> </ul>	W-O Strategies <ul style="list-style-type: none"> <li>• Create Social Media platform such as Facebook, Twitter, and Instagram</li> <li>• Develop some Special offer on the summer season.</li> </ul>	
Environmental Threats <ul style="list-style-type: none"> <li>• Scramblers Cafe opened on last year</li> <li>• Lower pricing</li> <li>• Faster speed of food delivery</li> <li>• More convenient for customers</li> </ul>	S-T Strategies <ul style="list-style-type: none"> <li>• Highlight the High Quality and Size foods</li> <li>• Increase loyalty for customers as family</li> </ul>	W-T Strategies <ul style="list-style-type: none"> <li>• Implement of speed of food delivery</li> <li>• Open reservation for customers</li> <li>• Keep building reputation in the Brunch field</li> </ul>	



**Appendix 2**

**Table 1**

Competitive Strength Assessment					
Direct Competitor					
IKSF	Weight	Red Dawg Café		Blue Dawg Café	
		Rating	Score	Rating	Score
Advertising	0.20	7.00	1.40	9.00	1.80
Product Quality	0.30	9.00	2.70	8.00	2.40
Product Variety	0.15	9.00	1.35	9.00	1.35
Price Competitiveness	0.15	8.00	1.20	9.00	1.35
Customer Loyalty	0.10	9.00	0.90	8.50	0.85
Customer Services	0.10	9.00	0.90	8.00	0.80
<b>Total</b>	<b>1.00</b>		<b>8.45</b>		<b>8.55</b>

## Appendix 3

Table 2

Red Dawg Café					
Monthly Income Statement vs. Budget for Summer Months					
	Actual	Budget	Variance \$	%	
<b>Sales:</b>					
Food Sales	\$ 120,028.91	\$ 145,234.98	\$ 25,206.07	21.00%	
Soft Beverage Sales	<u>5,372.14</u>	<u>6,876.34</u>	\$ 1,504.20	28.00%	
Total Food & Soft Beverage Sales	<u>125,401.04</u>	<u>\$ 138,358.64</u>	\$ 12,957.60	10.33%	
Merchandise & Other	<u>2,148.86</u>	<u>2,449.69</u>	\$ 300.84	14.00%	
Total Sales	127,549.90	\$ 140,808.34	\$ 13,258.44	10.39%	
<b>Cost of Sales:</b>					
Food Cost	41,265.94	\$ 49,931.78	\$ 8,665.85	21.00%	
Soft Beverage	<u>918.64</u>	<u>1,175.85</u>	\$ 257.22	28.00%	
Merchandise & Other	42,184.57	\$ 48,755.93	\$ 6,571.36	15.58%	
<b>Gross Profit</b>	<u>85,365.33</u>	<u>\$ 92,052.40</u>	\$ 6,687.08	7.83%	
<b>Expenses:</b>					
Salaries Expense	30,096.62	31,902.42	\$ 1,805.80	6.00%	
Employee Benefits	7,270.34	7,706.56	\$ 436.22	6.00%	
Direct Operating Expenses	3,443.85	3,753.79	\$ 309.95	9.00%	
Music Entertainment	637.75	637.75	\$ -	0.00%	
Marketing	3,954.05	3,954.05	\$ -	0.00%	
Utilities	4,209.15	4,840.52	\$ 631.37	15.00%	
General and Admin Expenses	5,739.75	5,739.75	\$ -	0.00%	
Repairs and Maintenance	2,423.45	2,568.85	\$ 145.41	6.00%	
Rent Expense	8,163.19	8,163.19	\$ -	0.00%	
Equipment Leases	255.10	255.10	\$ -	0.00%	
Depreciation and Amortization	<u>1,198.97</u>	<u>1,198.97</u>	\$ -	0.00%	
<b>Total Operating Expenses</b>	67,392.21	70,720.95	\$ 3,328.74	4.94%	
<b>Operating Income</b>	17,973.12	\$ 21,331.45	\$ 3,358.34	18.69%	
Interest Expenses	198.98	198.98	\$ -	0.00%	
<b>Net Income before Income Taxes</b>	<u>17,774.14</u>	<u>\$ 21,132.47</u>	\$ 3,358.34	18.89%	