The Expansion of Speakeasy Bar and Grill

by

Joel Mills
Hons. BBA, Wilfrid Laurier University 1995

PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

In the EMBA Program
of the
Faculty
of
Business Administration

© Joel Mills
SIMON FRASER UNIVERSITY
Spring 2012

All rights reserved. However, in accordance with the Copyright Act of Canada, this work may be reproduced, without authorization, under the conditions for Fair Dealing. Therefore, limited reproduction of this work for the purposes of private study, research, criticism, review and news reporting is likely to be in accordance with the law, particularly if cited appropriately.
Approval

Name: Joel Mills

Degree: Master of Business Administration

Title of Project: The Expansion of Speakeasy Bar and Grill

Supervisory Committee:

____________________________________
Andrew von Nordenflycht
Senior Supervisor
Associate Professor of Strategy

____________________________________
David Dunne
Second Reader
Adjunct Senior Fellow

Date Approved: ____________________
Abstract

This strategic analysis makes recommendations on a course of action for Speakeasy Bar and Grill, located in Vancouver, British Columbia, with regards to growth of the brand. The comprehensive analysis determined that Speakeasy currently generates a competitive source of advantage in large part from the high level of direct involvement of its owners as managers, both in terms of cost and customer value advantages. Sustaining this advantage as the company grows with greater demands being placed on the owners’ time is a central issue.

Of the options identified, it is recommended that Speakeasy follow a modest growth strategy, bring in minority share investors to provide financing, maintain one single brand yet allow locations to make minor revisions to adapt to their local clientele, and finally that Speakeasy implement a more formalized, centralized organizational structure. Following the implementation schedule, it is expected that these changes be implemented within 12 months.

Keywords: Speakeasy Bar and Grill; comprehensive strategic analysis; source of competitive advantage; food and beverage industry; brand identity; expansion of brand; growth options.
Acknowledgements

I would like to take this opportunity to thank the professors I have learned from during my studies at Simon Fraser University while in the Executive MBA program. Their experience and insight have helped me gain a new perspective on understanding business, and myself. In particular I would like to thank my Project Supervisor, Andrew von Nordenflycht for his guidance and for challenging me to create a better product.

I would also like to thank my editor, Donna Wilson, who I engaged late in the process and who enabled me to see the light at the end as a result of her excellent work bringing many unfinished ideas and formatting challenges together.

Most of all, I would like to thank my family for their support and encouragement as I have worked to complete my program and this work. Without their support and sacrifice, I would not have been able to complete this program.
# Table of Contents

Approval ...................................................................................................................................... ii
Abstract ...................................................................................................................................... iii
Acknowledgements ................................................................................................................... iv
Table of Contents ........................................................................................................................ v
List of Figures .......................................................................................................................... viii
List of Tables .............................................................................................................................. ix

1: INTRODUCTION ...................................................................................................................... 1
  1.1 ORGANIZATION’S CURRENT POSITION ........................................................................ 1
     1.1.1 Organization Overview .............................................................................................. 1
     1.1.2 Product/Service Lines ............................................................................................... 2
     1.1.3 Size and Geographic Scope ..................................................................................... 3
     1.1.4 Current Strategic Position ....................................................................................... 4
     1.1.5 Current Issues / Problems / Decisions ...................................................................... 5
  1.2 Summary of Issues and Next Steps ..................................................................................... 9

2: EXTERNAL ANALYSIS ......................................................................................................... 11
  2.1 INDUSTRY DEFINITION .................................................................................................... 11
  2.2 INDUSTRY VALUE CHAIN ................................................................................................ 12
  2.3 GEOGRAPHIC SCOPE ...................................................................................................... 14
  2.4 INDUSTRY PARTICIPANTS .............................................................................................. 14
     2.4.1 Customers ............................................................................................................... 14
     2.4.2 Suppliers ............................................................................................................... 15
     2.4.3 Substitutes ............................................................................................................. 16
     2.4.4 Potential Entrants .................................................................................................... 17
  2.5 COMPETITORS ............................................................................................................... 17
     2.5.2 Types of Competitors .............................................................................................. 17
     2.5.3 Existing Competitors ............................................................................................... 18
  2.6 FIVE FORCES ANALYSIS ............................................................................................... 19
     2.6.1 Customers ............................................................................................................... 19
     2.6.2 Suppliers ............................................................................................................... 19
     2.6.3 Substitutes ............................................................................................................. 20
     2.6.4 Potential Entrants .................................................................................................... 20
     2.6.5 Rivalry Among Existing Competitors ....................................................................... 22
  2.7 OVERALL INDUSTRY STRUCTURE ................................................................................. 23
  2.8 MAJOR THREATS AND OPPORTUNITIES ...................................................................... 24
     2.8.1 Threats ................................................................................................................... 24
List of Figures

Figure 1 Value Chain Flow and Impact...................................................................................... 13
Figure 2 Forces on Overall Industry Structure ........................................................................... 23
Figure 3 Competitive Advantage Landscape – Speakeasy on Davie ............................... 38
Figure 4 Competitive Advantage Landscape – Speakeasy on Granville ......................... 38
Figure 5 Competitive Advantage Landscape – Speakeasy on Broadway ......................... 39
List of Tables

Table 1 Chains Competing with Speakeasy in Vancouver ........................................................... 3
Table 2 Competing Chains in each Speakeasy Location ............................................................. 4
Table 3 Customer Expectations and Speakeasy’s Offerings ....................................................... 5
Table 4 Customers by Type, Expectation, Duration and Frequency ......................................... 15
Table 5 Substitutes by Customer Group .................................................................................. 16
Table 6 Competitors by Product Offerings ............................................................................ 18
Table 7 Competitors by Venue Environment .......................................................................... 18
Table 8 Summary of Typical Costs ........................................................................................ 26
Table 9 Input and Efficiency Cost Control Strategies and Potential Savings .......................... 27
Table 10 Potential Sources of Advantage ............................................................................. 33
Table 11 Significant Sources of Advantage Ranked – Speakeasy on Davie ............................ 35
Table 12 Significant Sources of Advantage Ranked – Speakeasy on Granville ....................... 36
Table 13 Significant Sources of Advantage Ranked – Speakeasy on Broadway ...................... 37
Table 14 SWOT Analysis ........................................................................................................ 40
Table 15 Evaluation of Options vs. Decision Criteria .............................................................. 51
Table 16. Summary of Management Preferences and Expertise (Modest Growth) ................. 54
Table 17 Organizational Structure & Systems (Modest Growth) ............................................. 55
Table 18 Required and Available Resources (Modest Growth) .............................................. 57
Table 19 Management Growth Strategy Preferences .............................................................. 59
Table 20 Management Preferences and Expertise Status Quo ............................................... 60
Table 21 Management Preferences and Expertise (Outside Investors) .................................. 62
Table 22 Summary of Organizational Structure and Systems (Outside Investors) ................ 63
Table 23 Summary of Operational, Human and Financial Resources (Outside Investors) ...... 65
Table 24 Summary of Management Preferences and Expertise (Franchise) ......................... 67
Table 25 Summary of Organizational Structure and Systems (Franchise) .............................. 68
Table 26 Summary of Operational, Human and Financial Resources (Franchise) ............... 70
Table 27 Summary of Management Preferences and Expertise (Tightly Controlled Brand) .... 71
Table 28 Summary of Management Preferences and Expertise (One Brand, Local Revisions) . 72
Table 29 Summary of Organizational Structure and Systems (One Brand, Local Revisions)........................................................................................................................................73
Table 30 Summary of Operational, Human and Financial Resources (One Brand, Local Revisions)........................................................................................................................................74
Table 31 Summary of Management Preferences and Expertise (Formalized, Centralized)......75
Table 32 Organizational Capabilities .................................................................................................................................76
Table 33 Resources Required and Available ..........................................................................................................................77
Table 34 Options vs. Decision Criteria; Feasibility and Cost of Mitigating Actions .........................80
Table 35 Implementation Timeline...........................................................................................................................................83
1: INTRODUCTION

This comprehensive analysis has been prepared to help determine the most appropriate approach to take in expanding the Speakeasy Bar and Grill concept. The analysis will first review the organization’s current position, strategic position, performance and issues, and will then put these findings into context by examining the external environment. Strategic alternatives will be identified and evaluated against a set of decision criteria and internal capabilities to determine final recommendations.

This analysis is being undertaken at this time as the Speakeasy is in the midst of organizational change at the ownership/management level, which is driven by the recent opening of a third location. Research will be incorporated from outside sources as well as from real lessons learned during this period of organizational transition. One of the central research questions that will be addressed will be the decision whether to involve outside investors, consider franchising, or continue with the present ownership structure. Another central question is to determine the best way to grow from a small scale business to a larger business with multiple locations while maintaining operational standards and control.

1.1 ORGANIZATION’S CURRENT POSITION

1.1.1 Organization Overview

The Speakeasy Bar and Grill opened its first location on Granville Street in Downtown Vancouver, British Columbia in 1999. It was and remains a family-run business founded by Mohammad Eftekhari and managed primarily over the years by Mohammad’s daughter, Maryam Eftekhari. The Granville Street location is in the heart of the historic Entertainment District, which had become run down over the years and at the time Speakeasy opened there were many empty store-fronts, quite seedy establishments, and many pan handlers. The City of Vancouver embarked on an ambitious plan to revive the Entertainment District that involved rezoning, relocation of liquor-primary licenses from other areas of the downtown core, and extensive capital investment in preparation for the 2010 Olympics. This rehabilitation has been tremendously successful and now the Entertainment District is bustling once again, especially on weekend nights when Granville Street becomes the epicentre of partying in Vancouver.
In 2008, a second location was opened in the more residential West End area of downtown Vancouver on Davie Street. This was an opportunity for Maryam and her husband, Joel Mills, to open their own establishment. The Davie Street location opened following the same concept as the Granville Street location, with the same décor, menu, and sports focus. Over the years some revisions were made to better align with local customer demands (music, staffing profile, daily specials, etc.), but the overall Speakeasy theme remained consistent.

In January 2012, a third location was opened on West Broadway, a location that offered both a dense residential neighbourhood as well as a busy traffic corridor with major workplaces (Vancouver General Hospital, several medical clinics, two hotels) within walking distance. The West Broadway location has again followed the main Speakeasy theme, with some local revisions (lunch menu, expanded wine menu, shorter operating hours).

At this point the current ownership group consists of Mohammad Eftekhar, Maryam Eftekhar, and Joel Mills. Maryam and Joel manage the day to day business, overseeing the brand as a whole, with Mohammad taking more of a background role. As well, Maryam serves as the General Manager of the West Broadway location, Joel serves as the General Manager of the Davie Street location with another General Manager in place at the Granville Street location overseen directly by Mohammad. The ownership group is actively seeking new locations in the lower mainland and is keen to expand the Speakeasy concept.

1.1.2 Product/Service Lines

Speakeasy primarily sells two product lines: prepared food and liquor for on-site consumption. Prepared food consists of non-alcoholic beverages, brunch (breakfast) items, as well as lunch and dinner items that would be considered “up-scale pub-fare” (Burgers, Sandwiches, Pizzas, Wings, Steak and Salmon). See Appendix A for menus.

Liquor items consist of beer, wine and spirits. Speakeasy offers a wide selection of local draught beers from smaller "craft" breweries (Granville Island, Phillips, Big Rock, Howe Sound, R&B), specialty import draught beers (Guinness, Harp, Kilkenny, Kronenbourg, Stella) as well as a wide selection of domestic and imported bottled beer. Speakeasy offers a very wide selection of popular spirits by all the major brands, including many “top shelf” items (Patron, Hennessey, Johnny Walker Blue Label, Grey Goose, etc.). Speakeasy also offers a modest selection of wines, including a mix of BC wines and well rated wines from around the world (Australia, Argentina, New Zealand, USA, and Europe).
1.1.3 Size and Geographic Scope

Speakeasy competes in three distinct market areas and while it is a significant player in each local market area, overall it is a small competitor compared to other restaurant or pub chains. Table 1 below give some perspective on where Speakeasy fits in with other chains competing in Vancouver, and within each market in terms of overall size.

Table 1 Chains Competing with Speakeasy in Vancouver

<table>
<thead>
<tr>
<th>Chain</th>
<th>Format</th>
<th># Locations in Lower Mainland</th>
<th>Avg Square Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston Pizza</td>
<td>Sports Bar &amp; Grill</td>
<td>24</td>
<td>5,000</td>
</tr>
<tr>
<td>Cactus Club</td>
<td>Casual Dining</td>
<td>17</td>
<td>5,000</td>
</tr>
<tr>
<td>Milestones</td>
<td>Casual Dining</td>
<td>15</td>
<td>5,000</td>
</tr>
<tr>
<td>Earls</td>
<td>Casual Dining</td>
<td>14</td>
<td>6,000</td>
</tr>
<tr>
<td>Donnelly Pubs</td>
<td>Pub</td>
<td>14</td>
<td>3,000</td>
</tr>
<tr>
<td>Moxies</td>
<td>Casual Dining</td>
<td>6</td>
<td>6,000</td>
</tr>
<tr>
<td>Granville Entertainment</td>
<td>Pub</td>
<td>3</td>
<td>3,000</td>
</tr>
<tr>
<td>Speakeasy</td>
<td>Sports Bar &amp; Grill</td>
<td>3</td>
<td>3,000</td>
</tr>
<tr>
<td>Ceilis</td>
<td>Irish Pub</td>
<td>2</td>
<td>3,000</td>
</tr>
</tbody>
</table>
### Table 2 Competing Chains in each Speakeasy Location

<table>
<thead>
<tr>
<th>Competitor</th>
<th>Format</th>
<th>Competitor</th>
<th>Format</th>
<th>Competitor</th>
<th>Format</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Granville Street</strong></td>
<td></td>
<td><strong>Davie Street</strong></td>
<td></td>
<td><strong>West Broadway</strong></td>
<td></td>
</tr>
<tr>
<td>Speakeasy Sports Bar &amp; Grill</td>
<td></td>
<td>Speakeasy Sports Bar &amp; Grill</td>
<td></td>
<td>Speakeasy Sports Bar &amp; Grill</td>
<td></td>
</tr>
<tr>
<td>The Roxy Night Club</td>
<td>Bar &amp; Grill</td>
<td>Fountainhead Pub</td>
<td>Pub</td>
<td>Cactus Club Restaurant</td>
<td></td>
</tr>
<tr>
<td>Joe’s Apartment Night Club</td>
<td>Sports Bar &amp; Grill</td>
<td>Moxies Restaurant</td>
<td>Restaurant</td>
<td>Joeys Restaurant</td>
<td></td>
</tr>
<tr>
<td>Commodore Night Club</td>
<td>Hamburger Mary's Restaurant</td>
<td></td>
<td></td>
<td>Original Joe's Sports Bar &amp; Grill</td>
<td></td>
</tr>
<tr>
<td>Roxy Burger Sports Bar &amp; Grill</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wings Bar &amp; Grill</td>
<td>Celebrities Night Club</td>
<td>Fairview Pub</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Republic Night Club</td>
<td>Numbers Night Club</td>
<td>The Academic Pub</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forum Pub</td>
<td>Oasis Night Club</td>
<td>Rockford Restaurant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G Sports Sports Bar &amp; Grill</td>
<td></td>
<td>Score Sports Bar &amp; Grill</td>
<td></td>
<td>Denny’s Restaurant</td>
<td></td>
</tr>
<tr>
<td>Two Parrots Bar &amp; Grill</td>
<td>The Calling Bar &amp; Grill</td>
<td>IHOP Restaurant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dunn’s Bar &amp; Grill</td>
<td>Checkers Bar &amp; Grill</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Red Card Sports Bar &amp; Grill</td>
<td></td>
<td>Milestones Restaurant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cinema Pub</td>
<td></td>
<td>Boathouse Restaurant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venue Night Club</td>
<td>La Brasserie Restaurant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Granville Room Bar &amp; Grill</td>
<td>Bayside Lounge Bar &amp; Grill</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caprice Night Club</td>
<td>Denny’s Restaurant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture Warehouse Bar &amp; Grill</td>
<td>Denman Taphouse</td>
<td>Sports Bar &amp; Grill</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loose Moose Bar &amp; Grill</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 1.1.4 Current Strategic Position

Speakeasy competes for four key customer segments:

1. **Sports Event** – customer is primarily interested in viewing sporting events (hockey, football, soccer, UFC, etc.); typically order pub-fare and have a few drinks. They usually arrive shortly before the event starts and stay for 2-3 hours during the event, leaving shortly after it is finished depending on the outcome.

2. **Casual Dining** – customer is primarily interested in dining for lunch or dinner. They are interested in quality food and a few drinks, stay for 1-2 hours and usually leave shortly after they have finished their meal.

3. **Brunch** – customer is primarily interested in quality food, timely service, typically 1-2 non-alcoholic beverages, and will normally stay less than an hour.
4. Socializing / Lounge – customer is primarily interested in socializing with friends or other patrons at the bar or in lounge. Typically will have 3-5 drinks, possibly something small to eat, and will stay between 2-4 hours.

The expectations and what Speakeasy offers to meet the expectations of each of these four primary groups is summarized in Table 3 below.

**Table 3 Customer Expectations and Speakeasy’s Offerings**

<table>
<thead>
<tr>
<th>Customer Segment</th>
<th>Expectations</th>
<th>Core Activities Speakeasy Engages in to meet Expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sports Event</td>
<td>HD Quality Signal, High Quality &amp; Large TV’s, Quality Sound System, Drink Specials (Beer), Quality Food</td>
<td>Subscribe to major events, HD Screens up to 150”, Commercial Grade Audio, Low price point on beer, Fresh ingredients; well-trained cooks</td>
</tr>
<tr>
<td>Casual Dining</td>
<td>Quality Food, Selection of Wine/Beer/Spirits, Attentive Service, Pleasant Atmosphere (Down-tempo music at low volume, lights dimmed, tv’s off)</td>
<td>Fresh ingredients; well-trained cooks, Wide selection of Craft beers &amp; Imports, Staffing levels during lunch &amp; dinner rushes, Music and lighting</td>
</tr>
<tr>
<td>Brunch</td>
<td>Quality Food, Quick Service, Bright Upbeat Atmosphere (Upbeat music at medium volume, lights full-on, some sports on tv’s)</td>
<td>Fresh ingredients; well-trained cooks, Staffing levels, Music and lighting</td>
</tr>
<tr>
<td>Socializing / Lounge</td>
<td>Selection of Drinks, Casual Upbeat Atmosphere (Upbeat music at medium volume, louder on weekends for “party crowd”, dim lighting)</td>
<td>Wide selection of Craft beers &amp; Imports, Music, lighting, open floorplan to encourage mingling, Variety of specials (Cocktails, Martinis, Craft Beers)</td>
</tr>
</tbody>
</table>

1.1.5 Current Issues / Problems / Decisions

Speakeasy is working through several issues as it has grown to three locations including: governance of the brand, ownership and management structure, determining how and at what rate to grow, dealing with operational challenges of opening new locations, and organizational structure transition from an entrepreneurial model to a more corporate model.
1.1.5.1 Governance of the Brand

Each member of the ownership group has invested a lot of time, energy, and money into building the brand, but as the business has grown to a third location, there is a more pressing need to explicitly identify what the brand is and what it is not. There is a desire to open more locations, and these questions must be addressed before any other locations are added as decisions that are made at one establishment are increasingly likely to affect the perception of the brand and experience at the other locations; this requires changes to the decision making process.

There needs to be a more deliberate process for making decisions that affect the brand that considers not only the needs of each location, but of the brand as an overarching entity. For example, decisions on layout, menu, product assortment, vendor selection and negotiations, employee policies, advertising and more, all have an impact on the perception of the brand. Who should have a say in these decisions, how much weight each person should get in the decision making process, and how to resolve differences of opinion are all open issues.

1.1.5.2 Ownership and Management Structure

The current ownership and management structure presents challenges as there is no formal obligation for any of the ownership groups at a particular location to follow the same direction as the other locations. For example, if Maryam and Joel decide that it is best to take a certain course of action they can implement that change at the Davie location without further approval (because they own it), but need to bring Mohammad on-board at the West Broadway location due to the co-management structure in place, and they at the Granville location have no authority to implement change at the Granville location because Mohammad oversees its operations directly.

One example of how the current ownership structure can lead to paralysis is in regards to menu design and composition. Maryam and Joel believe that the Davie Street and Broadway locations have a higher percentage of customers who are primarily interested in dining, and to appeal to them the menu needs to highlight more entrees, a broader selection of wines, and have less of a focus on burgers. Mohammad believes that all locations should have the same menu, and wants to keep it focused on pub-fare comfort food, based on what he sees as the clientele at the Granville Street location.
Another example of ownership divergence is with the beer selection. Maryam and Joel have embraced the industry trend toward locally brewed small batch “Craft” beers. Mohammad believes that the beer selection should focus on the most popular brands from major brewers (ex. Molson, Labatt). This has led to a different beer line-up at each location, which has had an impact on vendor relationship management, the ability to negotiate better prices and support, and confusion for customers who frequent more than one location.

When there were just two locations with very different client bases, this was not such a problem as each location just did what it felt was best for its own business. Now that the third location has opened, customers are more aware of Speakeasy as a brand, more customers are likely to visit multiple locations and have a certain expectation for consistency; now differences in perspective have to be resolved or the business is paralyzed. They can no longer just be ignored. The feedback that has been received from customers, for example, who live downtown but work near West Broadway (and vice versa) has generally been that they are confused as to why the same menu items (drink and food) are not available at all locations.

1.1.5.3 Determining how and at what rate to Grow

Each member of the ownership group wants to grow the brand and open new locations, but this must be done in a way that is manageable and that does not take away from the successful operation of the existing locations. The expectations of each owner must be taken into consideration in terms of what they hope to get out of growth and what they are willing to put in, and what rate of growth they have a tolerance for.

The rate of growth will dictate a lot of other decisions; for example what is the right strategic form and direction to take? A more rapid growth rate will require bringing additional resources on line sooner and therefore franchising or bringing in outside investors may make sense. As well, a rapid growth rate will require bringing on a new level of talent and changing the operating model to a more regulated corporate style. The advantages and disadvantages of these alternatives must be considered carefully as there may be a huge risk for the existing locations.

1.1.5.4 Operational challenges opening new locations

The major operational challenges that have been experienced opening the new location have come from a few main areas: limited availability of management time for the new location, management distraction from the existing locations, establishing a working culture in the new
location with almost entirely new employees, and learning the business rhythms of the new location.

The decision to have Maryam and Joel lead the operational efforts of opening the new location on West Broadway, while still overseeing the operations of the Davie Street location, have resulted in less time available had a dedicated person been assigned this job. This impact was not as severe as it could have been because the new location was opened in the slow season. Nonetheless, it took a huge effort and was mostly accommodated by simply working extremely long hours without days off for several months. In anticipation of opening new locations, this approach should be re-evaluated to see if there is another option, or at least to better understand the demands upfront and factor that in with expansion decisions. Of course there is a limit to the hours that could be worked, and there is no doubt that there was a challenge due to limited availability.

At the same time, the demands of getting the new location open tended to override the focus on the existing business, at least the Davie Street location that was directly managed by Joel and Maryam. There was a tendency to take it for granted that the Davie Street location was running smoothly and that it required minimal management involvement in the slow season. This likely resulted in a loss of some business opportunities; for example, securing seasonal parties, being sharp on inventory management, and making sure service standards were upheld. Should new locations be opened, ensuring the continued successful operations of existing locations should be a higher priority.

As only a handful of employees were brought onboard prior to opening establishing a strong working culture and work habits in the new location was a real challenge. Employees were not well experienced in processes; they did not know each other or management well; and they were anxious and inefficient when performing their tasks. These challenges were compounded by the difficulty in finding quality talent as most recruiting took place in the month of December when most people are not thinking about looking for a new job or already have holiday plans. One more compounding factor was a higher initial demand than expected that required a second round of recruiting just as the new location was busy finding its feet. Managing the human resources element definitely took a lot of effort and there are doubtless areas to improve when opening new locations.

The first month of business at the new location was like a roller coaster as the business rhythms were unknown, resulting in getting caught by surprise at times with busier than expected rushes, and at other times being overstaffed during slow periods. There were impacts
on the customer and employee experience, labour costs, inventory costs and in the confidence of employees in management. Much time was spent fire-fighting customer and employee issues, which further distracted management from running the business as expected. A better job predicting the customer traffic patterns and developing strategies to be more responsive would help in opening new locations.

The questions of how resources are to be deployed to support opening new locations, and how the effort that goes into opening a new location and the lessons learned can be captured in an overall strategic plan, need to be well understood. Without a clear and well supported plan, the decision making process of whether or not to open a new location is incomplete and puts the operations of existing locations at risk as the new location becomes a vacuum for management time.

1.1.5.5 Organizational Structure Transition

With the growth and subsequent demands upon management time, there is a clear need for a change in organizational structure. A new level of management is required to manage the issues that face all locations as the current management group is already stretched trying to keep up with the daily demands of each location. The current organizational structure relies heavily on ownership presence to ensure the smooth running of the business. It is a fast moving, volatile and low margin business and direct supervision has been the prevailing approach to ensure sales were maximized and expenses were minimized. More locations will require more efficient and well documented policies and processes, more empowerment of employees, and also more management support. There will inevitably be more distance and less interaction between owners and customers or employees, and the owners need to find a way to ensure these relationships are valued and sustained by a new level of managers.

1.2 SUMMARY OF ISSUES AND NEXT STEPS

The issues presented above surfaced as areas of contention and frustration during the opening of the third location on West Broadway, and have been recognized as areas that need to be addressed before more locations are opened. From the owners’ perspectives, these issues were more latent previously as they each took liberty to run their own location as they saw fit. Joint control over the West Broadway location forced these issues to the surface as it became apparent that Speakeasy was a brand largely in name only and did not really present a consistent image to customers.
The next steps in this analysis will help to flush out what the Speakeasy brand really is, where it derives its strengths, and what elements should be enhanced or dropped if a decision is made to proceed with opening new locations. Also, consideration will be given to whether work is required to “clean up” the brand to make it more consistent among the existing locations as part of the option evaluation.
2: EXTERNAL ANALYSIS

This section will begin by defining the structure of the industry that Speakeasy operates within, outlining the industry value chain, discussing the industry participants, and evaluating the forces that are in play that affect participant behaviour. This work will set the stage for an analysis of potential sources of advantage in the industry.

This section will then identify sources of advantage in the industry that may have meaningful differences for a particular strategic direction. Four specific options will be described in detail in Chapter 3. Identifying sources of advantage is important because it is probable that not all advantages will be applicable to all options. There may be a source of advantage that is available with one option that is not available with another. To the degree that Speakeasy currently relies on a particular source of advantage or could gain leverage by developing another may determine the attractiveness of an option.

2.1 INDUSTRY DEFINITION

The industry segment under evaluation is the Restaurant and Bar Industry, which, in the North American Industry Classification System (NAICS), includes full and limited service private sector restaurants and drinking places as well as civic and social organizations that operate bars and restaurants. This analysis focuses on commercial restaurants and drinking places.

Full and limited service restaurants are classified under NAICS code 72251. Full service restaurants are “establishments primarily engaged in providing food services to patrons who order and are served while seated and pay after eating. These establishments may sell alcoholic beverages, provide take-out services, operate a bar or present live entertainment, in addition to serving food and beverages,” while limited service restaurants are “primarily engaged in providing food services to patrons who order or select items at a counter, food bar or cafeteria line (or order by telephone) and pay before eating. Food and drink are picked up for consumption on the premises or for take-out, or delivered to the customer's location.” Classified under NAICS code 722410, drinking places are described as “bars, taverns or drinking places, primarily engaged in preparing and serving alcoholic beverages for immediate consumption.”
These establishments may also provide limited food services.” This classification also includes nightclubs. (Statistics Canada, 2012)

2.2 INDUSTRY VALUE CHAIN

The industry value chain involves suppliers who supply raw ingredients for food and drinks, competitors who transform these ingredients with their own recipes and processes into menu items, and customers who consume the finished product. Competitors in this industry spend a significant amount of effort trying to differentiate their offerings and see the atmosphere as an integral part of the customer experience, many times just as important as the food or drinks that are served.

Figure 1 below illustrates the flow of ingredients from the supplier through production by competitors to the customer. It also illustrates the impact customers have on the evolution of competitors’ offerings through their feedback and patronage.
Figure 1 Value Chain Flow and Impact

Suppliers

Food Ingredients

Beverages (Non-Alcoholic)

Beverages (Alcoholic)

Creation of Menu Items

Competitors

Promoting and Advertising

Present & Delivery of Items

Customer Experience

Design of Atmosphere

Customers

Customer Feedback + Reputation
2.3 GEOGRAPHIC SCOPE

There are presently three Speakeasy locations, all of which are located in or near the downtown Vancouver core – 921 Granville Street in the Entertainment District, 1239 Davie Street in the Davie Village, and 901 West Broadway in Fairview. The majority of customers live within walking distance of each location, with a small number taking transit into the downtown core during special events (Hockey Playoffs, Fireworks, Pride Parade, etc.). The Granville Street location has a higher percentage of customers who come from outlying areas as the Entertainment District is the epicentre of weekend activity in Vancouver.

Currently Speakeasy’s three locations operate within Vancouver’s Downtown Core, Yaletown and part of the West End and the Fairview neighbourhood. Future locations in the immediate future are likely to be in Vancouver neighbourhoods near the downtown core, on the North Shore, or in Burnaby. These areas will be considered the geographic scope for this analysis. See Appendix B for maps of locations.

2.4 INDUSTRY PARTICIPANTS

2.4.1 Customers

The customers in this industry are primarily the local residents of the area that live close to a particular competitor. They will generally not travel far to patronize a competitor, preferring a local restaurant or bar. Exceptions to this can occur. Groups of restaurants or bars that have been established close together can form a “district” that becomes a destination in itself. Customers are drawn to these districts because they offer a variety of competitors to choose from. Another exception is where a competitor has done an excellent job at differentiating themselves and thus has the power to draw customers from farther away.

Customers in this industry are individual consumers of the products. Many customers have a few preferred pub/restaurants that they frequent regularly, although there are some that are intensely loyal and only patronize one establishment. Other customers are more promiscuous, visiting many establishments for the sake of novelty despite being satisfied with a particular establishment. Customers for products and an atmosphere similar to what is offered at the Speakeasy can be grouped into four groups based on what they are looking for from an establishment in this industry as summarized in Table 4 below. Segmentation along these lines has been chosen because the type of experience the customer is looking for will require competitors to make significant changes in their product and atmosphere offerings. Customers
will choose a competitor based on how well they signal that they have what customers are
looking for. For example, if a competitor wants to attract sports fans they need to communicate
that they have the necessary signal feeds, a certain quantity and quality of televisions, and a fun
atmosphere. Alternatively, to attract customers who want to have dinner with the kids, a
competitor may develop a special kids menu, a more casual environment, and have brighter
lighting.

Segmenting along other demographic lines, such as age, sex, occupation, income, etc.,
may be useful to help determine the size of each of these segments in a particular area, but that
type of segmentation alone may not help a competitor determine what mix of product and
atmosphere to offer. For example, hockey fans are quite diverse across income, occupation,
age, and gender.

Table 4 Customers by Type, Expectation, Duration and Frequency

<table>
<thead>
<tr>
<th>Group</th>
<th>Expectations / “Willingness to pay” Drivers</th>
<th>Duration of Visit</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Primary Diners</td>
<td>Quality Food, Specials</td>
<td>In and Out</td>
<td>Occasional</td>
</tr>
<tr>
<td>Bar Regulars</td>
<td>Drink Selection, Social Atmosphere</td>
<td>Many hours</td>
<td>Daily</td>
</tr>
<tr>
<td>Sports Fans</td>
<td>Atmosphere, Quality Food, Specials</td>
<td>A few hours</td>
<td>Several times per week</td>
</tr>
<tr>
<td>Social Outing (Date, Group, Party)</td>
<td>Atmosphere, Drink Selection, Quality Food</td>
<td>A few hours</td>
<td>Weekly / Bi-weekly</td>
</tr>
</tbody>
</table>

2.4.2 Suppliers

To evaluate the suppliers for this industry, it is helpful to group them into food (food,
supplies, consumable items, janitorial), beverage (non-alcoholic) and beverage (alcoholic)
categories. For the geographic scope established for this analysis, most suppliers are local,
accessible within a short walking or driving distance to downtown, or via delivery service if they
are located in the broader Vancouver area.

Food suppliers are dominated by large general distributors, such as Sysco, Gordon
Food Service (GFS), and Centennial, and local specialty distributors, such as Intercity Packers
(Poultry & Protein), Koo Produce, Monte Cristo Bakers, Bargreen Ellingson (Consumables and
Janitorial), etc. Other food suppliers are warehouse clubs, such as Costco and Real Canadian
Warehouse Club, and local grocery and market stores, such as Super Valu, Cobs Bread, Kin’s
Produce, etc.
Non-alcoholic beverages are supplied in large part through the general distributors (juices, coffee, fountain soda), through Coke or Pepsi delivery channels directly (fountain soda), or warehouse clubs (canned/bottled soda, water, juice).

Alcoholic beverages are strictly regulated by the provincial government and are distributed through Liquor Control Branch stores (packaged beer, wine, liquor) or via delivery from the brewers (draft beer and wine).

2.4.3 Substitutes

Depending on the buyer group mentioned above, there are many substitutes for the products offered in this industry as outlined in Table 5 below.

Table 5 Substitutes by Customer Group

<table>
<thead>
<tr>
<th>Group</th>
<th>Substitute</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good Primary Diners</td>
<td>Prepare food at home</td>
</tr>
<tr>
<td>Bar Regulars</td>
<td>Consume beer/liquor at home</td>
</tr>
<tr>
<td>Sports Fans</td>
<td>Watch game at sports arena, alternative entertainment (movie, concert)</td>
</tr>
<tr>
<td>Social Outing (Date, Group Party)</td>
<td>House party, alternative venue (park, boat cruise, beach)</td>
</tr>
</tbody>
</table>

For all groups, substitution is largely a pricing decision as the price of prepared food and drinks is well above what can be made and consumed in the home. For the Food Primary Diner it is mostly a decision based on convenience and quality of food (inability to cook one’s own meal to the standard of a professionally prepared meal). For the Bar Regulars, the decision is based on the social atmosphere, if the alternative is drinking at home alone or with a few friends. It is often more convenient to meet up with friends at an establishment than for someone to take on the role of the host. For the sports fans, it is a decision driven by the environment (specialty channels, big screen tv’s, other people to cheer along with). Watching with a group in a bar or restaurant is more exciting than watching at home, but is difficult for these establishments to compete with attending a live event. For those on a social outing, the decision is based on atmosphere and convenience (host can enjoy the party, dates can focus on each other).
2.4.4 Potential Entrants

The only real significant barrier to entry is availability of suitable commercial real estate within the geographic areas that Speakeasy competes, although there is a reasonable amount of turnover in this industry as it is plagued by bankruptcies. Potential entrants include small owner/operator establishments, chain and franchised restaurants, bars, and nightclubs. With the exception of larger operations and chain and franchised restaurants, which require comparatively higher capital investment, there are few barriers to entry. Other than the challenge and risk of acquiring a lease, potential new entrants, particularly small owner/operator establishments, can enter the industry with relatively little capital investment, very few employees, and as broad or limited a selection of items as they choose without significant inventory investment as it is easy to scale up or down. Suppliers do not require exclusive contracts; buyers are generally anxious to try something new; and existing competitors have little ability to prevent them from opening.

2.5 COMPETITORS

2.5.1 Industry Structure

The industry is characterized by many relatively small-scale participants, usually operating at a single location, although there are larger competitors with many locations. Due to the nature of the product, customers do not want to travel a large distance after purchasing, and neither do they want to consume on-premise in a large “mega store” type of environment.

2.5.2 Types of Competitors

Competitors can be grouped in several ways – by their size and business form, by the types of products they sell, and by the type of environment they provide.

Competitors can be grouped by size into three groups – independent one location businesses, small local chains with a handful of locations, and larger regional and national chains with many locations. The independents are usually small scale start-up “mom and pop” type operations, often with the owners working hands-on. The local chains still tend to have significant owner involvement at the group level, but also significant involvement from investors and are generally aspiring to grow. Generally, the regional and national chains are either publicly traded or are franchised and have little owner involvement as they are run by formal systems with contract management at each location.
Competitors may also be grouped by the type of product that they sell and whether they sell the product for on-premise or off-premise consumption. Some competitors offer a wide variety, while others are more narrowly focused. Table 6 below shows the main groups of competitors by the type of product that they sell.

**Table 6 Competitors by Product Offerings**

<table>
<thead>
<tr>
<th>Form of Competition</th>
<th>Prepared Food items</th>
<th>Non-alcoholic beverages</th>
<th>Alcoholic beverages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct (On-premise)</td>
<td>Food primary restaurants, Fast food restaurants, Pub's, Street vendors</td>
<td>Food primary restaurants, Pub's, Coffee shops</td>
<td>Food primary restaurants, Pub's, Nightclubs</td>
</tr>
<tr>
<td>Indirect (Off-premise)</td>
<td>Grocery stores, Fast food restaurants, Coffee Shops</td>
<td>Grocery stores, vending machines</td>
<td>Government &amp; Private liquor stores</td>
</tr>
</tbody>
</table>

Competitors may also be grouped by the type of environment they provide, and this generally corresponds also to the mix of food and alcohol sold, as shown in Table 7 below.

**Table 7 Competitors by Venue Environment**

<table>
<thead>
<tr>
<th>Competitor Type</th>
<th>Street Vendors, Fast Food</th>
<th>Café’s, Coffee Shops</th>
<th>Restaurants</th>
<th>Sports Bars</th>
<th>Pub’s</th>
<th>Night Clubs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus of business</td>
<td>Strictly “to-go” business, little if any atmosphere</td>
<td>Mostly over-the-counter type service, with some atmosphere</td>
<td>Food focused, atmosphere important but not main draw</td>
<td>Food focus, atmosphere and other entertainmen t important</td>
<td>Liquor focus, atmosphere and other entertainment important</td>
<td>Liquor focus, event type entertainment critical (DJ’s, dancing)</td>
</tr>
<tr>
<td>% Alcohol of Total Sales</td>
<td>0%</td>
<td>0%</td>
<td>30%</td>
<td>50%</td>
<td>80%</td>
<td>100%</td>
</tr>
</tbody>
</table>

### 2.5.3 Existing Competitors

Existing competitors are a mix of larger local, regional and national chain establishments (Cactus Club, Boston Pizza, Earls, etc.) and small independent establishments or franchised establishments. Most of the independents are small in size (square feet) and sales volume compared to the Speakeasy, with only a few of similar or larger size. There is little if any coordination between competitors and all are independently owned. Most of the existing larger competitors have been in business for many years (ten plus years, which is long for the broader
restaurant industry), with higher turnover occurring mostly among the very small owner/operator ethnic type restaurants.

2.6 FIVE FORCES ANALYSIS

The follow sections present a review of each of Porter’s five forces and the degree to which forces are exerted on the industry. (Porter, 1980)

2.6.1 Customers

Customers make their purchase decisions on individually on a small scale, and are not concentrated enough to exercise any real force considering there are many of them. The products in the industry are generally quite differentiated on the food side, and therefore customers are not able to price shop effectively. One notable exception would be for staple items such as chicken wings, nachos, basic breakfasts, etc., where prices are pretty much standard across the industry due to historic price shopping.

Customers can exercise a small amount of power because they have little or no switching costs. In Speakeasy’s geographic areas, customers would be more likely to exercise this power in the West End than at other locations because a significant portion of this group of customers are in relatively lower income brackets and are more price sensitive.

Overall, customers exert little force in this industry, mostly due to the fact that they are fragmented and uncoordinated. One interesting trend that has emerged is the concept of group buying from companies such as Groupon, whereby consumers try to coordinate their buying power in exchange for deep discounts for a limited time period. So far, this has had little impact on margins as few bars or restaurants participate.

2.6.2 Suppliers

Suppliers in this industry gain power from the following sources.

1. They are more concentrated than the industry they sell to – there are relatively few large distributors (Sysco, GFS, etc.) compared to the number of buyers, and although they have hundreds of items in their catalogues, they rarely have any significant price differences. They also have very similar delivery schedules, credit policies, and minimum ordering requirements.
2. **Industry participants face switching costs** – for competitors in this industry, it is very challenging operationally to switch vendors as maintaining food quality, portions, and employee awareness all become challenging.

3. **There is no substitute for what supplier provides** – for alcoholic beverages, there is no substitute for what the supplier group provides due to government regulation. Buyers have zero power with price and product availability and are not able to play suppliers against each other due to heavy investment in brand advertising (Guinness for example).

Suppliers are able to exert significant force on the competitors within the industry due to concentration, buyer switching costs and, for alcoholic beverages, lack of substitutions.

### 2.6.3 Substitutes

The threat of substitutes exerts power in the following ways:

1. **Attractive price-performance payoff to industry product** – especially in hard economic times, the industry is constrained in the amount it can charge for a product that is essentially non-essential. People do not need to have their food or drinks prepared for them and can easily buy all the ingredients and save money by consuming at home.

2. **Customers’ cost of switching is low** – there are few if any switching costs for customers in this industry, so there is little force preventing a customer from preparing their own food and drinks at home.

3. **The threat of substitutes acts as a limiting factor** – this is true to some degree on pricing, but for those competitors who focus on environment and the overall experience this force can be significantly reduced.

### 2.6.4 Potential Entrants

Potential entrants may be discouraged by the following barriers that give power to incumbents.

1. **Supply Side Economies of Scale** – due to the relatively small size of competitors compared to the dominant suppliers for food (Sysco, GFS) there is little bargaining power to achieve economies of scale with higher volumes. For alcoholic beverages, due to government regulations all competitors are price
takers. Therefore, there are no effective barriers to entry due to supply side economies of scale.

2. **Demand Side Benefits of Scale** – there are definitely some benefits for incumbents who have a well-developed customer base as new customers perceive a busy pub/restaurant more favourably than an empty one. However, this is mitigated by the fact that even if someone is satisfied, they still like to have variety in the food they eat, and are often also very open to trying out new establishments during their honeymoon period. This would be more of a source of competitive advantage between existing competitors than a barrier to entry.

3. **Customer Switching Costs** – customers have virtually no switching costs and so this does not create a significant barrier to entry. The one exception would be the daily Bar Regulars who have developed a set of friends at an incumbent, but this only represents a small percentage of the industry.

4. **Capital Requirements** – capital requirements can be very low, with most locations offered on a lease basis, and most equipment available to lease or rent. Inventories can be purchased in small lot sizes at high frequency as well. If credit terms cannot be negotiated, all suppliers will operate on a cash and carry basis. There are very low barriers to entry due to capital requirements for smaller establishments, although to compete with larger establishments they are potentially higher.

5. **Incumbency Advantages Independent of Size** – incumbents may have advantages to remain profitable due to efficient operations, but there are few advantages that would serve as a barrier to entry. Suppliers are easy to access, pricing on alcoholic items has a minimum regulated amount, and recipes and menu items are relatively easy to imitate.

6. **Unequal Access to Distribution Channels** – this does not apply in this industry as customers are free to walk in to any establishment they choose.

7. **Restrictive Government Policy** – for a segment of this industry this represents a barrier as there is a restriction on liquor-primary licenses (pubs/nightclubs). For those looking to open a food-primary or mixed establishment, however, licensing is relatively easy and liquor prices are controlled on both the supply and sale
side, which aids new entrants as incumbents do not enjoy volume discounts and cannot exercise predatory pricing.

Overall, there is little force exerted to prevent new entrants from entering the industry, and so they exert a high level of force on the industry.

2.6.5 Rivalry Among Existing Competitors

Rivalry in this industry is medium to high for the following reasons.

1. **Competitors are numerous, roughly the same size, with approximately the same power** – There are no clear industry leaders, and on any day one competitor may do better than another. Most competitors have similar resources and can only sustain aggressive strategies for a short time; aggressive strategies are almost certainly met with immediate retaliation and imitation.

2. **Industry growth is slow** – this is a very mature industry, and with low growth the only way to increase sales is to take it away from another competitor.

3. **Exit barriers are high** – due to specialized fixed assets, which lose their value quickly, or long-term leases, it is difficult to exit the industry without financial disaster.

4. **The Degree of Differentiation is medium to high** - Competitors attempt to reduce the degree of rivalry through differentiation. This begins by location selection. Choosing a particular location essentially is choosing the group of competitors you will compete against, as customers tend to frequent establishments that are close to where they live. The next step in differentiation is choice of cuisine type and format. On a particular visit, a customer generally has predetermined what type of cuisine and format they are looking for (example sushi vs. Italian, bar vs. family diner). Competitors may differentiate further by differentiating their product and atmosphere within a cuisine and format type, attempting to increase customer loyalty and switching costs. However, there are few restaurants that are able to create products that are unique to the point where competitors cannot copy them as there is a lot of talent in the industry (chefs). Those chefs that are truly rare and exceptional, or have a certain level of fame, demand significant compensation and consequently restaurants that are able to differentiate successfully over the long-term tend to be toward the higher
end of the spectrum. Often a new trend will emerge and provide a very short window of opportunity for a restaurant to differentiate, but due to low barriers to entry and a wide dissemination of knowledge and practices through vendors, magazine reviews, and “foodies”, these trends spawn imitators rather quickly. An example would be with the trend toward “fresh and local” that started as a differentiator, but quickly spread and is now considered a minimum expectation.

Another way of differentiating is to offer a unique atmosphere or to occupy a unique location. Generally this involves investing a lot of money either through renovations or high rents. Only a few restaurants at the higher end of the spectrum can differentiate for the long-term in this way.

2.7 OVERALL INDUSTRY STRUCTURE

The forces on the overall industry structure as discussed above are summarized in the diagram below.

Figure 2 Forces on Overall Industry Structure

Overall this industry has a high degree of force exerted on existing competitors, mostly from the bargaining power of suppliers, the degree and intensity of rivalry among existing competitors, and the threat of new entrants. The threat of substitutes is moderate. Although customers do not exercise much force, due to their price sensitivity and the non-essential nature of the products, they do not offer an outlet to relieve the other pressures being put on the existing competitors.
This high level of industry pressure is consistent with the historically low margins in the industry and the high rate of turnover and bankruptcies. It also explains why prices are relatively stable and very consistent from one competitor to the next. Indeed, most of the value created shifts to the customer and the suppliers in this industry as input prices remain high from suppliers who are relatively more powerful, while final sale prices are pushed lower by the threats of new entry, medium to high rivalry, and customer price sensitivity.

2.8 MAJOR THREATS AND OPPORTUNITIES

2.8.1 Threats

1. **Increased consolidation of suppliers** – Should the local specialized distributors join together, or be swallowed up by the existing large distributors, supplier power in the industry would increase and prices would eventually shift up for inputs and reduce profits.

2. **Coordination of customers** – This has started to happen already with group purchasing schemes, such as Groupon, where customers basically organize themselves into larger buying blocks and extract deep discounts from competitors (50% off is standard). As customer coordination increases, so does their power and this will place downward pressure on price and profits.

3. **Poor economic outlook** – If the economy should continue to be challenged, buyers will continue to save their money for true necessities. The recent recession plus the introduction of the HST badly damaged the industry by reducing disposable income among buyers.

2.8.2 Opportunities

1. **Differentiation** – The key to surviving in this industry is to differentiate as much as possible, and try to make the complete experience something that cannot be matched. Getting the customer to look beyond the basic food and drinks is what increases their switching costs, willingness to pay, and ultimately prices and profits.

2. **Backward Integration** – In many cases, restaurants are not only buying local and directly from farmers markets and cooking from scratch because they want to improve the quality of their items, they are doing it in response to pricing
pressures from suppliers. Turning away from the value-added large suppliers has the impact of reducing the force they can apply while at the same time helping to differentiate.

2.9 POTENTIAL SOURCES OF ADVANTAGE

Potential sources of advantage come from two broad areas – cost advantage and customer value advantage. Each will be examined in turn, followed by an analysis of how these advantages may be protected and sustained.

2.9.1 Cost Advantages

Cost advantages can be achieved through three areas – controlling input costs, increasing production volume (to amortize fixed costs over more units), and increasing efficiency. To understand the impact of these costs on the profitability of the business, Table 8 below has been prepared showing a summary of typical costs, type of cost (variable/fixed), and approximate percentage of sales based on the average last three years results of the focal company.
Table 8 Summary of Typical Costs

<table>
<thead>
<tr>
<th>Cost</th>
<th>Variable (Input) Cost / Fixed Cost</th>
<th>Approx. % of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>Fixed Cost</td>
<td>15%</td>
</tr>
<tr>
<td>Wages &amp; Benefits</td>
<td>Fixed Cost – Salary &amp; Management</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>Variable (Input) Cost – Hourly</td>
<td>10%</td>
</tr>
<tr>
<td>Raw Materials (Food/Beverage/Alcohol)</td>
<td>Variable (Input) Cost</td>
<td>35%</td>
</tr>
<tr>
<td>Utilities (Hydro, Gas, Telephone, Internet)</td>
<td>Fixed Cost (does not vary significantly given set operating hours)</td>
<td>4.0%</td>
</tr>
<tr>
<td>Cleaning</td>
<td>Fixed Cost</td>
<td>1.5%</td>
</tr>
<tr>
<td>Subscription Services (Regular &amp; Specialty Television Channels)</td>
<td>Fixed Cost</td>
<td>2.0%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>Fixed Cost</td>
<td>5.0%</td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>Fixed Cost</td>
<td>0.5%</td>
</tr>
<tr>
<td>Insurance</td>
<td>Fixed Cost</td>
<td>0.5%</td>
</tr>
<tr>
<td>Merchant Fees</td>
<td>Variable Cost</td>
<td>1.5%</td>
</tr>
<tr>
<td>Advertising</td>
<td>Variable Cost</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>Total Fixed</td>
<td>43.5%</td>
</tr>
<tr>
<td></td>
<td>Total Variable (Input)</td>
<td>49.5%</td>
</tr>
<tr>
<td></td>
<td>Profit Margin</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

2.9.1.1 Input Cost Sources

To determine if input costs may create an opportunity for generating advantage, we will look at each and discuss the likelihood of being able to achieve lower costs than the industry average. This section will focus on input cost reducing opportunities that do not arise from economies of scale or scope. First we will examine variable input costs.

By far the largest input cost is for the raw material (food, beverages, alcohol) that is being processed and then sold. There is more opportunity to affect pricing for food and beverage than for alcohol due to government regulations on sales prices of alcohol. Overall, raw material input costs can vary from one competitor to the next for several reasons as outlined in Table 9 below. There are also cost advantages to be gained through efficient use of inputs as shown in Table 9. Since there is so much opportunity to affect costs downward, this
indeed presents an opportunity to generate a cost advantage. These strategies present a potential savings of up to 41% on raw material input costs. As these costs make up 35% of sales, this represents a potential savings of 17.5% to the bottom line vs. not actively engaging in raw material input cost control strategies. In an industry with such slim profit margins, this can make the difference between being in business and being out of business.

Table 9 Input and Efficiency Cost Control Strategies and Potential Savings

<table>
<thead>
<tr>
<th>Cost Control Strategy</th>
<th>Description</th>
<th>Potential Cost Savings Opportunity vs. Norm (% of Total Purchases)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Input - Opportunistic Purchasing</td>
<td>Bulk purchasing when items are on sale</td>
<td>2-3%</td>
</tr>
<tr>
<td>Input - Item Design (Mix of ingredients)</td>
<td>Ensuring menu items deliver target margin %, choosing low cost generic ingredients where possible</td>
<td>4-5%</td>
</tr>
<tr>
<td>Input - Negotiating Ability with Vendors</td>
<td>Forcing vendors to compete with each other, securing lower prices through exclusive arrangements</td>
<td>5%</td>
</tr>
<tr>
<td>Input - Backward Vertical Integration on Items</td>
<td>Making items from scratch wherever possible</td>
<td>5%</td>
</tr>
<tr>
<td>Input - Active Price Shopping</td>
<td>Seeking out new vendors, comparing pricing with non-direct competitors who buy similar items</td>
<td>3-5%</td>
</tr>
<tr>
<td>Efficiency - Controlling Waste</td>
<td>Using portion control, monitoring inventory par levels, reducing order/preparation errors</td>
<td>2-3%</td>
</tr>
<tr>
<td>Efficiency - Controlling Inventory Theft</td>
<td>Regular inventory counts (periodic full physical counts plus random on high velocity items), Ensuring high employee engagement, Visible control practices to act as deterrent</td>
<td>5%</td>
</tr>
<tr>
<td>Efficiency - Menu Design and Sales Mix (Mix of items)</td>
<td>Right mix of high margin items with velocity sales drivers, add-on sales, Liquor to Food ratio</td>
<td>5-10%</td>
</tr>
<tr>
<td><strong>Cumulative Potential Savings</strong></td>
<td><strong>31% to 41%</strong></td>
<td></td>
</tr>
</tbody>
</table>

The next most significant input cost is the variable portion of labour (hourly wages). Labour (Wages and Benefits) is a mix of fixed and variable costs for two reasons. First, some positions are salaried (Full-time typically kitchen and leadership), and second, there is a fixed amount of labour required to provide a minimum staffing level to support operating hours. The variable portion of labour still remains a large portion of input costs, representing up to 10% of sales.
In this industry, variable labour rates are typically similar between competitors with most competitors offering minimum wage with only a small variation for experienced staff. This is due to most service positions receiving a substantial portion (two thirds to three quarters) of their compensation through cash gratuities.

Therefore, the potential savings vs. other competitors will not come through labour rates, but through minimizing scheduled labour hours, a potential efficiency advantage that will be discussed later.

Payment processing companies charge fees to facilitate debit and credit card transactions. The rates are very price competitive; the only real opportunity to develop a cost advantage is through payment acceptance policies. Competitors may choose to operate cash only to save money, or may promote debit card transactions over credit card transactions (ex. Debit charge may be $0.06 per transaction vs. VISA/MC rate of 1.75%). While there is some opportunity to generate a cost advantage, for full-service establishments that usually offer all payment methods to meet their customers’ expectations, there is not much advantage that can be developed.

Next we will examine fixed input costs: rent, depreciation, and advertising.

With regards to rent, given the limited geographical area of the industry under examination and the relatively competitive nature of commercial retail rental, rental rates per square foot are very similar among competitors. Competitors may choose to locate off the main streets to get lower rental rates, but will then be faced with extremely difficult challenges in terms of customer traffic, so this is not a wise trade-off in most cases.

Depreciation is driven by initial budget decisions about décor, the type of equipment required to create menu items, and the ability to negotiate good prices from suppliers during initial construction. While there is some opportunity to generate a cost advantage by spending less, such advantage would likely come at a cost of attracting customers. Generally, competitors do not seek to gain cost advantage in this area. One notable exception is if an establishment chooses a “no-frills, dive-joint” position in the market, in which case spending as little as possible on cheap décor is essential to provide the cost advantage required to deliver low prices.

Advertising represents approximately 3% of sales. Savings may be achieved by strategic placement (only advertise when needed), careful selection of media, and increasing reputational capital and word-of-mouth. For companies that invest in the quality of their
reputation, advertising can be cut down to very low levels, and this presents another opportunity for a cost advantage.

2.9.2 Production Volume Sources

We now turn our attention to cost advantages that may arise due to spreading fixed costs over increasing sales volumes to take advantage of economies of scale, scope and learning. These typically generate a cost advantage per unit by spreading fixed costs over more units of production, not by affecting the actual total cost. In this industry, the main fixed expenses that may present an opportunity for competitive advantage due to higher production/sales volumes are rent (occupancy costs), the fixed component of labour (wages and benefits), depreciation, utilities, cleaning, subscription services, repairs and maintenance, and insurance.

The major area where there is potential for competitive cost advantage with higher sales volumes is on rent. Locating in a space that is just the right size to avoid paying excessive rent on areas that go underutilized (i.e. Paying full rent for a room that is half-empty). As rent makes up a sizable component of fixed costs, saving 10-20% by optimum sizing can create a significant competitive advantage. Cost advantages can be significant as a percentage of sales due to larger volumes. For example, rent as a percentage of sales at the Granville street location is approximately 12% of sales ($240,000 per year / $2,000,000 in sales) compared to 18% of sales at the Davie street location ($180,000 per year / $1,000,000 in sales).

A cost advantage may be also be gained on advertising expenses as volumes increase by spreading advertising costs across multiple locations in the same broadcast area.

Together, utilities, subscription services, cleaning, repairs and maintenance, and insurance make up a significant percentage of fixed costs, and all of these fixed expenses drop as a percentage of sales and on a per unit basis as production/sales volumes increase. Other than the strategies to obtain lower input costs that were discussed above, the key to achieving cost advantages is to drive revenues as high as possible.

2.9.3 Source of Efficiency

The final source of competitive cost advantage comes from operating more efficiently than competitors. Much of this potential advantage was covered in the discussion on controlling input costs, particularly in doing more with less labour as a result of more efficient employees. However, there is also a potential efficiency cost advantage to be had from reducing overall
expenses with a strong, consistent, disciplined culture that is customer focused, which fosters employees who are highly motivated to do a good job.

It is common for owner/operators to have worked in the industry, for example as a server, bartender or chef, before they decide to open their own establishment. They may have no experience running a business. The challenge comes when these people need to put systems, policies, and procedures in place to control costs, when they need to perform other management functions, such as hiring, bookkeeping, financial and cash flow decision making, etc.

These intangible areas can represent a cost advantage for competitors who can keep things under control and on target vs. competitors who lose control and cannot figure out why their sales do not result in profits, as shown in Table 9 above. Business acumen definitely is a source of competitive cost advantage in this industry and is usually a reason disciplined chain restaurants outperform owner/operator establishments.

One of the major sources of efficiency cost advantage comes with managing variable labour costs. This can be achieved through close, constant monitoring of hourly sales patterns and reacting immediately to “cut” staff, by designing efficient product flows and systems to do more with less labour, by cross training staff (ex. bartending and serving), and by improving the efficiency of staff through goal setting, training, performance reviews, and retention.

The cumulative effect of these efforts may reduce variable needs by as much as 25% of total variable labour costs (2.5% savings toward bottom-line profit). This presents a significant opportunity to generate advantage. Of course competitors must be careful when managing variable labour costs not to be caught short staffed as that can have a substantial and immediate impact on sales and customer retention. It is because of this fear that many err on the side of over scheduling and create a differential opportunity for those who are willing to invest time monitoring their business more closely.

2.10 CUSTOMER VALUE ADVANTAGES

Customer value advantage (or willingness to pay advantage) can potentially be achieved in this industry by differentiating and delivering greater perceived value in the following areas: product characteristics, transaction characteristics and customer perception of quality.
2.10.1 Product Characteristics

The primary opportunities to differentiate on product characteristics are by offering unique menu items or menu items of superior quality.

In the previous industry analysis, it was noted that the customer base is generally value conscious; there is a limit to the price that can be charged for any particular category of food. Pricing pressures also come from the number of competitors (a lot), and the fact that many are of a similar size and economic power. It therefore becomes critically important to be able to differentiate on food quality. A competitor needs to hire the right people, invest time training them well, and demand high standards, as using better (and generally more expensive) ingredients faces limits due to pricing and gross margin constraints. Not only is it possible to achieve an advantage in quality of food, it is one of the most powerful advantages allowing competitors to price at the high end of customer willingness to pay, and also increases loyalty and repeat visits. The investment in quality of staff and training pay off in providing a consistent experience for guests as well as a higher ability of staff to execute more complicated dishes.

Offering unique menu items in the casual dining/lounge industry, which we are examining here, is not as likely to result in competitive advantage as it would in the fine dining industry where price levels are higher and more experienced (and expensive) chefs are employed.

2.10.2 Transaction Characteristics

In this industry, transaction characteristics that offer a source of advantage primarily come from the atmosphere and level of service that a customer receives. Designing an establishment that matches what the target customer is looking for is often a challenge of alignment more than anything else. For example, to be competitive for sports fans you must not only offer comfortable seats, you must have a casual décor that makes them feel relaxed, TV’s that are high quality and large, a good sound system, subscription to premium sports channels, and the presence of other sports fans to contribute to an enjoyable atmosphere. Putting this all together can be a source of advantage, but in a competitive industry it may simply be the price of admission once competitors catch up. Presently there is potential here for advantage, although the gap is closing.

The level of service is also a very important potential source of advantage. Customers really respond to personalized service; they want to feel that they are known and are part of a
Reducing turnover so that service staff get to know customers by name, encouraging staff to introduce themselves and get to know customers, and randomly thanking and rewarding regular customers for their patronage go a long way.

2.10.3 Base of Customers

Customers form their perception of the quality of an establishment from a number of sources. They may rely on past experience, the referral of a friend, reviews by critics, the outward appearance or marketing efforts of a competitor, or from a familiar brand name.

At the same time, there does seem to be advantage in reaching a critical mass in terms of customer base, as customers correlate an establishment with a larger base of customers with higher quality. When customers are choosing an establishment for the atmosphere as much as for the food or service, they generally prefer to go to a busy place rather than one that is not so busy.

Competitors that are able to present an image of being consistently busy, delivering quality food and drinks, and an atmosphere that is desired by their core customers can generate a competitive advantage. As customers often seek different things at different times, there are many ways for a competitor to gain an advantage.

2.11 ADVANTAGE PROTECTION AND SUSTAINABILITY

By way of review, Table 10 summarizes the potential sources of advantage identified in this analysis thus far, key factors in developing advantages, ways in which the advantage may be protected and the degree to which it is sustainable in the long-term.
Table 10 Potential Sources of Advantage

<table>
<thead>
<tr>
<th>Source of Advantage</th>
<th>Key to Develop into Advantage</th>
<th>Ways to Protect Advantage</th>
<th>Degree to Which Advantage can be Sustained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost - Purchasing Volume</td>
<td>Drive Revenues Higher</td>
<td>Customer retention strategies, pay attention to competitor moves</td>
<td>Medium – a lot of competitors and much imitating</td>
</tr>
<tr>
<td>Cost - Capacity Utilization</td>
<td>Site selection &amp; Revenue Growth</td>
<td>Landlord relationship, strategies to spread customers out to off-peak times</td>
<td>High but requires a lot of work to maintain sales levels</td>
</tr>
<tr>
<td>Cost - Presence of Owners</td>
<td>Commitment and availability of owners</td>
<td>Efficient systems to enable owners to maximize their presence. Do not spread ownership too thin on other duties.</td>
<td>Medium – if business is successful, owners drawn to expand; if business not successful, owners not as motivated</td>
</tr>
<tr>
<td>Cost - Business Acumen/Mgmt Skill of Mgmt/Owners</td>
<td>Education and training</td>
<td>Continued learning, paying attention to changes in industry</td>
<td>High – competitors may be unwilling to spend time to close gap</td>
</tr>
<tr>
<td>Cost - Extent of Mgmt Experience</td>
<td>Selection of experienced management, management longevity</td>
<td>Willingness to compensate appropriately to retain experience and systems to reduce turnover</td>
<td>Medium – industry typically has very high turnover and “poaching” of talent</td>
</tr>
<tr>
<td>Cost - Sophisticated Control Systems</td>
<td>Learn from industry best practices and internal lessons</td>
<td>Stay on top of changes to business/industry and keep systems updated</td>
<td>Moderate – with high rate of turnover in industry, staff take knowledge of systems with them to competition</td>
</tr>
<tr>
<td>CV – Product Characteristics</td>
<td>Priority on Food Quality</td>
<td>Continued adherence to successful policies</td>
<td>Moderate – new or existing competitors may reprioritize</td>
</tr>
<tr>
<td>CV – Transaction Characteristics</td>
<td>Staff Selection &amp; Training</td>
<td>Adequate recognition, rewards and compensation</td>
<td>Moderate – retention and turnover a continuing challenge</td>
</tr>
<tr>
<td>CV – Base of Customers</td>
<td>Time in Business, Reputational Capital</td>
<td>Continued focus on delivering advantages</td>
<td>Moderate – a lot of existing and new competitors</td>
</tr>
</tbody>
</table>

*CV = Customer Value

2.12 RELATIVE COMPETITIVE ANALYSIS

The analysis thus far has focused on potential sources of advantage that may be achieved by any existing or new competitors in the industry. We will now review the current competitive landscape by looking at how well the focal company’s major competitors do at developing relative competitive advantage. Since Speakeasy currently operates in distinct local
markets, this will be done for each of Speakeasy’s existing three locations vs. the top three local competitors in tables 11-13. These tables summarize the most significant sources of advantage for each of Speakeasy’s locations, then ranks each competitor in terms of developing that advantage, with a score of five being the highest (most favourable) score. These scores are estimated based on years of general observations, discussions with common vendors and customers. Information has also been gathered from current and former employees of competitors that have become customers or even employees of Speakeasy. Note that Speakeasy’s score varies by location depending on degree of execution, time in business, etc.

As summarized in table 11 for the Speakeasy on Davie, Speakeasy scored well in the degree to which its owners are directly involved in the business, and the level of business acumen, skill, and experience of the owners and management. These factors translate into cost advantages in many ways. For example, being on hand personally during many of the operating hours of the business allows for tight labour control, cutting staff shifts early during slow periods, and covering rushes with owner/management labour vs. having to schedule an additional person. It also creates a heightened awareness around inventory control, waste control, and theft prevention which all contribute to lower costs vs. competitors who rely on hired management who are not as motivated and do not stretch as much to save company money. Moxies utilizes centralized buying and the well-developed systems of a National chain for procurement and inventory to achieve some advantage on cost, however, they enforce minimum staffing levels that often lead to overstaffing during quiet periods.

Speakeasy on Davie is at a relative cost disadvantage when it comes to purchasing volume and capacity optimization, however, due to having lower sales volumes per square foot (it is a large space relative to the amount of traffic it receives) and less awareness due to being open a much shorter time than its main competitors (4 years vs. 10-20 years).

In terms of customer value advantages, Speakeasy on Davie does a good job at delivering a quality product and experience vs. some competitors, but does not have as large a developed base of customers which detracts from the experience at times as customers prefer a busy room to a quiet room on many occasions. Speakeasy focuses on getting to know customers on a personal level to counter this. Although this is a strength, admittedly it is hard to get employees to engage customers to the same level.
Table 11 Significant Sources of Advantage Ranked – Speakeasy on Davie

<table>
<thead>
<tr>
<th>Source of Advantage</th>
<th>Weight</th>
<th>Speakeasy</th>
<th>Score</th>
<th>Fountainhead</th>
<th>Moxies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Advantages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchasing Volume</td>
<td>30%</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Capacity Utilization</td>
<td>20%</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Presence of Owners</td>
<td>15%</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Business Acumen/Mgmt Skill of Mgmt/Owners</td>
<td>15%</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Extent of Mgmt Experience</td>
<td>10%</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Sophisticated Control Systems</td>
<td>10%</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td><strong>Weighted Average</strong></td>
<td></td>
<td>3.7</td>
<td>2.9</td>
<td>3.7</td>
<td>3.5</td>
</tr>
<tr>
<td>Customer Value Advantages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Characteristics</td>
<td>50%</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Transaction Characteristics</td>
<td>30%</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Base of Customers</td>
<td>20%</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td><strong>Weighted Average</strong></td>
<td></td>
<td>4.6</td>
<td>2.5</td>
<td>3.0</td>
<td>3.5</td>
</tr>
</tbody>
</table>

As summarized in table 12 for the Speakeasy on Granville, Speakeasy scored similarly on some of the same potential cost advantages as the Speakeasy on Davie, although not to the same degree in terms of ownership presence, skill level and involvement due to more experience at the Davie street location. Two areas it did outsore the Davie street location in cost advantage was in capacity utilization and purchasing volume, due to being in business for 10+ years and being located on the busiest block in Vancouver. These advantages lead to the Granville street location having almost double the sales volume, and thus much lower fixed costs as a percentage of sales, as well as not having to spend as much effort managing variable costs such as labour as they operate at capacity almost all the time.

One of the competitors, Cinema (part of the Donnelly Group) outscored Speakeasy in sophisticated control systems as they are able to leverage the experience of operating 14 locations and have been in business for almost twice as long as Speakeasy.

In terms of customer value advantage, it is difficult for any competitor on the Granville strip to truly offer a differentiated experience as the customer base is largely interested in drinking and less in food. The demographic is largely unsophisticated and so there is little opportunity to differentiate with high end drinks and generally highballs, domestic beer, and
shots make a large percentage of the product mix. There is little opportunity to differentiate with cocktails, wine, or martinis. Speakeasy and Cinema have a slight advantage with their base of customers, although customers will readily substitute one venue for another as they are very similar in product mix and atmosphere.

**Table 12 Significant Sources of Advantage Ranked – Speakeasy on Granville**

<table>
<thead>
<tr>
<th>Source of Advantage</th>
<th>Weight</th>
<th>Speakeasy</th>
<th>Cinema</th>
<th>Granville Room</th>
<th>Roxy Burger</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost Advantages</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchasing Volume</td>
<td>30%</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Capacity Utilization</td>
<td>20%</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Presence of Owners</td>
<td>15%</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Business Acumen/Mgmt Skill of Mgmt/Owners</td>
<td>15%</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Extent of Mgmt Experience</td>
<td>10%</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Sophisticated Control Systems</td>
<td>10%</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Weighted Average</strong></td>
<td>4.4</td>
<td>3.7</td>
<td>3.0</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td><strong>Customer Value Advantages</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Characteristics</td>
<td>50%</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Transaction Characteristics</td>
<td>30%</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Base of Customers</td>
<td>20%</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Weighted Average</strong></td>
<td>3.2</td>
<td>3.5</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

As summarized in Table 13 for the Speakeasy on Broadway, Speakeasy scored better than Original Joe’s on cost advantages, but much lower than Cactus Club. This is due to Cactus Club’s experience in operating 17 locations and developing a reputation for running a “tight ship”, as well as years of competing against another well established brand, Earls, who previously occupied the Speakeasy location. This neighbourhood is much more food-centric than the downtown locations, and so Speakeasy does not have the same level of expertise vs. Cactus Club running high volumes of food. Cactus Club also enjoys the advantage of better capacity utilization due to the length of time in business at their Broadway location (10+ years) vs. the Speakeasy (3 months).

In terms of customer value advantage, Speakeasy was again outscored by Cactus Club who does an excellent job with menu design, food sourcing, and generating an engaging
atmosphere for its guests. Although Speakeasy is outscored in this area, there is a great potential for food service particularly during lunch hours as the area is underserved in casual sit down dining establishments. As Cactus Club runs up against its capacity during peak hours, Speakeasy has the opportunity to serve these customers and provide them with another quality option.

Table 13 Significant Sources of Advantage Ranked – Speakeasy on Broadway

<table>
<thead>
<tr>
<th>Source of Advantage</th>
<th>Weight</th>
<th>Speakeasy</th>
<th>Original Joe's</th>
<th>Cactus Club</th>
<th>Fairview Pub</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost Advantages</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchasing Volume</td>
<td>30%</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Capacity Utilization</td>
<td>20%</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Presence of Owners</td>
<td>15%</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Business Acumen/Mgmt Skill of Mgmt/Owners</td>
<td>15%</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Extent of Mgmt Experience</td>
<td>10%</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Sophisticated Control Systems</td>
<td>10%</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td><strong>Weighted Average</strong></td>
<td>3.6</td>
<td>3.2</td>
<td>4.5</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td><strong>Customer Value Advantages</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Characteristics</td>
<td>50%</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Transaction Characteristics</td>
<td>30%</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Base of Customers</td>
<td>20%</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td><strong>Weighted Average</strong></td>
<td>3.7</td>
<td>3</td>
<td>5</td>
<td>3.7</td>
<td></td>
</tr>
</tbody>
</table>

By plotting the weighted average of the relative cost advantage and customer value advantage strengths of each competitor, we can get a visual representation of the competitive advantage landscape. Figure 3, Figure 4, and Figure 5 illustrate the competitive landscape for the Davie, Granville and Broadway locations, respectively.
Figure 3 Competitive Advantage Landscape – Speakeasy on Davie

Figure 4 Competitive Advantage Landscape – Speakeasy on Granville
In summary, it is interesting to note that there is much less deviation between competitors at each location on cost advantages than there is in customer value advantages. This implies that there is more opportunity to gain advantage by focusing on advantages that increase customer value, than simply focusing on cost controls. This is reflected in the high degree of differentiation found in the industry, as competitors reach a certain plateau in cost controls, and choose to focus more energy on differentiation.

### 2.13 STRATEGIC ADVANTAGE IMPLICATIONS

Table 14 below summarizes the strengths, weaknesses, opportunities and threats examined in this external analysis. The remainder of this section discusses the critical issues and challenges that were revealed by the external analysis.
<table>
<thead>
<tr>
<th><strong>STRENGTHS</strong></th>
<th><strong>WEAKNESSES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Highly committed ownership/management group</td>
<td>□ Competing in multiple segments (food, liquor) presents challenges in meeting conflicting expectations of each group – example food primary customers want quiet atmosphere, liquor primary customers want fun, loud environment</td>
</tr>
<tr>
<td>□ Experience of ownership/management group</td>
<td>□ Present management approach (direct supervision by owners) limits future growth</td>
</tr>
<tr>
<td>□ Good product mix insulates during market turns</td>
<td>□ Fuelling growth by internal funds only limits resources to grow</td>
</tr>
<tr>
<td>□ Good employee relations and relatively low turnover vs. industry, particularly among senior staff</td>
<td>□ Presently “brand” is controlled by separate ownership interests at each location</td>
</tr>
<tr>
<td>□ Generally well-known brand name in category</td>
<td></td>
</tr>
<tr>
<td>□ Brand name communicates atmosphere well (casual, laid-back)</td>
<td></td>
</tr>
<tr>
<td>□ No external debt or other creditors offers stability and control</td>
<td></td>
</tr>
<tr>
<td>□ Excellent supplier relationships</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>OPPORTUNITIES</strong></th>
<th><strong>THREATS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Better awareness of brand name</td>
<td>□ Cost control strategies rely heavily on direct involvement from owners – a risk as expansion will dilute owners time to spend on this task</td>
</tr>
<tr>
<td>□ Become more of an employer of choice with more brand recognition</td>
<td>□ Many competitors, steady influx of new entrants, many large competitors with a lot of resources</td>
</tr>
<tr>
<td>□ Leverage effort by using new investor or new minority shareholder funds</td>
<td>□ Industry is directly affected by state of economy (presently in recession)</td>
</tr>
<tr>
<td>□ Current ownership group development of skills (multi-unit management)</td>
<td>□ Customers in this industry are notoriously fickle and maintaining loyal customers is time consuming and costly</td>
</tr>
<tr>
<td></td>
<td>□ Some customers choose Speakeasy because it is owner-operated and feels small and local; this group may not be supportive of growth into a “chain”</td>
</tr>
<tr>
<td></td>
<td>□ With growth, risk of bad hires is magnified as ownership is less involved in direct management (there is more risk if a bad manager is hired than if a bad server/bartender/cook is hired)</td>
</tr>
</tbody>
</table>
Presently Speakeasy is a relatively small fish in a big pond. It is a challenge to keep costs in-line with industry averages compared to competitors who can leverage costs over much higher volumes. It manages to keep costs in check by relying on the direct involvement of the owners vs. managers who may not be as motivated. This is an important realization as it may be a constraint to growth if Speakeasy cannot figure out how to keep costs in check without the direct involvement of its owners. The owners can only be split so many ways, and the recent challenges of opening and running the third location on West Broadway while managing the existing locations is proving this to be a legitimate concern.

There will be a transition period for all new locations with higher costs as a percentage of sales until volumes increase to the point where scale helps to offset fixed cost increases. During this transition period, lessons must be taken from the industry to stay lean and to grow without adding too much overhead.

From a customer value perspective, Speakeasy likely has more opportunity to maintain or grow a competitive advantage. While it is smaller, it is easier for Speakeasy to engage on a personal level with its customers and employees and create an atmosphere that encourages customer loyalty and repeat visits. Again, the challenge as it grows will be to learn how to maintain these relationships with customers without overly relying on ownership as they become spread out over more locations and take on more corporate responsibilities.

Another advantage of focusing on customer value is that, if successful, it may help reduce customers’ sensitivity to price in the event prices need to rise due to higher costs. As the demand on the owners’ time increases, the recommendation would be to delegate tasks that deliver cost advantages and remain personally involved in tasks that deliver customer value advantages. From a strategic perspective, this should be kept in mind to ensure whatever course of action is pursued in terms of growth plays to Speakeasy’s strengths.

Speakeasy is also challenged from a brand identity perspective in several ways. First, it operates in three different local markets, each with its own peculiar demographics and competitors. This has forced each location to adapt to survive in different ways, and has resulted in an inconsistent brand identity at times. The main identity of offering a casual, laid-back atmosphere is known, but not much more beyond that that is consistent across all locations. There is not one competitor that operates in all three of these different markets, and perhaps Speakeasy should have taken a lesson from that fact before opening the third location under the same brand name.
The second challenge is that the Speakeasy brand is controlled from a governance perspective by separate ownership interests who are conflicted between the interests of their own establishment vs. the overall brand identity.

Finally, Speakeasy finds it challenging to try to simultaneously serve its diverse set of customers, each of whom look for something different in terms of product mix and atmosphere. Speakeasy historically has tried to be a little too much of everything to everybody and faces the threat of having to choose one set of customers over another if it is to have a unified, clear identity. For example, positioning as a sports bar vs. a restaurant at the Granville Street location makes more sense than at the West Broadway location.

These challenges make it hard to take a potential source of customer value advantage and turn it into a real source of sustained advantage across all locations.
3: Option Analysis

The previous section helped to understand the environment in which Speakeasy operates, where it currently has strengths and where it may potentially become stronger, as well as identifying potential areas of weakness and threats. Understanding the potential sources of advantage, and those that Speakeasy currently relies on is important in considering potential options to ensure that implementing a potential option does not take Speakeasy away from where it is currently doing a good job.

The previous analysis will also be important in evaluating options and the feasibility of options by helping to set parameters on what Speakeasy is capable of achieving. This base of understanding will provide focus to flush out issues that are relevant and options that may lead to exploiting further sources of advantage.

There are several issues facing Speakeasy as it enters its new phase of growth, looks to get a better handle on operating the current three locations and integrate outside knowledge with the lessons learned from recently opening the third location to develop a better strategic plan for growth. These issues can be grouped into four major decision phases, each with their own alternatives. First, the desired rate of growth must be determined – rapid, moderate or slow. This will have a huge influence on the decisions made in the following phases. Second, the most appropriate ownership structure for growth must be resolved– continuing with the current ownership group, bringing in outside investors, or exploring franchising. Third, the best branding model to present an image to the market must be determined – either under a common brand with a more consistent approach, under a common brand with room for local adaptation, or with each location operating as a unique identity under a different name while leveraging back-end efficiencies. The fourth issue is to determine the right organizational and operational structure to effectively manage multiple locations – either a highly formalized model with centralized decision making, a more decentralized entrepreneurial model with autonomous decision making, or somewhere in between.

Finally, the decisions taken in each phase need to be rolled into a solid strategic plan that plots a roadmap for future expansion and provides a specific new location opening strategy that incorporates the lessons learned from the recent opening, addresses the current issues,
and is consistent with the decisions on ownership and organizational structure that must be made.

### 3.1 PHASE ONE OPTIONS: RATE OF EXPANSION

#### 3.1.1 Rapid growth

This option would involve adding one new location per year. Implications of this option are an increased need for external financing, an increased need for talent, a less selective search process for new locations, a greater demand on existing resources, and greater challenges in maintaining brand image. This option offers the highest chance of an increased rate of return for the current ownership group, but brings a lot of risk.

#### 3.1.2 Modest growth

This option would involve adding one new location every few years, as resources allowed. Implications of this option are a lower need for external financing, a lower need for talent, a more extensive and discerning process for new locations, less demand on existing resources and less challenge in maintaining brand image. This option would result in a lower rate of return for the current ownership group, and may risk losing momentum of a growing brand.

#### 3.1.3 Slow growth

This option would involve only adding new locations when resources allow and when outstanding locations become available, with no specific time bound goals. It is a purely opportunistic approach that would only result in new locations being added when optimum circumstances are met. It would result in a lower rate of return for the current ownership group, but would have the lowest rate of risk and would have the least impact on existing operations.

### 3.2 PHASE TWO OPTIONS: OWNERSHIP STRUCTURE

#### 3.2.1 Maintain current ownership structure

This option would maintain the same ownership structure, with the Speakeasy on Granville and on Broadway being owned by Mohammad and the Speakeasy on Davie being owned by Maryam and Joel. Management would continue to be done by Maryam at the
Broadway location, Joel at the Davie location, and by a General Manager under Mohammad’s direction at the Granville location. The three locations would continue to operate as separate business entities. New locations would operate as joint ventures among the current ownership group.

This option maintains the status quo and introduces little change effort, but it does not address current decision making and brand governance challenges. It also does not resolve the issue of having a definite structure to operate under to facilitate growth, and would result in the present partners competing with each other when looking for new opportunities.

3.2.2 Bring in outside investors

This option involves bringing in outside investors who are interested in fueling future growth, not to raise funds for the current locations as they are well financed. It is expected that these investors would be seeking an ownership stake rather than simply lending money as loans are available through traditional sources. These investors would be seeking a return on their investment in the form of equity growth rather than interest payments and would be taking a risk on the future of the brand.

Given the type of investor this option is considering, the present ownership structure would have to change so that the three locations were operating under one corporate entity, to provide some level of confidence that the investment is safe. There would need to be a much clearer operating model and ownership structure so that the investor’s ownership share is transparent and clearly understood, otherwise they would be hesitant to invest.

This option would also mean that the books would have to be opened up to outside parties, which will present certain confidentiality issues in such a competitive environment. There would have to be careful screening of investors and non-disclosure agreements to protect sensitive business information.

The present ownership group would also have to determine what level of ownership they would be willing to give up in exchange for the new influx of investment dollars and develop a formal business plan for growth that could convince investors that there an opportunity for return on investment. This would create a more serious level of commitment to a certain rate of growth and, to appease investors, may lead to increased pressures to grow even when ideal locations are not available or other resources may be stretched.
3.2.3 Franchise

This option would involve formally documenting the processes and procedures of the brand, ensuring that the three current locations are more in lock-step with each other, and developing a franchise model that captures the essence of the brand with legal agreements, site audits, corporate resource support, and performance benchmarks.

To enable this option, first there must be a clear identification of the brand—what does it stand for and what does it not. Then, much work would have to be done to decide what key operational, design, and product assortment elements are essential components of the brand’s identity. Current practices would have to be examined against these key components and be brought into line. Potential franchisees would want to see that there is a formula in place for them to follow and that the formula produces positive, predictable results over time. They would want a blueprint to follow to setup and operate a location, and be confident that there is support infrastructure in place to help them implement the plan.

All of this work would of course take an investment of management effort, or come at a cost through consultancy fees should the work be outsourced. This should be understood as a cost of choosing this option and be weighed against the potential revenue opportunities.

At the same time, this work may result in operational efficiencies for the current locations as well; as operations are tightened up margins should improve and, in the long-term, management time should be freed up.

3.3 PHASE THREE OPTIONS: BRANDING MODEL

3.3.1 Operate under one brand, reign in areas of divergence to increase consistency

This option would mean retaining the Speakeasy name for all three existing and any future locations. Further, it would involve work to bring the present locations into closer alignment so that there is less variation in what the customer, and to a lesser degree the employee, sees in terms of brand identity.

3.3.2 Operate under one brand, allow local revisions

This option would mean retaining the Speakeasy name for all three existing and any future locations. It would differ from the first option in that it would allow the brand identity to be more fluid, adapting to the local market. There would be some overarching brand elements that
would remain consistent across the various locations, such as logos, décor, and the core menu, but other areas, such as daily specials, atmosphere, product assortment, may vary to suit each location.

**3.3.3 Operate under separate brands for each location**

This option would recognize the challenges of operating the three existing locations and any future locations under one brand and would allow each location to have its own brand name and identity. This would afford the highest degree of autonomy to make decisions that are best for each location without affecting the reputation of the other locations. Efficiencies could still be gained in back end processes, such as vendor selection and negotiations, administrative tasks, inventory management, etc. This option would result in larger challenges for new locations. They would be faced with their own brand awareness in each local market vs. leveraging the overall brand’s reputation.

**3.4 PHASE FOUR OPTIONS: ORGANIZATIONAL STRUCTURE**

Aside from the decisions that affect the customer and line-level employees, a decision must also be made to help align the activities of the ownership and management group and determine which model will best provide the structure, and at the same time flexibility, to run each location efficiently and profitably. The decision on operating structure is different than the branding decision, as it determines the degree of formality and where and by whom decisions are made, independent of the branding decision. For example, it is possible that a multi-brand strategy be employed with decisions being made centrally at a corporate level, or with decisions being made at each location. Because a decision is made to employ local revisions at a particular location, does not necessarily mean that those decisions are made by the management of that location.

**3.4.1 Formalized, bureaucratic model with centralized decision making**

This option would involve creating a set of “corporate” positions and responsibilities that push direction out to the locations to execute. Major decisions would be made at the corporate level based on observations made by corporate players, reports from the operations of the various locations, and input collected from each location by the management group. Once decisions are made, each location would be responsible for implementation and inspections and audits would be organized to ensure compliance.
To enable this type of structure, the individual locations would have to comply with more formal standardized policies and procedures applicable across all locations. If each location is expected to follow and execute, they must have a clear and unambiguous structure to operate within, otherwise direction will just boomerang back to corporate for clarification and the locations will become paralyzed.

The level of local autonomy would be very low. Therefore, most strategic managerial decisions would be delayed while they were evaluated at the corporate level and then sent down for execution at the local level. This may have some impact on the employee and customer experience in a highly competitive, fast moving industry, and some specific areas of autonomy should be created to deal with site-specific issues, such as dealing promptly with customer service complaints, or short-term competitive promotional activity where time is of the essence. There may also be push-back among customers who prefer a more casual and personal experience vs. an interaction that is structured and possibly less personal.

3.4.2 Entrepreneurial, decentralized decision making

This option would establish a degree of structure through policies and procedures, but would offer this structure more as a support mechanism or set of best-practices that each location would choose whether or not to adopt. It would be expected that each location would have common problems, such as complying with health and safety regulations, payroll administration, inventory management systems, point-of-sale processing, etc., and that the same solution would likely work for all. For these types of problems, it would be expected that each location would rather use the set of best practice solutions than come up with their own.

For other problems, such as creating an engaging atmosphere, setting pricing and promotional activities based on local competition, product assortment, etc., each location would have more autonomy to do what they thought best for their own location. This would allow each location to be nimble and quick to react to competitive pressures, and not feel handcuffed by the corporate level. However, making sure that the actions of one location would not have a negative impact on the reputation of the other locations would be a major challenge. For example, if one location chose to raise prices significantly or significantly changed product assortment, the other locations could be affected.
3.5 OPTION EVALUATION

In this section, each of the options will be evaluated vs. a set of decision criteria and the SWOT analysis to help determine a final set of recommendations. For each phase, a best option will emerge, but in the final recommendation it is important that the options chosen for each phase are internally consistent and there is a logical flow. This will be further validated in the feasibility analysis that follows in section 4.

3.5.1 Goals and Decision Criteria

The goals and decision criteria that are important to the ownership group are as follows:

1. Ensuring continued, profitable operation of existing locations
2. Creating an opportunity for growth that provides a high probability of success for new locations
3. Ensuring that growth results in a positive return for existing ownership group
4. Ensuring positive growth of brand name
5. Increasing efficiency of operations
6. Better leveraging scale to drive down costs; better coordination among locations
7. Maintaining a long-term focus on business operations (do not compromise long-term health for short-term gain)

3.5.2 Rating of Options vs. Decision Criteria

Table 15 presents a summary of how each option within each phase weighs on a scale of 1-5 in terms of satisfying each of the decision criteria, with a score of one representing a poor fit and a score of five representing an excellent fit. For each option, the overall weighted average has been calculated, which will help to determine the most balanced option vs. the decision criteria.

Based on this evaluation, the preferred option in Phase 1 would be to take a position of modest growth, in Phase 2 to bring in outside investors to help facilitate this growth, in Phase 3 to continue with one brand name allowing local revisions, and in Phase 4 to implement a more formalized, centralized organizational structure.
In Phase 1, a position of modest growth scored well as it reflected the desire to leverage the efforts of the current ownership group while at the same time balancing the risk of expansion with a controlled, modest pace. While it may be more lucrative to attempt to expand rapidly, the owners are not prepared to risk the health of the current business.

In Phase 2, not only will the infusion of new capital from outside investors help to fuel growth both in terms of new locations and allowing improvements to existing locations, but it will also demand refinement of the current operations to attract investors. This additional rigor and continued examination of the business from an outsider’s perspective will ensure that the business increases efficiencies and becomes more focused on hitting profit targets. Franchising scored close to infusion of new capital and would still be an option in the future. Bringing in outside investors should help pave the way to a franchise model should that be revisited.

In Phase 3, operating with one continuous brand helps to leverage the customer awareness that has been built up, while allowing for local revisions recognizes that each location operates in a unique local market and needs to cater to that market to be relevant. Introducing a separate brand name for each location would introduce additional effort to build awareness, and make coordination, cost sharing, and efficiency gains among locations difficult.

In Phase 4, introducing an organization change to a more formalized model with centralized decision making is critical to ensure that the locations complement each other and are truly building a one brand image. Although there may be some room for autonomous decision making on minor details, major brand decisions need to be made at the brand level. This is especially important in terms of creating value for an outside investor (or prospective franchisee in the future), as it needs to be clear what exactly the Speakeasy brand means if it is to be replicated to other locations.

The following section will take the results of the option evaluation and examine them to ensure they are feasible and can be implemented.
Table 15 Evaluation of Options vs. Decision Criteria

<table>
<thead>
<tr>
<th>Decision Criteria</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ensuring continued, profitable operation of existing locations</td>
<td>20%</td>
</tr>
<tr>
<td>2. Creating an opportunity for growth that provides a high probability of success for new locations</td>
<td>20%</td>
</tr>
<tr>
<td>3. Ensuring that growth results in a positive return for existing ownership group</td>
<td>15%</td>
</tr>
<tr>
<td>4. Ensuring positive growth of brand name</td>
<td>15%</td>
</tr>
<tr>
<td>5. Increasing efficiency of operations</td>
<td>10%</td>
</tr>
<tr>
<td>6. Better leveraging scale to drive down costs, better coordination among locations</td>
<td>10%</td>
</tr>
<tr>
<td>7. Maintain a long-term focus on business operations</td>
<td>10%</td>
</tr>
<tr>
<td>Weighted Score</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Weight</td>
<td>20%</td>
<td>20%</td>
<td>15%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1: Rate of Growth</td>
<td>1: Rapid Growth</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>3.1</td>
<td>3.0</td>
<td>3.6</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2: Modest Growth</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4.1</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3: Slow Growth</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3.9</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>2: Ownership Structure</td>
<td>1: Status Quo</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2: Outside Investors</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3: Franchise</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>3: Branding Model</td>
<td>1: Tightly Controlled Brand</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2: One Brand, Local Revisions</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3: Separate Brands</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>4: Organizational Structure</td>
<td>1: Formalized, Centralized</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4.4</td>
<td>4.4</td>
<td>4.4</td>
<td>4.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2: Informal, Decentralized</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3.3</td>
<td>3.3</td>
<td>3.3</td>
<td>3.3</td>
<td></td>
</tr>
</tbody>
</table>

Scale: 1 = Poor Fit with decision criteria, 5 = Excellent Fit with decision criteria
4: FEASIBILITY ANALYSIS

Thus far we have identified a set of alternatives that may address the underlying issues to varying degrees and, using a set of decision criteria, have ranked them on how well each alternative addresses the underlying issues. To ensure that the alternative that will ultimately be recommended will work in practice, we will now assess the feasibility of each alternative.

If an alternative proves to be not feasible, and if there are no mitigating actions to make it feasible, it will be ruled out of consideration. Also, alternatives that scored well below others will not be considered as they will not likely produce results that will be meaningful and worth the effort.

4.1 DIAMOND-E FRAMEWORK

To assess the feasibility of each alternative, we will employ the Diamond-E framework (Crossan et al, 2009), first looking for gaps between management preference and expertise, and possible mitigating actions. Next we will look for gaps between existing and required organizational structures and systems and possible mitigating actions. Finally, we will look at resource gaps and possible mitigating actions.

In each of these cases, where there is a gap and a possible mitigating action, we will provide an estimate of cost to mitigate the gap. Once we have completed this exercise, we will relate these costs to the alternative ranking that was completed in the previous section to determine the best alternative. It may turn out that an alternative that scored higher than others may not be preferred due to feasibility issues and costs to mitigate those issues. We will proceed with this approach for all the options with close scores so that in the event the leading option is deemed unfeasible, an alternate might be considered.

4.1.1 Management Preferences and Expertise:

Phase 1 (Rate of Growth) Option # 1 (Rapid Growth)

This option scored well below the others in this phase and would not be considered a good option in terms of addressing the underlying issues that were identified earlier. Aside from not scoring well against the decision criteria, this option does not appear to be feasible even
from a very superficial examination as it will require a level of resources that Speakeasy just does not have. For these reasons, this option will not be considered further as a viable option.

4.1.2 Management Preferences and Expertise:
Phase 1 (Rate of Growth) Option # 2 (Modest Growth)

This option would greatly reduce the pressures on the ownership group vs. pursuing a course of rapid growth. Opening locations when resources allow, and then only upon careful review without a predetermined target of locations per year, will reduce the amount of time that would need to be invested by Mohammad, which was a significant limiting factor in the rapid growth option. At the same time, there would be less financial risk, which was a limiting factor for Joel and Maryam in the rapid growth option.

With this lower level of pressure, the gaps could be more easily filled as each party would not need to sacrifice as much and there would be less distance to move toward agreement. Also, with more time taken, the existing locations would have more time to develop and become stronger, further reducing resource requirements in terms of financing or talent that would need to come from outside.
Table 16. Summary of Management Preferences and Expertise (Modest Growth)

<table>
<thead>
<tr>
<th>Management Subject</th>
<th>Required Preferences</th>
<th>Observed Preferences</th>
<th>Major Gaps</th>
<th>Gap-Closing Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major Shareholder - Mohammad</td>
<td>Willingness and ability to engage in modest growth - some additional time demands and financial risk</td>
<td>Willingness to take financial risk (financially very secure), but limited ability to invest more time (70 years old)</td>
<td>Investment of time</td>
<td>Can be offset by other partners (Joel &amp; Maryam) investing more of their time in exchange for limiting their exposure to financial risk</td>
</tr>
<tr>
<td>Major Shareholder – Joel &amp; Maryam</td>
<td>Willingness and ability to engage in modest growth – some additional time demands and financial risk</td>
<td>Moderate willingness to take financial risk (fewer financial resources), willingness to invest more time and deep experience managing multi-unit operations (Joel)</td>
<td>Exposure to financial risk</td>
<td>Can be offset by other partner (Mohammad) shielding some exposure to financial risk in exchange for increased investment of time. Alternatively, choose an ownership model that reduces financial exposure (outside investors, franchising)</td>
</tr>
<tr>
<td>Non-Ownership Management Team</td>
<td>Willingness to take on new responsibilities, manage and cope with modest rate of change</td>
<td>Mixed - Some are willing to grow career and have energy to deal with rapid change, while others are not</td>
<td>Some will be hesitant to support growth</td>
<td>Ensure those that are nervous and unsupportive of change are not placed on the front-lines or alternatively replace through attrition with those that are more open minded to change</td>
</tr>
</tbody>
</table>

4.1.3 Organizational Structure and Systems: Phase 1 (Rate of Growth) Option # 2 (Modest Growth)

With a more modest pace of growth, there still remain organizational structure and systems gaps that will need to be addressed, as seen in Table 17 below. Under modest growth, the need to standardize can be approached diplomatically over time, selling the individual locations on the benefits rather than forcing them into compliance.

Also, there would be an opportunity to create a financial structure that recognizes the investment of money and time commitment into new locations without having to involve reallocating ownership shares in existing locations. Of course, adopting this option would likely mean that fewer investors would be willing to invest and the organization would be wise to
improve their practices to attract more investors, and have to pay them less, but at least now there is a way forward.

With regard to new locations, a governance structure would definitely need to be established to ensure that the interest of each party is taken into consideration. As the growth of the new locations and the reputation of the brand really represent the potential return, it would be in everyone’s mutual and best interest to ensure this governance gets full support from existing locations.

Of course, it must be understood that the gap filling actions here would not be as powerful to drive compliance to brand standards within existing locations as formal ownership structure changes; however, that approach would have been unacceptable. Any analysis going forward with this option in mind must take into consideration that 100% compliance with brand standards is not likely and is an accepted cost of proceeding.

Table 17 Organizational Structure & Systems (Modest Growth)

<table>
<thead>
<tr>
<th>Required Organizational Capabilities</th>
<th>Existing Organizational Capabilities</th>
<th>Capability Gaps</th>
<th>Action to Close Gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear and efficient decision making structure regarding new location and brand decisions</td>
<td>Each owner may decide to acquire a new location or not, independent of the others who operate under the same brand. There is no formal governance that compels each owner to consider the other.</td>
<td>Governance needs to be established that determines what locations are acquired or not</td>
<td>Establishment of a governance structure that determines which locations are added.</td>
</tr>
<tr>
<td>Infrastructure to support selection, training, development, and performance management</td>
<td>Each location is responsible for all of its own Human Resource capabilities</td>
<td>Formal Human Resource capabilities to support every location</td>
<td>Appointment of a new person to oversee the development of a growing HR department, or alternatively create new management level positions at each location to fulfill this role Estimated Cost: $40,000/yr</td>
</tr>
<tr>
<td>Financial infrastructure that can generate funds to acquire new locations</td>
<td>There is no financing structure in place that covers all three locations</td>
<td>Establishing a common financing structure that can generate funds needed for new locations</td>
<td>Establish a joint account that is overseen by a governance body that represents all ownership parties.</td>
</tr>
</tbody>
</table>
4.1.4 Operational, Human and Financial Resources: Phase 1 (Rate of Growth) Option # 2 (Modest Growth)

Some clear common themes emerge when the implications of this option are examined from a resources perspective. In general, the skills already exist among the current ownership/management group, but the people with those skills are being tied up with other responsibilities. To free up this skill set, the most obvious approach would be to appoint and develop a general manager to oversee day to day operations at the Davie Street and West Broadway locations so that Joel and Maryam have time to pursue the more corporate issues.

There is a risk of doing this, of course, as Speakeasy has grown in large part due to the close relationships that have been developed between the owners and the customers and less time spent in the existing locations may impact customer loyalty. This could be mitigated by diligent selection and development of general managers and by ensuring policies and procedures encourage employees to value these relationships as well. As growth begins, the owners should be especially careful to be visible and in charge to reassure customers and employees alike.

Some specific skills may be acquired on a contract basis, while other skills gaps may be addressed by adding corporate positions and sharing the cost among the individual locations. This will likely be less expensive and lead to higher levels of productivity than each location sourcing their own people.

With a developing set of corporate positions, it would be wise to implement a formal corporate hierarchy so that lines of authority, accountability, communication and decision making are clear. This corporate structure would serve as a support mechanism for the existing locations, but would have more structured authority over new locations depending on the brand model (joint venture, franchise, etc.).
<table>
<thead>
<tr>
<th>Resource Category</th>
<th>Required Resources</th>
<th>Available Resources</th>
<th>Major Gaps</th>
<th>Gap-Closing Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational</td>
<td>Coordination of activities that affect brand identity, identifying and evaluating new locations, capability to open new locations</td>
<td>Current ownership team, management teams at each location.</td>
<td>Documenting and developing practices and procedures that define the brand. Skill set exists, time to dedicate to new projects is more the challenge</td>
<td>Relieving Joel &amp; Maryam from some General Manager responsibilities to focus on corporate level responsibilities. Estimated Cost: $50,000 each new GM/yr</td>
</tr>
<tr>
<td>Marketing</td>
<td>Seek out potential investors, franchisees, Improved marketing of brand</td>
<td>Leveraging some business contacts, some marketing experience</td>
<td>Experience attracting larger investors or exploring franchise model</td>
<td>As financial needs begin to outpace the capability of the organization to develop funds internally, or if a higher leverage rate is desired, then use experience of a consultant or create new corporate position Estimated Cost: $60,000/yr</td>
</tr>
<tr>
<td>Administration</td>
<td>Increase efficiency of operations by having administrative duties done at a lower pay/skill grade (owners can do more valuable work than presently doing)</td>
<td>Administrative functions are largely done either by present owners, or outsourcing (accounting)</td>
<td>Need more administrative support to free up owners’ time, or redeploy to realize cost savings</td>
<td>May need to hire a dedicated person(s) to handle administrative tasks at corporate level Estimated Cost: $40,000/yr</td>
</tr>
<tr>
<td>Human</td>
<td>Attracting, selecting, training and developing new talent</td>
<td>Current ownership/management is experienced in HR activities</td>
<td>Better documentation and policies for the sake of consistency among locations</td>
<td>Broaden the scope of management at the location level to handle HR functions to take off shoulders of ownership</td>
</tr>
<tr>
<td>Resource Category</td>
<td>Required Resources</td>
<td>Available Resources</td>
<td>Major Gaps</td>
<td>Gap-Closing Analysis</td>
</tr>
<tr>
<td>-------------------</td>
<td>---------------------</td>
<td>---------------------</td>
<td>------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Financial</td>
<td>Ensuring funds are available to fuel growth</td>
<td>Present owners have limited funds to invest and desire to increase leverage by using other people's money to finance business</td>
<td>Investors or Franchisees willing to put in new money</td>
<td>Estimated Cost to upgrade talent, or train existing talent: $20,000/yr/position</td>
</tr>
</tbody>
</table>

### 4.1.5 Management Preferences and Expertise: Phase 1 (Rate of Growth) Option # 1 (Slow Growth)

This option places little stress on existing management to change and it is not feasible precisely for that reason. It leaves resources idle and does not compensate the owners of those resources for their opportunity costs. Mohammad has money to invest; however, he would not be able to get as much return from investing more money into the existing locations as from other investment opportunities. Presently Joel and Maryam have time to invest; they are not fully occupied managing the Davie Street and West Broadway locations. Investing more time into these businesses is not likely to generate any more money and would definitely be less than either could acquire by applying their time in the external job market. Presently the choices for investing idle money and talent are to invest in existing locations, invest in new locations, or invest in other outside opportunities. There are diminishing returns from investing in existing locations that make further investment unattractive compared to outside opportunities. Investing in new locations at a slow rate of growth will not provide sufficient return compared to outside opportunities because this option calls for only opening when circumstances are ideal, which may only be once in a few years.

One shared preference among the ownership/management group is a desire to grow at least at a modest pace with a return on investment greater than their opportunity costs for money or time. Since this option does not allow for this return on investment, it is not feasible and will not be evaluated any further.
Table 19 Management Growth Strategy Preferences

<table>
<thead>
<tr>
<th>Management Subject</th>
<th>Required Preferences</th>
<th>Observed Preferences</th>
<th>Major Gaps</th>
<th>Gap-Closing Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major Shareholder - Mohammad</td>
<td>Willingness and ability to engage in slow growth – opportunity cost of investment funds</td>
<td>Willingness to take financial risk (financially very secure), but limited ability to invest more time (70 years old)</td>
<td>Lost $’s through idle funds</td>
<td>Little can be done – investing more $’s into existing locations not likely to generate desired rate of return</td>
</tr>
<tr>
<td>Major Shareholder – Joel &amp; Maryam</td>
<td>Willingness and ability to engage in modest growth – opportunity costs of idle time</td>
<td>Moderate willingness to take financial risk (less financial resources), willingness to invest more time and deep experience managing multi-unit operations (Joel)</td>
<td>Lost $’s through idle time</td>
<td>Little can be done – investing more time into existing location not likely to offset opportunity cost of outside employment for Joel who now has idle time</td>
</tr>
<tr>
<td>Non-Ownership Management Team</td>
<td>Willingness to take on new responsibilities, manage and cope with low rate of change</td>
<td>Mixed - Some are willing to grow career and have energy to deal with rapid change, while others are not</td>
<td>For those wanting to progress in their career, this offers little opportunity and risks turnover</td>
<td>Little can be done as career minded people would have to rely on organic growth</td>
</tr>
</tbody>
</table>

4.1.6 Management Preferences and Expertise:

Phase 2 (Ownership Structure) Option # 1 (Status Quo)

This option maintains the same ownership structure that is presently in place for the existing locations (Mohammad owns the Granville Street and West Broadway locations, Maryam & Joel own the Davie Street location) and any new locations would be joint ventures.

As can be seen from Table 20 below, this option will not work as it is not compatible with the need for additional funds to fuel growth and Mohammad’s desire to have a controlling interest in any venture he invests in. Maryam and Joel will not invest money to match Mohammad’s investment and without having at least equal control over the company, especially considering they will be putting in the majority of the effort to run the company. This means that the status quo is not feasible and should not be considered as an option.
4.1.7 Management Preferences and Expertise: Phase 2 (Ownership Structure) Option # 2 (Outside Investors)

With this option, money to fuel growth would come from outside investors alone, or from outside investors and current owners. Outside investors may be investors who negotiate a minority ownership position.

Allowing outside investment to generate some of the funds needed to open new locations may alleviate Mohammad’s concerns about being the major investor and not having a majority ownership interest. Mohammad is satisfied with being a minority shareholder with a proportionate ownership percentage. At the same time, it may allow Maryam and Joel to reach a desired level of ownership without having to invest the same proportion in money to offset the higher level of responsibility they will have in running the new locations.
To ensure the longevity of the new company and that it does not fall solely under the control of one party or the other, limitations would be set regarding the sale or repurchase of investor shares.

The major risk of this option is that without putting the assets of the existing locations into play, it fails to offer outside investors the security or collateral they may require. They will be investing in a new company largely on faith that a set of operating policies and principles (that are not even guaranteed to be adhered to in the existing locations) work and that their return will come from growth and profit in new locations only. This will result in fewer potential investors, less money being available overall, and possibly a higher discount rate (ex. $100,000 for 20% instead of for 10%).


### Table 21 Management Preferences and Expertise (Outside Investors)

<table>
<thead>
<tr>
<th>Management Subject</th>
<th>Required Preferences</th>
<th>Observed Preferences</th>
<th>Major Gaps</th>
<th>Gap-Closing Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major Shareholder - Mohammad</td>
<td>Funds required for growth can come from either current owners, or outside investors, or both. Ownership structure must facilitate the smooth operation of any new locations.</td>
<td>Prefers not to give up any control over current locations. Prefers to have control over new businesses. Willing to invest own money in new locations.</td>
<td>Limits amount of money that can be attracted to fuel growth.</td>
<td>The current operations could retain the form of control they are presently under, and the new locations would fall under a joint venture. Investor money would be used, but would have a maximum percentage of ownership set.</td>
</tr>
<tr>
<td>Major Shareholder – Joel &amp; Maryam</td>
<td>Funds required for growth can come from either current owners, or outside investors, or both. Ownership structure must facilitate the smooth operation of any new locations.</td>
<td>Prefer not to give up any control over current location. Prefer to have at least same level of ownership of any new business as any other party. Prefer to invest minimum amount of own money in new locations.</td>
<td>Limits investment from major investors who want to have some ownership of current operations.</td>
<td>Conditions placed on investments to limit who they could be sold to, preventing one of existing partners owning &gt; 50%. Additional % ownership in lieu of financial contribution to offset higher level of responsibilities.</td>
</tr>
<tr>
<td>Investor</td>
<td>Willingness to invest funds in brand concept.</td>
<td>Security of invested money, good likelihood of realizing a positive return on investment</td>
<td>Investment secured against new locations only.</td>
<td>Provide investors with a higher than normal yield</td>
</tr>
</tbody>
</table>

### 4.1.8 Organizational Structure and Systems:

**Phase 2 (Ownership Structure) Option # 2 (Outside Investors)**

Table 22 examines the feasibility of option 2 from an organizational structure and systems perspective. To be clear, it only examines those areas that are uniquely impacted by this form of ownership structure vs. another form of ownership structure (status quo or franchisee model).

To be able to know the value of their investment, first and foremost investors will want to see a transparent set of systems. As the existing locations are individually owned and do not share accounting records, there will need to be a new approach for new locations. This is not
expected to be a major obstacle, but it will come at a cost higher than if one of the existing locations just stretched resources as would be done under a private form of ownership.

Investors will also want to know that what they are investing in (the brand) is being protected, properly cared for, and has an opportunity to grow. To this end, they will expect to see a stricter adherence to brand standards, and full documentation of what the brand is. The effort of documenting these policies and procedures will come at a cost, although this effort is already partially complete. The larger issue is that, without being able to say that the existing locations are in full compliance, it will be hard to attract investors to a formula that is ambiguous. Without a good story about how results were achieved, they may not believe they are as a result of the brand (it may have been just good locations) and may not believe that the brand alone will be able to deliver at future locations.

Until a number of new locations are established under the new form of ownership, it may be difficult to establish a consistent organizational culture. With this option, the existing locations are not likely to give up their key people to help establish culture in a new location under separate owners. Management will have to pay extra attention to building this culture, whereas, with a combined ownership structure, this job would be much easier because there would be a perceived benefit from sharing experienced people.

After reviewing the actions that will be required to close the gaps, this option at least appears to be feasible without any significant obstacles, although there will be some higher initial costs and more work for management.

Table 22 Summary of Organizational Structure and Systems (Outside Investors)

<table>
<thead>
<tr>
<th>Required Organizational Capabilities</th>
<th>Existing Organizational Capabilities</th>
<th>Capability Gaps</th>
<th>Action to Close Gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparent systems to ensure accurate reporting for all shareholders</td>
<td>Systems are not presently synchronized among separate owners</td>
<td>Implement one set of systems to be used for new locations. This may or may not leverage infrastructure in place in existing locations</td>
<td>Choose either the best practices in place at one of the existing locations, or choose a third option that is impartial</td>
</tr>
<tr>
<td>A structure that delivers a consistent brand experience, at least in new locations</td>
<td>Locations are not necessarily in sync with each other</td>
<td>Must have a more documented, consistent approach</td>
<td>Document all processes and procedures, ensure compliance of new locations and wherever possible have it in sync with existing locations</td>
</tr>
</tbody>
</table>
4.1.9 Operational, Human and Financial Resources:
Phase 2 (Ownership Structure) Option # 2 (Outside Investors)

Table 23 examines the feasibility of this option from a resource perspective, considering only those areas that would be unique to this form of ownership structure.

As mentioned above, work would need to be done to tighten up the brand image through documenting policies and procedures. Although some of this work has been done already, it must be explicitly agreed to at the governance level so that there is no conflict later on. This effort will serve as an effective blueprint for future locations that will have a lower level of direct ownership supervision; here it is much more important that the documents are comprehensive and well thought out. To enable this work, relieving Joel and Maryam from day to day general manager duties would be the best course of action.

To maximize the number of investment dollars that can be attracted, it will become more important to explicitly market the brand from a competitive and public relations perspective, but also to a select audience of investors as a good investment. This work may involve hiring outside experience that presently does not exist in the organization.
Table 23 Summary of Operational, Human and Financial Resources (Outside Investors)

<table>
<thead>
<tr>
<th>Resource Category</th>
<th>Required Resources</th>
<th>Available Resources</th>
<th>Major Gaps</th>
<th>Gap-Closing Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational</td>
<td>Coordination of activities that affect brand identity, identifying and evaluating new locations, capability to open new locations</td>
<td>Current ownership team, management teams at each location.</td>
<td>Documenting and developing practices and procedures that define the brand. Skill set exists, time to dedicate to new projects is more the challenge</td>
<td>Relieving Joel &amp; Maryam from some General Manager responsibilities to focus on corporate level responsibilities. Estimated Cost: $50,000 each new GM/yr</td>
</tr>
<tr>
<td>Marketing</td>
<td>Seek out potential investors. Improved marketing of brand</td>
<td>Leveraging some business contacts, some marketing experience</td>
<td>Experience attracting larger investors</td>
<td>As financial needs begin to outpace the capability of the organization to develop funds internally, or if a higher leverage rate is desired, then use experience of a consultant or create new corporate position Estimated Cost: $60,000/yr</td>
</tr>
<tr>
<td>Financial</td>
<td>Ensuring funds are available to fuel growth</td>
<td>Present owners have funds to invest, depending on growth rate and desire to increase leverage</td>
<td>Investors willing to put in new money</td>
<td>Examine the alternatives of bringing in outside investors that do not dilute control of existing locations</td>
</tr>
</tbody>
</table>

4.1.10 Management Preferences and Expertise: Phase 2 (Ownership Structure) Option #3 (Franchise)

Table 24 below examines the feasibility of this option from the perspective of management preferences and expertise. The present ownership group would want to ensure that potential franchisees help to grow the brand image positively, fund all the start-up costs, and, in addition, pay an upfront licensing fee and ongoing royalty payments as a percentage of sales.

For a potential franchisee to agree to the terms of the agreement, they would want to receive support in return, as well as a high level of confidence that they will be successful if they follow a blueprint. This means that a much more detailed and exhaustive blueprint of the
organization’s operation policies and procedures needs to be developed and must be shown to work in the existing locations.

Operating under the assumption that the preferred growth rate is modest as the other options were ruled out in the previous analysis, this work does not have to be completed immediately. In general terms, the existing ownership group already seeks to bring the existing operations into closer alignment, and so it would just be a matter of taking a more deliberate, thorough approach that will result in something an outside party could replicate.

From a management preference and expertise perspective then, this option is feasible and should be considered. Of course, until there is a detailed blueprint with some history of execution and success, negotiations would be premature. The feasibility of this option will be uncertain until negotiations have begun, since there must be a possibility that a franchisee is willing to pay the amount desired and operate under the terms expected by Speakeasy.
### Table 24 Summary of Management Preferences and Expertise (Franchise)

<table>
<thead>
<tr>
<th>Management Subject</th>
<th>Required Preferences</th>
<th>Observed Preferences</th>
<th>Major Gaps</th>
<th>Gap-Closing Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major Shareholder - Mohammad</td>
<td>Funds required for growth would come from Franchisees.</td>
<td>Prefers not to give up any control over current locations.</td>
<td>Controls over franchise operations through master franchise agreement.</td>
<td>Development of master franchise agreement.</td>
</tr>
<tr>
<td></td>
<td>Franchisees would pay an initial fee, royalties as a % of sales, and be responsible for start-up costs.</td>
<td>Controls to ensure new franchised locations do not affect operations of existing locations.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Franchise agreements need to be in place outlining terms of relationship.</td>
<td>Prefer to invest minimum amount of own money in new locations.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major Shareholder – Joel &amp; Maryam</td>
<td>Funds required for growth would come from Franchisees.</td>
<td>Prefer not to give up any control over current location.</td>
<td>Controls over franchise operations through master franchise agreement.</td>
<td>Development of master franchise agreement.</td>
</tr>
<tr>
<td></td>
<td>Franchisees would pay an initial fee, royalties as a % of sales, and be responsible for start-up costs.</td>
<td>Controls to ensure new franchised locations do not affect operations of existing locations.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Franchise agreements need to be in place outlining terms of relationship.</td>
<td>Prefer to invest minimum amount of own money in new locations.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franchisee</td>
<td>Funds required for growth would come from Franchisees.</td>
<td>Security of invested money, good likelihood of realizing a positive return on investment.</td>
<td>Detailed documentation and proven compliance to policies and procedures at existing locations.</td>
<td>Evidence that Speakeasy Brand blueprint is well documented and works over time.</td>
</tr>
<tr>
<td></td>
<td>Franchisees would pay an initial fee, royalties as a % of sales, and be responsible for start-up costs.</td>
<td>Proven blueprint that can be followed to ensure success.</td>
<td>Guarantee of support through master franchise agreement.</td>
<td>Development of master franchise agreement.</td>
</tr>
<tr>
<td></td>
<td>Franchise agreements need to be in place outlining terms of relationship.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 4.1.11 Organizational Structure and Systems:

**Phase 2 (Ownership Structure) Option # 3 (Franchise)**

Presently there is little if any corporate structure in place that provides overarching support to the existing locations, other than a common approach to doing business that is not
well documented. For the franchise option to be considered feasible, much work would need to be done to determine what skeleton structure is required to operate an individual location and document operations from all functional perspectives – accounting, human resources, IT, marketing, etc.

As outlined in Table 25 below, the next step would be to determine what is required to support that skeleton structure from a corporate level. This would be a mix of supportive functions, such as marketing, vendor selection, menu development, etc., as well as performance benchmark setting and audit mechanisms to ensure that franchisees are operating under the franchise agreement.

Table 25 Summary of Organizational Structure and Systems (Franchise)

<table>
<thead>
<tr>
<th>Required Organizational Capabilities</th>
<th>Existing Organizational Capabilities</th>
<th>Capability Gaps</th>
<th>Action to Close Gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational systems for franchisees to follow – policies &amp; procedures, IT, human resources, financial, accounting, performance benchmarks, etc.</td>
<td>Systems are not presently synchronized among separate owners, some processes are documented although not in the detail required</td>
<td>Need clear blueprint of operations for franchisees to follow</td>
<td>Develop one set of systems that is to be used for new locations.</td>
</tr>
<tr>
<td>Corporate structure to support franchisees</td>
<td>Minimal corporate structure in place</td>
<td>Need corporate structure to be put into place</td>
<td>Work from blueprint that is created to determine where external support or auditing is required and determine who is going to perform that function and what is involved</td>
</tr>
</tbody>
</table>

4.1.12 Operational, Human and Financial Resources: Phase 2 (Ownership Structure) Option # 3 (Franchise)

The resource gaps between what is presently available and what is required to make a franchising option feasible are outlined in Table 26 below. Reviewing the resource gaps indicates that a lot of work needs to be done if a franchising option is to be pursued. First, the documentation of practices and procedures to the extent that will be expected from prospective franchisees will require relieving Joel and Maryam from their current general manager responsibilities so that they can focus on that effort. During this time, there is a risk that the current operations may slide under new management and that will have to be watched closely.

Second, the blueprint that is formulated will have to be implemented to a large extent in the existing locations and followed with a high degree of compliance for some time to prove to
potential franchisees that it works. There may be some resistance to this at the existing locations unless some local flexibility is built into the model. Of course, there is a risk that the results will not be favourable, which will reflect poorly on the blueprint’s ability to deliver results for a prospective franchisee.

Third, potential franchisees must be sought out and negotiations must be conducted to determine if there is mutual interest from both sides. Part of this process will involve the development of a master franchise agreement. This expertise does not presently exist within the organization, either from a legal or marketing perspective, so it will need to be outsourced. The marketing effort will need to be ongoing to attract new franchisees in markets that are not presently served.

All of this effort will come at a significant cost to the operations of the existing locations; current management will be distracted and resources will be diverted. These costs will have to be made up from initial franchisee investments and royalties to make the effort worthwhile. Given the low margins that exist in this industry, it will be difficult to pass along too much of these costs to franchisees or the financial model will not make sense for them. Considering this, the franchising option may be feasible in theory, but will come with a large investment of time and money and may prove to be either unattractive for the current ownership group or to potential franchisees should these costs be passed along to them.
### Table 26 Summary of Operational, Human and Financial Resources (Franchise)

<table>
<thead>
<tr>
<th>Resource Category</th>
<th>Required Resources</th>
<th>Available Resources</th>
<th>Major Gaps</th>
<th>Gap-Closing Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational</td>
<td>Resources to coordinate activities that affect brand identity, identifying and evaluating new locations, capability to open new locations</td>
<td>Current ownership team, management teams at each location.</td>
<td>Documenting and developing practices and procedures that define the brand. Skill set exists, time to dedicate to new projects is more the challenge.</td>
<td>Relieving Joel &amp; Maryam from some General Manager responsibilities to focus on corporate level responsibilities. Estimated Cost: $50,000 each new GM/yr</td>
</tr>
<tr>
<td>Marketing, Legal</td>
<td>Resources to seek out potential franchisees. Improved marketing of brand</td>
<td>Leveraging some business contacts, some marketing experience</td>
<td>Experience attracting franchisees Legal expertise to formulate franchise agreement.</td>
<td>As financial needs begin to outpace the capability of the organization to develop funds internally, or if a higher leverage rate is desired, then use experience of a consultant or create new corporate position Estimated Cost: $60,000/yr</td>
</tr>
<tr>
<td>Brand Awareness</td>
<td>Highly regarded brand that is well known in areas where new franchisees may want to open</td>
<td>Local brand image and reputation</td>
<td>Marketing Effort to expand brand awareness beyond local markets where existing locations operate today</td>
<td>Spend money on advertising with broader reach (radio, newspaper) Estimated Cost: 25% increase in marketing budget, (0.75% of sales= $37,500)</td>
</tr>
</tbody>
</table>

### 4.1.13 Management Preferences and Expertise: Phase 3 (Branding Model) Option # 1 (Tightly Controlled Brand)

As outlined in Table 27, there is a serious gap between what is required and what the present owners are willing to accept in terms of giving up control over the operations within the existing locations for the sake of tighter discipline around brand consistency. All parties believe they know what is best for their own locations, and given the level of involvement each have in their business, they are not willing to implement directions they may not agree with.
This is an impasse that cannot be resolved, and so the option of having a brand that is tightly controlled is not a feasible option and will not be discussed further.

Table 27 Summary of Management Preferences and Expertise (Tightly Controlled Brand)

<table>
<thead>
<tr>
<th>Management Subject</th>
<th>Required Preferences</th>
<th>Observed Preferences</th>
<th>Major Gaps</th>
<th>Gap-Closing Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major Shareholder - Mohammad</td>
<td>Willingness to comply with corporate level brand direction for existing locations</td>
<td>Not willing to give up control of existing locations (Granville &amp; Broadway)</td>
<td>Individual location willingness to put aside their own preferences for the sake of a consistent brand</td>
<td>None</td>
</tr>
<tr>
<td>Major Shareholder – Joel &amp; Maryam</td>
<td>Willingness to comply with corporate level brand direction on existing locations</td>
<td>Not willing to give up control of existing location (Davie)</td>
<td>Individual location willingness to put aside their own preferences for the sake of a consistent brand</td>
<td>None</td>
</tr>
</tbody>
</table>

4.1.14 Management Preferences and Expertise: Phase 3 (Branding Model) Option # 2 (One Brand, Local Revisions)

This option requires that the existing and new locations stay in sync on major brand decisions but allows for minor local revisions. This option would be similar in approach to established brands, such as McDonalds, that permit local revisions in international segments while maintaining the core brand characteristics. From a management preferences and expertise perspective, this option does not present any gaps as it allows the owners the freedom to make small adjustments to their business at the existing locations.

Ownership must ensure that there is an overall brand identity - otherwise the Speakeasy name will not have any meaning for customers or potential future investors. New locations that are opened under a joint venture arrangement would be expected to conform with the overall brand identity; as the number of new locations increases, there will tend to be less variation from the brand identity overall.
Table 28 Summary of Management Preferences and Expertise (One Brand, Local Revisions)

<table>
<thead>
<tr>
<th>Management Subject</th>
<th>Required Preferences</th>
<th>Observed Preferences</th>
<th>Major Gaps</th>
<th>Gap-Closing Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major Shareholder - Mohammad</td>
<td>Willingness to comply with corporate level brand direction on existing locations for major brand elements</td>
<td>Not willing to give up control of existing locations (Granville &amp; Broadway)</td>
<td>None – flexibility exists to allow control over existing locations</td>
<td>None</td>
</tr>
<tr>
<td>Major Shareholder – Joel &amp; Maryam</td>
<td>Willingness to comply with corporate level brand direction on existing locations for major brand elements</td>
<td>Not willing to give up control of existing location (Davie)</td>
<td>None – flexibility exists to allow control over existing locations</td>
<td>None</td>
</tr>
</tbody>
</table>

4.1.15 Organizational Structure and Systems: Phase 3 (Branding Model) Option # 2 (One Brand, Local Revisions)

Presently there is an organizational structure in place at each location that functions well from its owner’s perspective. That is, Maryam and Joel are satisfied with the structure that is in place at the Davie Street location, and Mohammad is satisfied with the structure that is in place at the Granville Street location. From a structural perspective, the gap is agreement on how overall brand decisions will be made and about the systems and authority to ensure they are implemented. An informal approach has been implemented at the West Broadway location as it is being jointly managed, but this would need to be endorsed and agreed upon as a structure to use going forward with new locations.

The main challenge will come when one of the owners disagrees with a major brand direction change and refuses to allow it to be implemented in one of the existing locations (or one of the new locations for that matter). Without a formal structure in place, there is no way to force one of the partners to comply with a corporate decision.

One way to mitigate this is to catalogue decision making areas from past experience and potential future situations; for example, decisions on menu design, operating hours, vendor selection, human resource policies, etc. For each area, the owners should agree on the governance for decisions in advance to reduce friction when decisions must be made. In some cases, it may be necessary to require unanimous consent before a change is implemented. In other areas that do not affect the overall brand image, minor decisions may be made at the location level as documented variations.
Table 29 Summary of Organizational Structure and Systems (One Brand, Local Revisions)

<table>
<thead>
<tr>
<th>Required Organizational Capabilities</th>
<th>Existing Organizational Capabilities</th>
<th>Capability Gaps</th>
<th>Action to Close Gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational systems for locations to follow – policies &amp; procedures, IT, human resources, financial, accounting, performance benchmarks, etc.</td>
<td>Systems are not presently synchronized among separate owners, some processes are documented although not in the detail required</td>
<td>Need clear blueprint of operations for locations to follow, particularly new locations</td>
<td>Develop one set of systems that is to be used for all locations, identifying areas that are non-negotiable to deviate from, and areas where revisions may be made.</td>
</tr>
<tr>
<td>Organizational Structure that accommodates both individually owned locations and joint ventures</td>
<td>Minimal structure in place</td>
<td>Need structure to be put into place, and to have owners agree to abide by structure</td>
<td>Catalogue decision areas and determine the appropriate governance required to approve changes in each area</td>
</tr>
</tbody>
</table>

4.1.16 Operational, Human and Financial Resources: Phase 3 (Branding Model) Option # 2 (One Brand, Local Revisions)

The resources required to support this option are outlined in Table 30 below. Essentially what is required is someone to perform the task of documenting existing systems and practices, identifying any gaps and building a master set that can be used at each location. Areas where agreed upon variations exist should be documented and tracked to ensure that there is no impact to the overall brand image.

The skill set exists; this task could be completed by Joel and Maryam with input from the General Manager at the Granville Street location. To free up Joel and/or Maryam as a resource, there will need to be some backfilling of their existing duties and this cost should be shared across the ownership group.
Table 30 Summary of Operational, Human and Financial Resources (One Brand, Local Revisions)

<table>
<thead>
<tr>
<th>Resource Category</th>
<th>Required Resources</th>
<th>Available Resources</th>
<th>Major Gaps</th>
<th>Gap-Closing Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational</td>
<td>Coordination of activities that affect brand identity, identifying and evaluating new locations, capability to open new locations</td>
<td>Current ownership team, management teams at each location.</td>
<td>Documenting and developing practices and procedures that define the brand. Skill set exists, time to dedicate to new projects is more the challenge.</td>
<td>Relieving Joel &amp; Maryam from some General Manager responsibilities to focus on corporate level responsibilities. Estimated Cost: $50,000 each new GM/yr Acquiring new talent at corporate level as the number of locations grows. Estimated Cost: $40,000/yr administrative positions, $60,000 professional positions</td>
</tr>
</tbody>
</table>

4.1.17 Management Preferences and Expertise: Phase 3 (Branding Model) Option # 3 (Separate Brands)

This option scored well below the others in this phase, in large part because it does not grow the overall Speakeasy brand or necessarily a brand that may replace it. Each new location would essentially have to start from scratch in terms of building customer awareness, and new formats vs. a more proven model would be risky.

This is not to say that this cannot be done. It has in fact been done successfully by two restaurant/pub groups in Vancouver – the Donnelly Pub Group, and the Glowbal Restaurant Group. They each operate a number of successful establishments, each with their own brand names under an umbrella brand. An element of consistency still comes across and customers generally know what to expect.

Nonetheless, this option will be ruled out of consideration for the sake of this analysis mostly because Mohammad is dead set against changing the name of the existing Granville Street or West Broadway locations, or opening new locations under anything but the Speakeasy name.

A variation on this option would be for Joel and Maryam to rename the Davie Street location and pursue growth under a new brand name; however, given the history of the
business and the close-knit family ownership and family structure, that would not only have a 
significant impact on the future of the Speakeasy brand but also would strain family relations.

4.1.18 Management Preferences and Expertise: 
Phase 4 (Organizational Structure) Option # 1 (Formalized, Centralized)

This option involves efforts to refine the processes of the existing Speakeasy locations 
and introduce a more formal, structured approach to the business where major decisions are 
made at the “corporate” level. This does not mean that this option prevents customization at an 
individual location; it simply means that variations should be made after consideration and 
approval.

As outlined in Table 31 below, the existing ownership does not have issues with this 
option from a management preferences perspective as it allows both the control and flexibility 
they desire. The main benefit of a more formalized approach is the opportunity to train others to 
take on additional responsibility for some day to day management tasks.

Table 31 Summary of Management Preferences and Expertise (Formalized, Centralized)

| Management Subject          | Required Preferences                                                                 | Observed Preferences                                         | Major Gaps                                                                 | Gap-Closing Analysis |
|-----------------------------|--------------------------------------------------------------------------------------|---------------------------------------------------------------|****************************************************************************|----------------------|
| Major Shareholder - Mohammad| Willingness to comply with corporate level brand direction on existing locations for major brand elements | Not willing to give up control of existing locations (Granville & Broadway) | None – flexibility exists to allow control over existing locations | None                |
| Major Shareholder – Joel & Maryam | Willingness to comply with corporate level brand direction on existing locations for major brand elements | Not willing to give up control of existing location (Davie) | None – flexibility exists to allow control over existing locations | None                |

4.1.19 Organizational Structure and Systems: 
Phase 4 (Organizational Structure) Option # 1 (Formalized, Centralized)

As outlined in Table 32 below, there are some significant gaps in capability when 
examining this option from an organizational structure and systems perspective. Currently there 
is a challenge with consistency within each location, and certainly across locations. This 
derives in large part from an entrepreneurial structure that relied heavily on direct hands-on 
involved from the owners. When each of the businesses began, the owners were doing a
large part of the tasks, especially administrative and management tasks, so the need and value of formally documenting the processes was not fully appreciated. Now that the business is looking to grow and the owners want to free up some of their time, they are realizing that a more formalized structure would make it easier to train and set expectations for those who will assume their previous responsibilities. More simply put - the critical activities of the business need to move out of the minds of the owners and be documented so that others will know what to do.

To enable a central decision making process, a head or strategic apex of the organization must be established (Mintzberg, 1979). This head would consist of the current owners and, in the future, may be expanded to include a broader set of people, such as investors and others with knowledge and experience in the industry on a board of directors. The role of this group would be to deliberate and decide on major strategic directions, and to ensure that the individual locations are in compliance with the strategy of the organization.

Table 32 Organizational Capabilities

<table>
<thead>
<tr>
<th>Required Organizational Capabilities</th>
<th>Existing Organizational Capabilities</th>
<th>Capability Gaps</th>
<th>Action to Close Gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational structure that formally spells out reporting relationships, job descriptions, staffing model and levels, etc.</td>
<td>There is structure in place, but it has a lot of gaps where responsibilities are not necessarily assigned to an individual, or in some cases are jointly covered leading to duplication of effort</td>
<td>Business is not easily replicated to new locations, and it is difficult to ensure accountability and consistency without documented expectations</td>
<td>Define staff model and map all the critical activities of the business to specific positions</td>
</tr>
<tr>
<td>Central governance body that decides on main courses of action. Corporate level positions with responsibility attached to ensure compliance</td>
<td>Each location is presently looking after its own interests, not a formal plan for coordination</td>
<td>Focus on individual goals vs. coordinated strategy</td>
<td>Establish a central governance body that meets regularly to make major strategic decisions. Create positions that ensure strategic direction is followed and information is fed back up into governance body.</td>
</tr>
</tbody>
</table>

4.1.20 Operational, Human and Financial Resources:

Phase 4 (Organizational Structure) Option # 1 (Formalized, Centralized)

Table 33 below examines resource requirements for this option. Establishing a more formalized set of policies and procedures will require someone with experience blueprinting the service delivery process, identifying all the people who are required to deliver the products and
the detailed activities that each of those people must perform. Joel has this experience already from working in a large publicly traded company (Best Buy Canada), so no gap exists to be resolved.

In terms of establishing a governing body, Joel also has some experience reporting to such bodies and chairing multi-disciplinary task forces for major initiatives. However, there is a gap in specific industry experience and perspective outside of Speakeasy. This perspective would be valuable as it would open Speakeasy up to other approaches that may help operations and would also allow Speakeasy to learn from the experience of others as it considers growth.

To close this gap, contacts, who may be asked for advice on major strategic decisions, can be cultivated. Informally a lot of information is already acquired from vendors, customers, competitors, etc., but it is gathered ad hoc and usually not in a coordinated or consistent manner.

Table 33 Resources Required and Available

<table>
<thead>
<tr>
<th>Resource Category</th>
<th>Required Resources</th>
<th>Available Resources</th>
<th>Major Gaps</th>
<th>Gap-Closing Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational</td>
<td>Experience in establishing and documenting policies, procedures, structure</td>
<td>Joel – has deep experience in this area performing this function at large organizations (Best Buy Canada)</td>
<td>Have to free up Joel’s time</td>
<td>Relieving Joel &amp; from some General Manager responsibilities to focus on corporate level responsibilities. Estimated Cost: $50,000 each new GM/yr</td>
</tr>
<tr>
<td>Human</td>
<td>Experience establishing governance body (board of directors) and expectations</td>
<td>Joel – limited experience from MBA education as well as serving as a senior manager in a large public company (Best Buy Canada)</td>
<td>Input from industry sources outside of organization in decision making Experience directing/serving on governing body</td>
<td>Establish contacts in the industry that may be willing to participate Outside research</td>
</tr>
</tbody>
</table>

4.1.21 Management Preferences and Expertise: Phase 4 (Organizational Structure) Option # 2 (Informal, Decentralized)

This option scored significantly lower vs. the decision criteria than the alternative option in this phase (Formal, Centralized). In essence, this option is the status quo, which is at the centre of many of the issues that presently exist; it makes sense that it would score low vs. the
decision criteria. Since the alternative option is both preferred and feasible, this option will not be considered further.
5: FINAL RECOMMENDATION

5.1 REASONING IN SUPPORT OF RECOMMENDATION

Table 34 below summarizes the outcome of examining each option vs. the decision criteria and indicates whether or not each option is feasible using the feasibility exercise. Costs of mitigating actions to close gaps are also included to help determine the cost of choosing a particular option. It is important to note that the costs of mitigating actions are considered for each option independently. Combining options from multiple phases is expected to cost less as some costs will not be required. For example, the cost of relieving Joel or Maryam from GM duties and replacing them with a GM at either the Davie or West Broadway location is estimated at $50,000 per year. If this action is called for by multiple options in different phases, the cost would be only $50,000 as they would be expected to have the capacity to do more than just what is called for within each option.
Table 34 Options vs. Decision Criteria; Feasibility and Cost of Mitigating Actions

<table>
<thead>
<tr>
<th>Phase</th>
<th>Option</th>
<th>Weighted Score vs. Decision Criteria</th>
<th>Feasible? (Yes/No)</th>
<th>Cost of Mitigating Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Short Term</td>
<td>Long Term</td>
<td></td>
</tr>
<tr>
<td>1: Rate of Growth</td>
<td>1: Rapid Growth</td>
<td>3.1</td>
<td>No/Not Considered</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2: Modest Growth</td>
<td>4.1</td>
<td>Yes</td>
<td>$140,000/yr</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Additional $160,000/yr</td>
</tr>
<tr>
<td></td>
<td>3: Slow Growth</td>
<td>3.9</td>
<td>No/Not Considered</td>
<td></td>
</tr>
<tr>
<td>2: Ownership Structure</td>
<td>1: Status Quo</td>
<td>3.0</td>
<td>No/Not Considered</td>
<td>$160,000/yr</td>
</tr>
<tr>
<td></td>
<td>2: Outside Investors</td>
<td>3.6</td>
<td>Yes</td>
<td>$160,000/yr</td>
</tr>
<tr>
<td></td>
<td>3: Franchise</td>
<td>3.5</td>
<td>Yes</td>
<td>$197,500/yr</td>
</tr>
<tr>
<td>3: Branding Model</td>
<td>1: Tightly Controlled Brand</td>
<td>3.6</td>
<td>No/Not Considered</td>
<td>$160,000/yr</td>
</tr>
<tr>
<td></td>
<td>2: One Brand, Local Revisions</td>
<td>3.8</td>
<td>Yes</td>
<td>$100,000/yr</td>
</tr>
<tr>
<td></td>
<td>3: Separate Brands</td>
<td>2.5</td>
<td>No/Not Considered</td>
<td>$100,000/yr</td>
</tr>
<tr>
<td>4: Organizational</td>
<td>1: Formalized, Centralized</td>
<td>3.9</td>
<td>Yes</td>
<td>$50,000/yr</td>
</tr>
<tr>
<td>Structure</td>
<td>2: Informal, Decentralized</td>
<td>2.7</td>
<td>No/Not Considered</td>
<td></td>
</tr>
</tbody>
</table>

Scale: 1 = Poor Fit with decision criteria, 5 = Excellent Fit with decision criteria
Based on this review, it is recommended that Speakeasy select the following options:

**Phase 1 – Modest Growth**

**Phase 2 – Attract Outside Investors**

**Phase 3 – Operate One Brand, with Local Revisions**

**Phase 4 – Implement a Formalized Organizational Structure with Centralized Decision Making**

As well as passing the feasibility test, these options are preferable to the alternatives in each phase; most importantly they are internally consistent with each other. Modest growth will allow Speakeasy to grow at a rate that is sustainable and lowers risk; at the same time this option is attractive enough to make it worthwhile for the owners. A modest growth rate that is sustainable will also be attractive to investors who are willing to hold a minority interest in the company.

Operating under a unified brand with local revisions facilitates an increased measure of corporate control, while at the same time allows flexibility, not only to better serve local preferences but also to diffuse potential conflict among entrepreneurial owners who have invested a lot of money and time into their own locations. This is consistent with attracting investors who will want to have the comfort of investing in something that is growing but is also flexible to change.

Implementing a formalized structure will further reassure investors that the business is under a higher degree of control and that there is a pattern that can be followed to expand to new locations with reduced risk. It will also support the rate of growth as it will help to maintain control over operations as they go through the transition phase and adapt to new challenges with the owners spending less time in each location.

**5.2 MITIGATING THE GAPS**

The total estimated cost of mitigating the gaps for the combination of options recommended is expected to be $140,000 in the short-term and an additional $160,000/year in the long-term, once the brand gets to five locations and resources become more stretched. Shared across the three current locations, this is approximately 2.8% of sales with three
locations ($140,000/$5,000,000), and 3.3% of sales with five locations ($260,000/$8,000,000) at current average sales levels. These costs would need to be offset by a combination of increased margins, potentially higher prices, and increased sales levels at existing locations to keep cost percentages in line.

The costs come primarily from increased wages, either to create corporate level positions or to backfill the owners that would assume the corporate level positions. It is assumed that Joel, Maryam, and Mohammad will continue to be compensated at current levels and will receive compensation for their increased responsibilities through the increased profits of the company.

5.3 IMPLEMENTATION TIMELINE

From the options selected above, Table 35 below outlines the main actions that must be taken for implementation, an approximate timeline, and estimated annual costs.

Given that the option recommended is for modest growth, which calls for a cautious approach to selecting new locations, some steps do not need to be implemented in the near future, while others should be undertaken quickly to create a state of readiness to act upon opportunities as they come up.
Table 35 Implementation Timeline

<table>
<thead>
<tr>
<th>Implementation Step</th>
<th>What is involved</th>
<th>Who is Responsible</th>
<th>Timeline for Completion</th>
<th>Estimated Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment of Governance Structure</td>
<td>- Members: Mohammad, Maryam, Joel - Determine meeting frequency - Determine Scope - what is decided at the corporate level, and what can be decided at the location level - How are new locations to be scouted, selected, supported</td>
<td>Joel / Maryam / Mohammad</td>
<td>1 Month</td>
<td>0</td>
</tr>
<tr>
<td>Define brand and key elements</td>
<td>- Decide what Speakeasy wants to be known for - What are strengths and where is best return to focus energy - How are employees and managers aligned</td>
<td>Joel / Maryam / Mohammad</td>
<td>1 Month</td>
<td>0</td>
</tr>
<tr>
<td>Select GM to Replace Joel @ Davie</td>
<td>- Role: Oversee all service and kitchen operations - Selection, training, performance management of candidate</td>
<td>Joel</td>
<td>3 Months</td>
<td>50,000</td>
</tr>
<tr>
<td>Select GM to Replace Maryam @ West Broadway</td>
<td>- Role: Oversee all service and kitchen operations - Selection, training, performance management of candidate</td>
<td>Maryam</td>
<td>3 Months</td>
<td>50,000</td>
</tr>
<tr>
<td>Corporate Administration Support</td>
<td>- Role: help with routine administration tasks for all three locations (ex. bookkeeping, inventory, ordering, payroll, etc. - Selection, training, performance management of candidate</td>
<td>Joel</td>
<td>3 Months</td>
<td>40,000</td>
</tr>
<tr>
<td>Broaden scope of mgmt. responsibilities at each location to do HR functions to support growth</td>
<td>- Either develop training program for existing location management to become better HR managers, or replace and &quot;upgrade&quot; talent that has HR experience as a developed skill</td>
<td>Joel / Maryam</td>
<td>3 - 6 Months</td>
<td>60,000</td>
</tr>
<tr>
<td>Policies, Procedures documentation</td>
<td>- Documentation of all the activities that need to happen to be successful - enshrine in a set of policies and procedures that can serve as &quot;one source of the truth&quot; to train from and hold people accountable to - This will involve collecting policies that are already documented and synchronizing, as well as developing some where no documentation exists</td>
<td>Joel / Maryam</td>
<td>3 - 6 Months</td>
<td>Included in backfilling GM position for Joel</td>
</tr>
<tr>
<td>Marketing to Attract Investors</td>
<td>- Increase marketing of brand in traditional media - Prepare prospectus for investors - Utilize investment/marketing agency to attract investors</td>
<td>Joel</td>
<td>6 - 12 Months</td>
<td>60,000</td>
</tr>
<tr>
<td>Establish contacts to serve on governance</td>
<td>- Approach industry contacts to see if they are suitable and interested</td>
<td>Maryam</td>
<td>6 - 12 Months</td>
<td>0</td>
</tr>
</tbody>
</table>
Maryam and Joel are expected to lead the implementation in most areas, with Mohammad providing input on the broader strategic areas due to his ownership stake. The first phase will be to establish a governance structure that will oversee the overall strategy going forward. At the same time, the brand identity must be clarified so that future decisions have a basis for comparison – i.e. Do they fit with the brand or not?

Once it is clear what the brand stands for– and what it does not–backfill candidates need to be selected, trained and managed on an on-going basis to free up Joel and Maryam to conduct the next phase of work. It is to be expected that there will be some pushback from employees and customers who are used to the frequent presence of the owners, so care should be taken to be present as much as possible through this transition.

With the day to day activities under the management of new General Managers, and an administrative support person hired to help coordinate and control routine processes, Joel and Maryam may begin the work of documenting in detail all the policies and procedures that should be followed to support the brand identity. This work should be expected to be completed within six months. At that point, Speakeasy should be in a strong position to communicate to investors what it is all about and how it does business.

The work of attracting investors and scouting for new sites would be on-going. When a potential new location is found, it will be evaluated by the governance body to determine if it is a fit with Speakeasy’s expansion plans and if support is in place. This routine would be followed as each new location is added, with support staff being added at the corporate level as required.
Appendices

Appendix A: Menus
# APPETIZERS

**Potato Skins** ★ Sour cream, green onions, monterey jack, cheddar and real bacon bits • 7.95

**Hand-Cut Fries** Seasoned • 5.95

**Lattice Fries** Seasoned cross-cut potatoes • 5.95

**Yam Fries** ★ Served with in-house-made Madras curried mayo • 6.95

**Speakasy Roulade** Cross-cut potatoes with mozzarella, edam and gravy • 9.95

**Nachos with the Works** Black olives, tomatoes, green onions, jalapenos, hot banana peppers and our own cheese blend. Comes with house-made salsa and sour cream • 14.95 full order / 9.95 half order

Add spicy beef for chicken 4.00 Add double chicken 5.00

Add double cheese 3.50 Add spicy refried beans 1.50

Add guacamole 2.75 small / 3.75 large

Add extra house made salsa 1.50

**Chicken Wings** ★ Tossed in your choice of BBQ, Sweet Chili, Hot Sauce, Teriyaki, Honey Garlic or Jamaican Jerk Sauce • 1-pound 10.95 / 2-pounds 19.95

Dips: blue cheese, roasted garlic mayo, or ranch 3.50 each

**Chicken Fingers & Fries** Choose your sauce: honey mustard, Jamaican jerk, BBQ, sweet chili, plum sauce, hot sauce, teriyaki, blue cheese or ranch • 9.95 for 2 / 10.95 for 3

**Spicy Sweet Chili Chicken** Fresh diced chicken breast smothered in sweet chili sauce, served with scallions and topped with crispy noodles • 10.95

**Dry Ribs** ★ One pound of ribs, lightly breaded and seasoned to perfection; served with red chili sauce • 9.95

**Calamari** ★ Lightly dusted calamari tossed with seasoning and served with Speakeasy-style tzatziki • 9.95

Calamari Spicy 1.00

**Veggie Spring Rolls** ★ Hand rolled with tofu, cabbage, Chinese mushrooms, carrots and vermicelli noodles, served with a sweet chili sauce • 7.95

**Artichoke & Spinach Dip** Fresh spinach, roasted artichokes, cream, scree, mozzarella, edam and parmesan folded into a basil cream sauce; served with tortilla chips • 10.95

**Perogies** Spinach and feta cheese perogies with bacon and onions; served with a side of sour cream • 9.95

**Seared Lemon Spiced Edamame** A heaping pot of edamame served with sea salt, fresh lemon and chili peppers • 8.95

**Veggie Quesadilla** With spicy refried beans, grilled peppers, onions, cheddar and monterey jack cheese; served with house made salsa and sour cream • 10.95

Add spicy beef or blackened chicken for 4.00

---

# SOUP and SALADS

**House Salad** Spring mix with sundried cherries, cranberries, roasted pecans, extra virgin olive oil with balsamic vinaigrette and goat cheese • 9.95

**Caesar Salad** • 9.95

Add blackened chicken for 4.00 Add baby Spinach 4.00

**Side Garden Salad** With purchase of meal only • 5.95

**Side Caesar Salad** With purchase of meal only • 6.95

**Mexican Taco Salad** Shredded lettuce, tomato, black olives, green onion, cheddar & monterey jack cheese, sour cream and house made salsa, served with crispy tortilla wedges • 10.95

Add spicy beef or blackened chicken for 4.00

**Tomato Bocconcini Salad** Freshly sliced roma tomatoes with bocconcini, basil pesto and a tantalizing balsamic reduction • 9.95

**Spinach Salad** Fresh baby spinach, cashews, red onion rings, Granny Smith apples and shredded parmesan, served tossed in a grainy mustard & apple cider vinaigrette, drizzled with balsamic vinaigrette reduction • 11.95

**Speakasy Grilled Seafood Salad** Mixed baby greens with grilled tiger prawns, blackened wild Pacific salmon, baby shrimp, fresh avocado, Roma tomatoes and crispy noodles in a lemon vinaigrette • 15.95

**Baked French Onion Soup** Caramelized onions in a red wine beef stock, topped with herb croutons and parmesan cheese; served with garlic toast • 7.95

---

# APPY PARTY PLATTER

Choose any three different appetizers marked with a star ★ to build your own

**Appy Party Platter** • 24.95

---

# ALL DAY BREAKFAST

2-2-2 Two eggs, two pieces of toast, your choice of two bacon, two sausage, or two slices of tomato; served with hashbrowns (sorpy, no poached eggs) • 6.95

---

An automatic gratuity of 15% may be applied to parties of six or more

Speakasy on Davie
BRUNCH MENU

Whole wheat bread is served with breakfast items; Sourdough available upon request ● Substitute for fruit 2.50 ● Egg whites only add 2.00

The Prohibition Breakfast .... 5.95
Two eggs, two pieces of toast, panfried hashbrowns and your choice of two pieces of bacon, sausage or grilled tomato or one slice of ham. No substitutions

The Untouchable Breakfast .... 8.95
Three eggs, two choices of bacon, sausage, ham or tomato slices, panfried hashbrowns and three slices of toast. No substitutions

Capone’s Prairie Breakfast .... 10.95
Three eggs, two pieces of toast, panfried hashbrowns, three spinach perogies, sour cream & scallions, served with farmer’s sausage.

Speakeasy Stacker .......... 6.95
English muffin grilled with scrambled egg, ham & cheese, served with panfried hashbrowns.

The Made Man ................. 14.95
6oz hand-cut rib-eye steak, two eggs, panfried hashbrowns and toast.

Spanish Breakfast Wrap ....... 9.95
Eggs, onion, peppers, cheddar and Monterey cheese wrapped in a grilled tortilla, served with salsa and sour cream. Add chorizo inside the wrap for $2.

The Sicilian Breakfast ......... 7.95
Chorizo with two eggs, served with panfried hashbrowns and toast.

Full-On English Breakfast .... 10.95
Two eggs, two pieces back bacon, two sausages, potato scine, mushrooms, fried tomatoes, beans & fried bread.

Fresh Fruit Bowl (Seasonal) ...... 7.95
Fresh fruit served with yogurt and toast.

CAKES & THINGS

All served with two pieces of bacon and two sausages ● Add egg for 75¢

Pancakes ...................... 8.95
Served with fresh fruit compote.
Blueberry Pancakes ........ 9.50
Banana Pancakes .......... 9.50

French Toast .................. 8.95
Served with fresh fruit compote.
Belgian Waffles .......... 9.50
Served with fresh fruit compote.

BRUNCH EXTRAS

Toast ...................... 1.50
Pan-fried Hashbrowns .... 2.50
Extra Egg .............. 75¢
Ham (1 pc) ............. 2.00
Bacon (2 pcs) ............. 2.00
Breakfast Sausage (2 pcs) .... 2.00
Farmers Sausage (1 pc) ...... 3.00
Chorizo Sausage (1 pc) ...... 3.00
Perogies (3) ........ 3.50

An automatic gratuity of 15% may be applied to parties of six or more people
Appendix B: Maps of Speakeasy Locations

Davie Street
Granville Street
Bibliography


