

A strategic analysis of a vegetarian quick-service franchise

by

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Abstract

The purpose of this report is to assess the potential success rate of Lean, a vegetarian quick-service restaurant franchise currently in its infancy, in both the local Vancouver market where Lean is attempting to launch, as well as assess the potential growth opportunities for franchise locations.

The industry analysis done on the foodservice industry indicates that it is a competitive industry that is highly saturated with many players. It also indicates that Lean is attempting to undertake a Blue Ocean Strategy and create new market space outside of the original parameters. The core competencies of the firm are still in development, however their focus is detailed and enumerated in terms of three areas within the organization; marketing, operations and convenience/services.

Finally, the study identifies a number of issues that affect the firm's launch strategy and its ability to achieve growth beyond its inaugural location. The project concludes that the firm needs to understand its core competencies and slow down its expansion plans to better facilitate a successful strategy.

Dedication

This project is dedicated to my parents, Dean McLean & Margaret Rogers, my stepparents Bill Totten and Joan MacDonald, my brother Todd, and my stepbrothers Adam and Matt Crossman for always supporting my outlandish behaviour with a smile.

Acknowledgements

This project would not have been possible without the support of my EMBA “Q” team members, Ernest Au, Lloyd Bauer, Lara Johnson and Yashar Khalighi. Each provided helpful insights and feedback continually during this 19-month odyssey, and I am forever grateful.

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1: Lean's Position in the Restaurant Industry

The Fast Food or Quick-Service Restaurant (QSR) industry was officially recognized as a classification within the foodservice industry during the 1950's, however its roots are tied to the rise of the automobile in the United States. As automobiles became increasingly popular in the United States, drive-in restaurants were developed, allowing patrons to be served in their cars. Carhops were introduced in the 1940s, essentially waiters who donned roller skates to move from counter to car and back.

Typically serving highly-processed and prepared meals, the fast food industry today offers little customization with their menu offerings, rather competing on price, speed and restaurant location. While initially the rise of fast food was built on hamburgers and french fries, restaurant chains expanded their respective menus to offer pizza, sushi, sandwiches, chicken, Mexican, Chinese or Italian food, to name but a few of the options at current fast food restaurant chains.

Over the past 30 years, globalization of the fast food industry has changed the landscape of competition, and recently, a trend towards healthier food options has shifted power within the industry, with Subway recently overtaking McDonald's as the world's largest fast food franchise.

The objective of this project is to analyze a new proposed entrant into the fast food marketplace, **Lean**, and to assess whether its strategy, of offering strictly vegetarian food in small, quick-service locations, is one that is viable. This project will examine

Lean's methodology to determine an appropriate strategy to achieve desired growth and anticipate long-term issues that may arise from this strategy.

1.1 Description of the Organization

Lean is a vegetarian and vegan quick-service restaurant franchise currently in concept only and owned by Scott McLean and Yashar Khalighi, who are the also the management team. The initial idea for the restaurant was McLean's, a vegetarian, and came to fruition during the course of McLean's and Khalighi's studies at Simon Fraser University's Beedie School of Business. The pair then decided to bring this concept to a financial institution to seek additional funding to launch three locations in the Lower Mainland. After those initial visits, McLean and Khalighi tabled the discussion for further analysis, and are scheduled to reconvene with their financial backers in the summer of 2011 to reassess the marketplace and the viability of the restaurant as a franchise.

The pair agreed on the concept that Lean should be a strictly vegetarian and vegan quick service restaurant, catering to vegetarians, vegans, and an increasing segment of the non-vegetarian population that desires a meatless option part of the time. Lean planned to open three locations in Metro Vancouver: one location in the downtown business core, one location in the vicinity of Main Street and Broadway, and one location in Kitsilano on either West 4th avenue or Broadway, in between Burrard and MacDonald.

In concept each restaurant location was to be less than 1000 square feet in size, while the principle location (Main Street) would be considered the hub for the other two locations and would be the main source for all food preparation. Distribution would occur from this location to other Lower Mainland locations. When the franchise expanded beyond three locations, this concept would move into the franchising phase of operations,

projected to be in year two or three. This project will focus on the financial viability of the first franchise, and will subsequently investigate the possibility for expansion beyond one location.

As a vegetarian, McLean found it quite difficult to find good options when he was eating on the run. Lean will offer multiple vegetarian and vegan menu items, cooked in a meat free environment. The restaurants will not have a deep fryer or a large range stove, requiring significantly less space for each restaurant location and lowering the cost of insurance at each location. This is concept is borrowed from the Subway restaurant franchise, which has been able to topple McDonald's largely due to Subway's ability to implement new franchises within a variety of spaces due to the flexibility of space requirements.

1.2 Segmentation of the Industry

Under Industry Canada's definition, quick service restaurants total a \$17.7 billion industry (2008 industry total) where meals, snacks and beverages are prepared to customer order. This sector increased from \$15.5 billion in 1999, a compound annual rate of 1.4% and from 2007 to 2008 increased by 1.7% (Statistics Canada, 2010). This is a consistent and steady growth pattern, in comparison to other industries within Canada. For example, the Mining, Quarrying and Oil and Gas extraction industry grew from \$51.2 billion in 2001 to \$51.5 billion in 2008, an increase in the compound annual rate of only 0.1%. In comparison, one of the leaders in growth from 2002 until 2009 was the telecommunications industry, a sector that saw its annualized growth rate during this period increase by 4.1% (Industry Canada, 2011).

The overall commercial foodservice industry, including quick service and full-service restaurants, totalled approximately \$47.5 billion in 2010, based on research done by the Canadian Restaurant and Foodservices Association (CRFA). Each restaurant has a specific profile within this industry, as classified by industry analysts such as the NPD Group (author of Consumer Reports on Eating Share Trends (CREST)). NPD Group and CRFA list the following as subsections within the restaurant industry.

A. The Quick-Service Restaurant industry or limited-service restaurants are fast, over the counter service, with moderate to low food quality focused on speed and convenience. These restaurants have a strong take-away business and many feature drive-throughs. (e.g., McDonald's, A&W, Subway).

B. The full-service segment represents licensed and unlicensed fine-dining, casual and family restaurants, as well as restaurant-bars.

C. Contract and social caterers, which comprise caterers supplying food services to airlines, railways, institutions and at recreational facilities, as well as social caterers providing food services for special events.

D. Drinking places, which comprise bars, taverns that serve alcohol and provide limited food service.

In the non-commercial foodservice industry, there are two supplemental classifications:

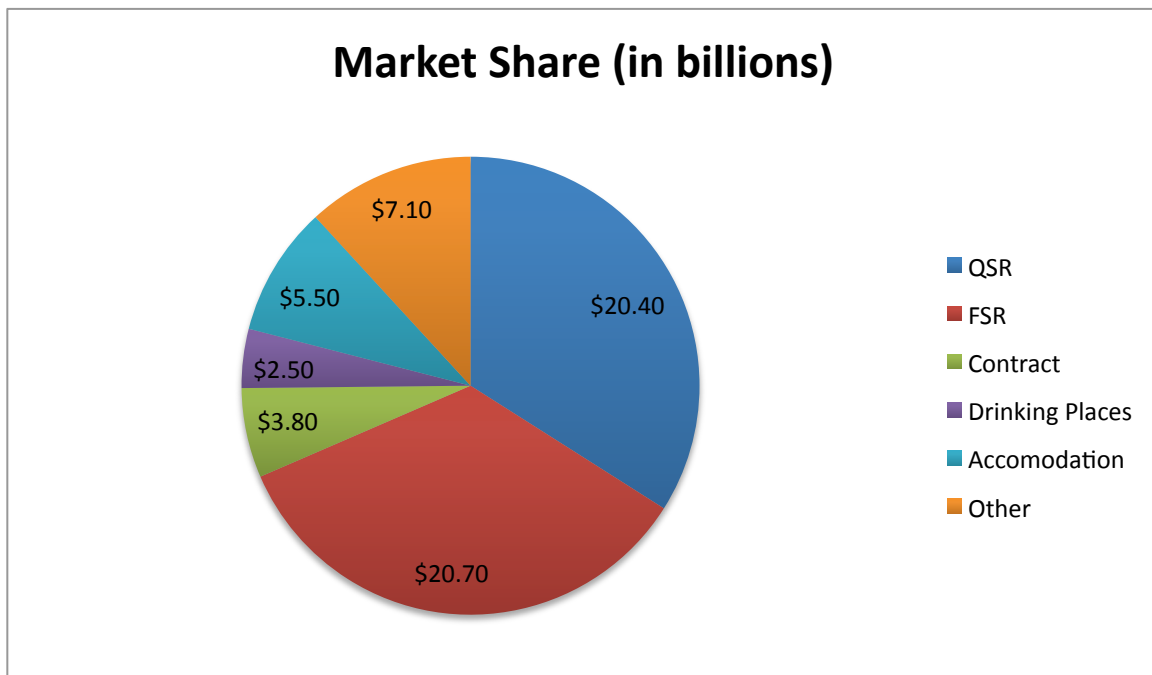
A. Accommodation foodservice, which comprises foodservice in hotels, motels and resorts.

B. Other foodservice, which is defined as foodservice in hospitals, residential care facilities, schools, prisons, factories, remote facilities, and offices and includes retail

foodservice and all other foodservice (vending, sports, and private clubs, movie theatres, stadiums, and other seasonal or entertainment options.

The following pie chart best explains the segmentation and market share of each section within the industry.

Figure 1. Restaurant Industry Overview – Percentage of Market Share



Further segmentation identifies vegetarian restaurants in the Lower Mainland and in particular Vancouver. Of 4300-plus restaurants in Vancouver, only 28 are entirely vegetarian, of which 27 fall into category B, while only one can be categorized in section A, the quick-service restaurant category. Lean is designed to compete in category A.

Section B can also be broken down into further groupings featuring family restaurants, casual dining and fine dining. The major differentiator between those segments is their average cheque receipt. Fine dining restaurants however are typically

run by either a Chef or Owner, and are not usually found within the chain restaurant system, in comparison to the other two classifications.

1.3 Description of the Product

Focusing on the differences and segmentation within the full service restaurant industry and the quick service restaurant industry, there are a number of tangible differentiators between each distinct segment. One of the principle differences between quick-service and full-service is the definition of the “good” or product the consumer is actually consuming.

Figure 2. Subway’s \$5 footlong advertising campaign



In quick service, the consumer is strictly purchasing the food, and the focus is on both quality and quantity of the food, while in the other sections of full-service, the focus is on the entire experience of dining out over solely focusing on the menu. The focus of a particular organization is often expressed in the respective advertising campaigns for

each organization. Subway, which recently became the world's No.1 quick service franchise by overtaking perennial champion McDonald's, is quick to credit their \$5 footlong campaign as a major reason for their recent increased market share in the United States.

In 2009, Subway was able to generate \$3.8 billion in sales utilizing this promotion, a figure alone that would place Subway in the top-10 of fast-food brands in the United States ("A \$5 footlong success story," Business Week). Subway watched as its margins per sandwich decreased, however the volume of sales increased exponentially, to the point where franchises were running out of bread and cheese to keep up with the promotion. Subway also utilized a simple jingle and pushed the idea through with a national campaign, which according to Subway's CEO Jeff Moody, "Violated all our normal processes ("A \$5 footlong success story," Business Week)." The success of the campaign, however, also placed increasing pressure on the distribution system for Subway. By increasing their volume, the company required an increase of 50% to their food supplies, while demand for footlongs, which was typically half of six-inch sub-sandwiches, reversed proportionality.

This focus on food and price is in stark contrast to the advertising campaigns of typical full-service restaurants, that focus on the experience and ambiance of their locations as well as the quality and taste of their foods. While family and casual restaurants utilize advertising campaigns, fine dining establishments typically use word of mouth advertising as well as rating services like Zagats to generate 'buzz' for their locations. See the following sample advertisement for The Keg Steakhouse, celebrating typical life moments in a humorous fashion.

Figure 3. The Keg print ad



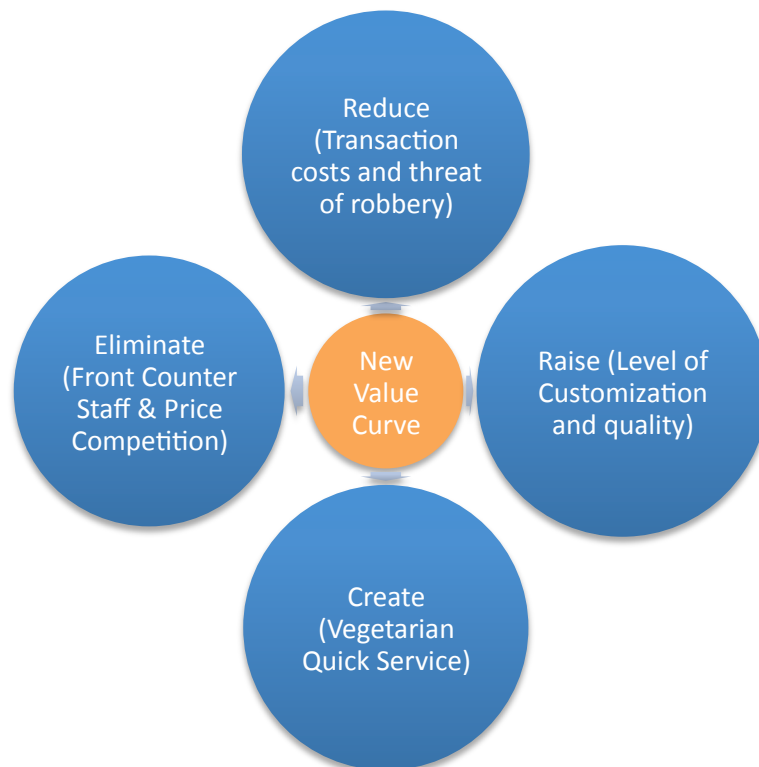
One of the critical issues for Lean is price point and profit margin per meal, as the restaurant intends to offer organic selections to consumers, which increases the average cost per meal, and reduces Lean's ability to compete with other Quick Service Restaurant franchises on price. Ideally the restaurant will produce to demand in order to maximize freshness, however this method has proven to be quite costly in terms of spoilage for other franchises. The increased customization Lean offers in their menu also places an increased requirement on front counter staff as well as the point-of-sale system Lean will employ. These are all differentiators within the QSR segment, allowing Lean to navigate a relatively *Blue Ocean* in comparison to other QSR's.

1.3.1 Blue Ocean Strategy

Blue Ocean Strategy or BOS was first introduced by W. Chan Kim and Renee Mauborgne in 2005, and is based on a study of 150 strategic moves spanning more than 100 years and 30 industries. What BOS offers is a systematic and reproducible methodology and processes in pursuit of innovation by both new and existing firms and is the simultaneous pursuit of differentiation and low cost.

Lean fits into the definition of a Blue Ocean Strategy as it is attempting to create uncontested market space, making the competition irrelevant while capturing new demand (“Blue Ocean Strategy Guide”, Biau, Yip Hkai & Sun, Lieu Yoke). Currently a large-scale vegetarian competitor does not exist in the Vancouver marketplace, while existing competitors are competing on price, and are not focused on value innovation.

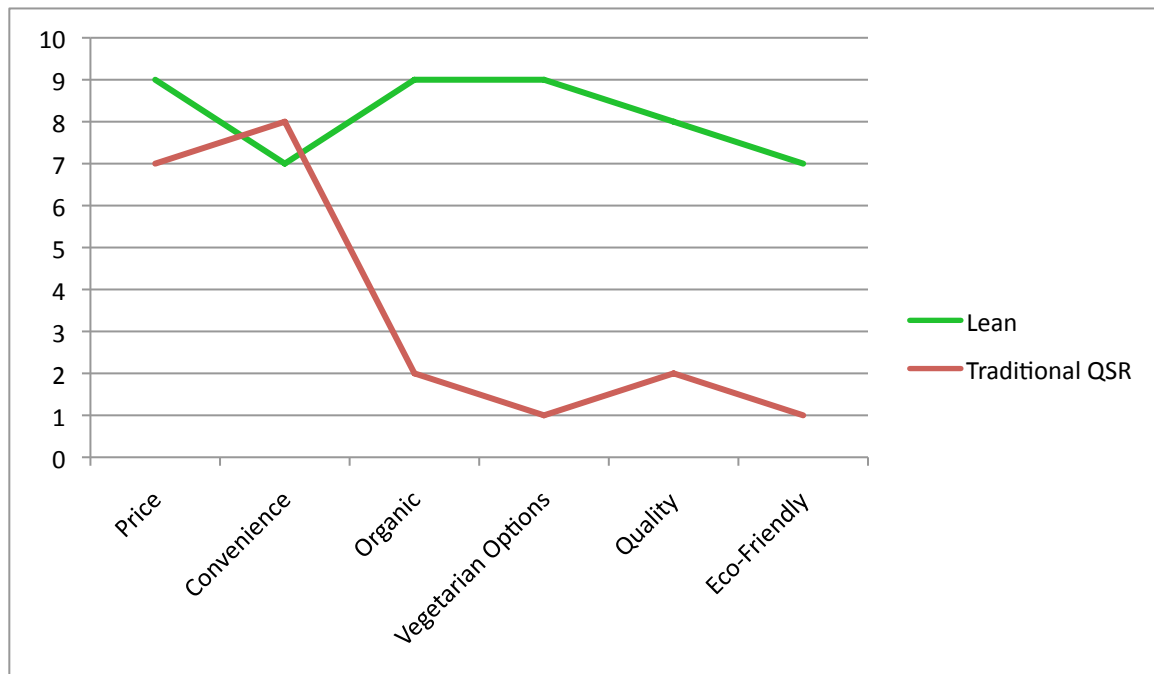
Figure 4. Blue Ocean Action Framework



Lean will attempt to increase the “wedge” (essentially profits) in a two-part strategy, first by investing in the level of customization and the quality of food offered and by creating a new area within the industry in a strictly vegetarian quick service restaurant, while eliminating front counter staff with computerized terminals designed to handle the intake of orders and by strategically reducing transaction costs by eliminating cash transaction, reducing the threat of robberies, lowering operational and insurance premiums at each location. This paper will discuss these details in the internal analysis of Section 3.

Lean has listed six key competition points on where it will focus relative to traditional quick service restaurants, detailed in Figure 5.

Figure 5. Lean’s Blue Ocean Innovation vs. Traditional QSR Industry



1.4 Profile of the Customer

As Lean does not yet have a physical location, there are no existing customers, however Lean has identified a targeted demographic based on market research and the increasing number of vegetarians in North America. According to a recent Ipsos Reid poll conducted for Agriculture and Agri-Food Canada, one in ten Canadians self-identifies as a vegetarian for moral, philosophical or health-related reasons, while according to AgCanada's 2005 report, *Canadian Food Trends to 2020*, up to 40% of Canadians will seek a meatless meal at least some of the time ("I eat veggies, hear me roar." Vancouver Sun, 2010). Canada's largest city, Toronto, reported has at least 100,000 vegetarians in the city and the amount of meat consumed by the average Canadian has reduced from 34.46 kilograms per capita in 1976 to 24.12 kilograms per capita in 2005 (Quitting Meat, Toronto Star, 2010).

In the United States, a survey conducted by Harris Interactive found that 3.4% of Americans consider themselves vegetarians, while the largest percentage of vegetarians are students aged 18 or over (15% of total vegetarians), followed by females aged 18-to-34 (12% of total vegetarians). The Western portion of the U.S. also contains the largest proportion of vegetarians at 5%, while nearly 50% of those survey reported that they will order a dish without meat, fish or fowl at least some of the time (<http://vrg.org/press/200poll.htm>, 2010). Those who eat meals without meat at least some of the time are classified from this point on as flexitarians.

In the last posted census for the City of Vancouver, the growth rate of the region increased by 5.9%, totaling 578,041 residents. Utilizing the data presented by the Ipsos Reid poll in regards to vegetarians Canada, that roughly translates to 57,804 vegetarians

at a minimum in Vancouver and 231,216 individuals who will seek out a meatless meal at least some of the time. The animal rights organization People for the Ethical Treatment of Animals (PETA) has even listed Vancouver as one of the top five vegetarian friendly cities in North America.

Within that framework, Lean will specifically target health conscious families whose average household income is above the median household income in Vancouver of \$68,670 (<http://www40.statcan.ca/101/cst01/famil107a-eng.htm>). The rationale behind this targeted approach is due to the fact that when finances are tight, the first area that households cut is the cost of their food, either by reducing the amount of times they eat outside the home, or the overall quality of food choices (“Money is tight, and junk food beckons.” Tara Parker-Pope). By marketing to families with higher household incomes and not competing on a direct cost approach with traditional QSR restaurants, Lean has the potential to avoid the trappings of traditional restaurants and fast food franchises.

1.5 Competitors in the Market

There are current QSR franchises and full-service vegetarian restaurants that can be considered Lean’s competitors. This industry is highly diversified without any one firm with significant market share in Vancouver or British Columbia. Currently in Vancouver proper there are 28 vegetarian restaurants, 27 of which are full service restaurants, while one, a non-franchise, is counter service (Appendix III).

2: The Foodservice Industry

2.1 Overview of the Industry

Historically, the foodservice industry is under constant pressure of change, with new entrants continually opening while other existing restaurants fail or are overtaken by new management. The industry is also highly sensitive to the economic climate, dining out is often the first spending cuts consumers make during tough economic times (Services Canada, 2010). A positive statistic however is that the annual growth rate projections, done by Services Canada, expect the annual growth rate within the Restaurant and Food Service industry to out perform the average annual growth rate of all Canadian industries (Figure 6).

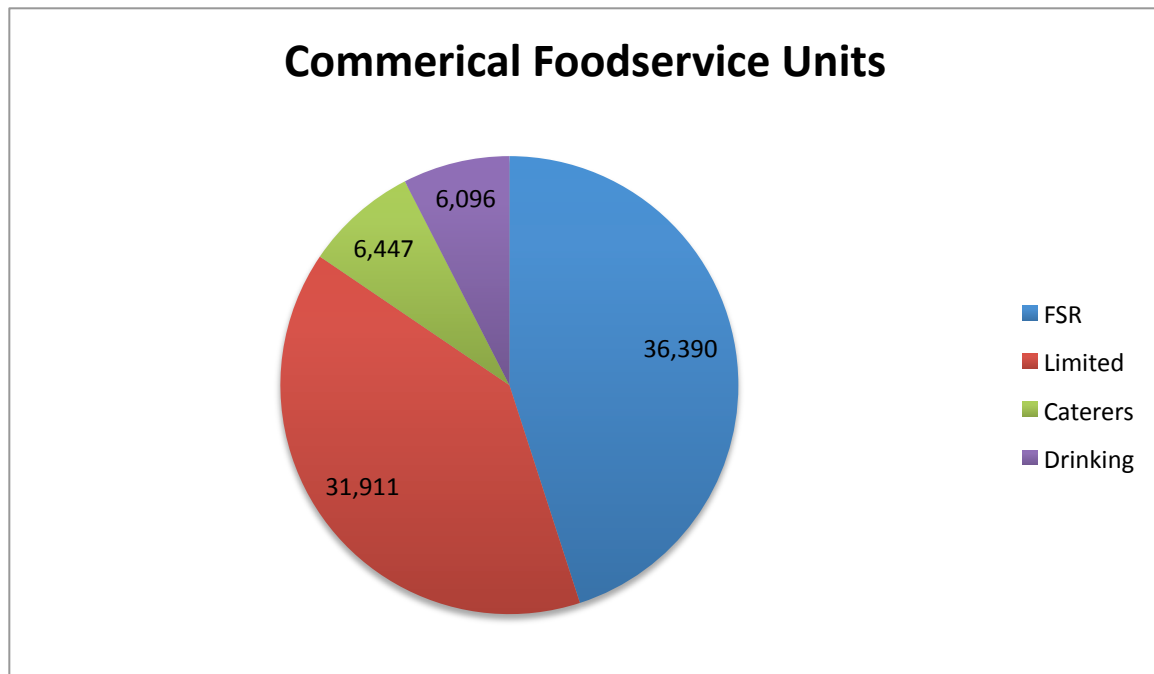
Figure 6: Comparison of labour market indicators in Restaurant and Food Service industry to All Industries (August, 2009)

Main Labour Market Indicators	R & FS	All
Employment, average 2006- 2008	26,650	3,832,900
EI Claimants in 2008	550	136,800
Average Annual Growth Rate 2009- 2013	1.0%	0.7%
Annual Employment Variation 2009- 2013	300	29,000
Annual Attrition 2009- 2013	600	115,000
Total Annual Needs 2009- 2013	900	144,000

The above figure also cites employment statistics for restaurant and food service managers, which is a much more accurate assessment of the labour market indicators in comparison to the entire restaurant and food service workforce, which has an incredibly

high rate of turnover in comparison to other industries. In 2010, the CRFA states that 64% of restaurants in Canada are independent brands. Chain restaurants account for only 36% of the remaining industry. There are a total of 80,800 commercial foodservice units in Canada, broken down in the following chart.

Figure 7: Commercial foodservice units in Canada



The CRFA however is forecasting a .2% increase in percentage of GDP for the industry for October 2010 vs. October 2009, an increase from 3.4% in 2009 to 3.6% in 2010. This increase is projected despite a decrease in disposable income for Canadians over the same period, from 3.8% in 2009 to 3.7% in 2010. The employment rate is also dropping during the same period, from 1.9% in November of 2009 to 1.5% in November of 2010.

The NPD Group found that QSR restaurants did suffer during global recession of 2008. In Canada, it was found that while Canada's GDP grew in the first two quarters of 2010, Canadians were keeping their foodservice visits at around the same level as in

2009, with one key difference, Canadians were shifting their visits in QSR restaurants (an increase of 2%) and away from full-service and onsite restaurants (each declining by 3%). NPD Group cited the QSR morning meal as featuring the most growth for commercial foodservice in this period.

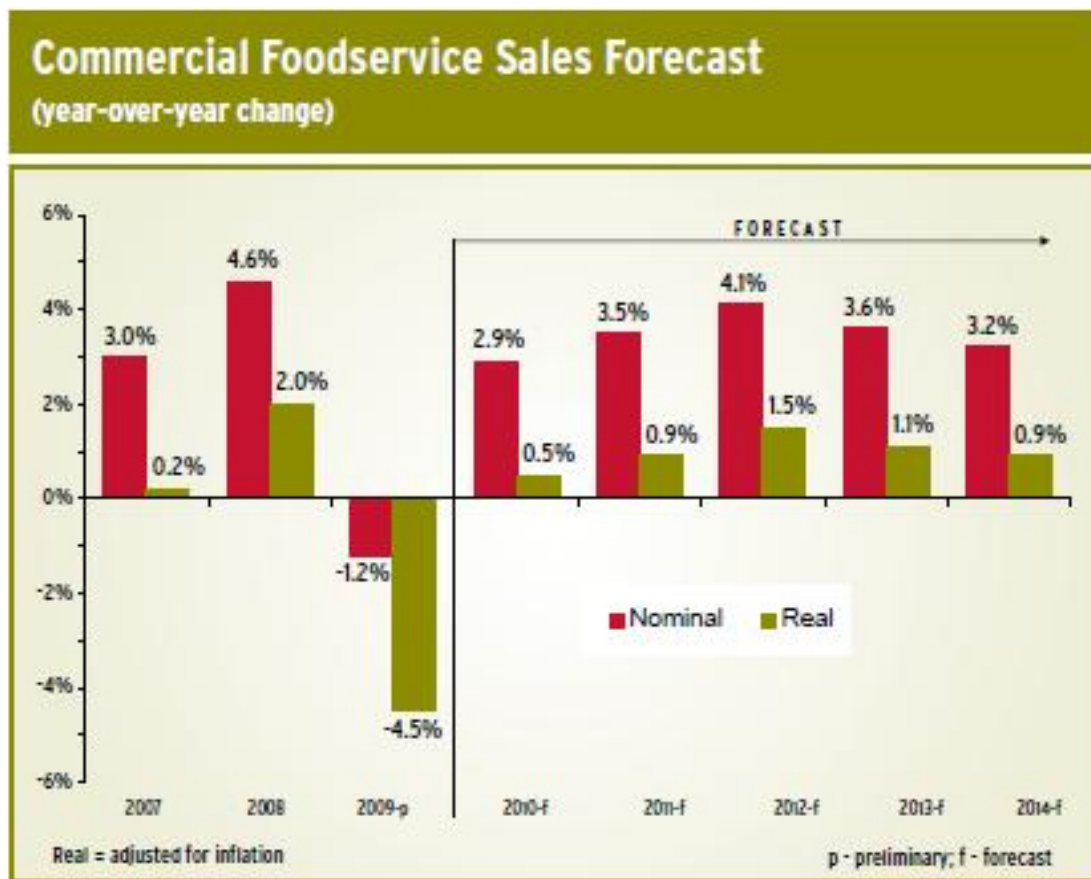
In 2009, there was a panic on Wall Street surrounding the future and economic health of major QSR franchises. Burger King, previously an industry leader, watched as sales dipped significantly in May of 2009. The company has been slow to recover, and in September of 2010, it was purchased by 3G Capital for \$3.26 billion. It was the biggest deal among other major North American restaurant buyouts, CKE Restaurants (which oversees Carl's Jr. and other similar type franchises and Brinker International Inc. (On the Border Mexican Grill & Cantina) were sold to private equity shops (Reuters.com, 2010).

Furthermore, 60% of new accommodation and foodservice entrants have a 60% chance of surviving beyond their second year, and only a 22% chance of surviving beyond year eight according to CRFA data. It is a challenging industry in which to compete.

Within Canada, British Columbia trends slightly higher than the nation average. Currently with 11,641 units (14.3% of total Canadian commercial foodservice), and forecasted sales of \$9.8 billion (16% of Canadian sales), the average before tax profit is higher in British Columbia (\$28,635) per location compared to the national average of \$26,890. Another positive indicator for opening the first Lean location in British Columbia is the bankruptcy rate; in British Columbia the rate is only 0.2% within the industry, while it is 0.7% nationally. The highest bankruptcy rate occurs in Quebec, which averages 1.4%.

The food service industry within Canada has an expected growth in sales of 3.6% per year between 2011 and 2014 according to Industry Canada projections. During this stretch, limited service or quick service restaurants are expected to lead full service restaurants in growth by 1.3%, because of their focus on convenience and value.

Figure 8: Commercial Foodservice Sales Forecast



Source: Statistics Canada and CRFA's Long Term Forecast

The following section will break down the industry according to Porter's augmented five forces model, and will focus on both the foodservice industry as a whole and the quick service segment of the industry.

Five Forces of the Foodservice Industry in Canada

External Pressures
 Mild
 Government regulations and pressure
 Technology's impact on value chain

Threat of New Entrants
 High

Rationale:
 Low capital requirement
 Lower barriers to entry due to shared knowledge within industry
 Economies of scale unnecessary for one location
 Existing distribution networks

Drawbacks:
 Developing a chain exponentially more difficult
 Real estate – availability of quality locations

Supplier Bargaining Power
 Mid to Low

Rationale:
 Consumers largely don't care where food is sourced
 Slightly higher for beverage producers
 Low switching cost
 Little to no unions for labour force

Drawbacks:
 High turnover of part-time staff places strain on labour force

Rivalry Among Competitors
 High

Rationale:
 High number of rivals, none have significant market share
 Taste of consumer creates switching (low cost)
 Large chains and small independents compete in same space

Drawbacks:
 Growing power of consolidating chains

Customer Bargaining Power
 Relatively High

Rationale:
 Taste of consumer creates switching (low cost)
 Can cut back in times of recession (grocery stores)
 Customers highly informed

Drawbacks:
 No ability to consolidate power

Threat of Substitutes
 Low

Rationale:
 High if industry classified as entertainment/hang out spot
 Low when compared to grocery industry

2.2 Threat of new entrants

There are relatively low barriers to entry in the foodservice industry and therefore the threat of new entrants is high. As previously mentioned, there is a high amount of variation among the types of business that can be operated within the foodservice industry, and the capital requirement to open one location is relatively low.

The breadth and variation of types of businesses within the industry is quite high, a food cart or truck is on the low end of the scale, while a full-service upscale restaurant chain with locations that exceed 3000 square feet is on the high end. One limiting factor for new entrants is that existing franchisees already have access to prime real-estate locations in most or all major markets, and finding a location that has access to significant foot traffic is increasingly difficult.

Restaurants and franchises require little capital to begin operations, largely due to the high amount of variable costs required in the operation. Most restaurants can begin with a simple rental agreement, an owner does not have to purchase a building to begin operations, and most can sustain a burn rate of at least six months when they begin operations. The technological component of operating a restaurant is also quite low; there are still examples of profitable restaurants that are cash only businesses without point of sale software. Specializing often does not come from the equipment purchased, as the vast majority of restaurants operate with similar equipment. The variation occurs with the ingredients and supplies purchased, making it also quite possible for a restaurant to

change themes within the same space or even imitate a competitor in an attempt to regain market position and share.

The industry is mature and workers are readily available, and therefore knowledge is quite accessible and passed around the industry (there are very few trade secrets within the industry). The barriers to entry for a chain of franchises are exponentially higher than those for an individual restaurant. The costs of establishing and building a brand, renting or purchasing prime retail locations, developing synergies along the supply chain, and lowering marginal costs require a significant amount of operational capital from an established or growing organization.

2.2.1 Quick Service Barriers to Entry

Within the quick service restaurant industry, chains have created barriers to entry by competing significantly on price, location, consistency of product and marketing.

Establishing a supply chain, and creating vertical integration within that chain, is a mechanism to both control the variable cost of supply and increase the complexity for those interested in entering the industry. By controlling or effectively managing the supply chain, the brand is then able to create a consistency among its product. When a consumer enters a McDonald's in San Francisco or Whitehorse, they expect the Big Mac to taste exactly the same. This control over the product not only builds an awareness of the brand, but also develops a level of trust and expectation within the consumer as to the type of experience they will have by entering this particular restaurant. That brand awareness then makes it increasingly difficult for others to enter the market.

These conglomerates also spend an enormous amount on external marketing in order to establish their brands, using traditional advertising as a means to create market share. In order to maintain market share, quick service restaurants spent \$10 billion in 2010, making it an extremely costly barrier to entry for an upstart brand.

Established brands are also able to purchase or rent prime retail locations and can afford to operate at relatively low margins. McDonald's' growth largely occurred because of their ability to purchase prime retail spots in urban centres, while Subway has chosen a model where the company claims they can put a franchise into any space, including a number of locations that hover around 200 square feet.

Another barrier to entry was discovered through conversations between Lean management and other franchise owners (McLean). The owners of these particular franchises of established brands explained that it only "really became profitable" as a business when they opened multiple locations within the same city. Therefore you will see Subway franchise owners owning three locations, as the profit margin on one location isn't enough to make it a worthwhile business venture in comparison to other industries. This is largely due to a reduction in cost of goods sold; franchise owners of multiple locations are able to order larger quantities of supplies, and then distribute those supplies themselves to each of their individual locations.

In summary, while opening one location is relatively simple and the barriers to entry are low, opening multiple locations is significantly more challenging and capital intensive, and requires significant investment in the brand.

2.3 Rivalry among competitors

Rivalry among firms in the foodservice industry is relatively high and creates an instable market. The industry has a low concentration ratio, and is characterized by many rivals, none of which have significant market share. This is therefore a highly competitive market.

The increased market competition can be linked to the low barriers to entry within the industry. Consumers are continually searching for new menu options and trends and increased access to foreign or non-traditional foods. New restaurants and other foodservice options are subsequently created to respond to this demand. Supporting statistics include the increase of commercial foodservice establishments in Canada. In 2010, there were 80,844 foodservice units in operation in Canada. A decade prior, there were only 63,500 units, while in 1990 there were 42,470 units operating within the foodservice industry.

Within the relatively high number of competitors, there is no distinct market leader. Consumers are able to select and move between competitors quite easily, lowering the cost of switching and increasing rivalry. Consumers have multiple options within individual restaurants, can simply “walk next door” to another restaurant that may better cater to their needs, or can simply remain home and order utilizing the internet or their telephone. Consumers’ need for variety in their diet helps foster innovation within the industry. For example, the restaurant El Bulli in Spain, run by celebrity chef Ferran Adria, has pioneered the art of molecular gastronomy, a scientific approach to the preparation of food that at times even involves utilizing nitroglycerin to prepare a menu item. In North America, food carts and trucks have become a recent trend. Recently,

Japanese franchise JAPADOG entered the Canadian market to incredible line-ups and profits. Food carts and trucks are an additional competitor in particular for the quick-service industry, as their fixed costs are significantly lower than brick and mortar shops and have again increased the number of competitors.

The entire quick-service industry is more attractive than the other segments of the industry because margins are relatively better, while fixed costs are significantly lower due to the size and staffing costs of each location. The quick-service industry tends to focus on high traffic rates, while full-service restaurants focus on increasing the per-cheque amount on each receipt.

The fickle nature of the consumer in this industry means that even if a consumer loves a particular restaurant or eatery, because of their need for variety or cost reduction, they may only eat at this establishment once a week or month.

Firms within this industry utilize multiple techniques in order to gain advantages over their rivals. Couponing and changing prices is increasingly common, in the quick-service industry 'Value Menus' have become a trend; these are menus where items are offered in less than \$1 or \$2 amounts. Innovation among menu items is also commonplace for quick-service restaurants, Kentucky Fried Chicken recently garnered significant publicity, largely negative, for their innovative 'Double Down' sandwich, which utilizes two grilled chicken fillets instead of bread to contain bacon, two kinds of cheese and a 'secret sauce.'

Quick-service restaurants may also use vertical integration to better manage their supply chains in order to achieve an advantage over their competition.

Time also plays a significant role among rivals in the entire foodservice industry. Consumers may select a restaurant strictly based on how much time it will take for the restaurant to prepare the meal, over the actual quality of the product. Popular upscale restaurant may require a reservation, and the meal itself may be an experience that lasts over four hours, while a consumer on their lunch break may want a meal that is prepared in five minutes and can be conveniently eaten at their desk. The foodservice industry's business cycle is therefore focused on different parts of the day, and staffing is made accordingly. Restaurants have short "rush" periods; breakfast, lunch and dinner, where they need to create as much foot traffic as possible in order to achieve profitability.

Previously it had been argued that the quick service portion of the industry had a lower level of rivalry in comparison to the other areas of the foodservice industry. This is because only a few market leaders had power within the industry, namely the large branded franchise chains that dominated the landscape during the previous century. Technology and the increased quality of food carts and trucks have eliminated that market leadership and increased the overall level of rivalry within the industry. Strong chains will take market share away from smaller firms, however their success is cyclical and the consumers' desire for additional options then leads to an increase in independent start-ups.

Large conglomerates that have consolidated multiple restaurants under their umbrella have been able to create competitive advantages by creating synergies within their brands. Yum! Brands is an example of a corporation that operates or licenses multiple quick service brands, including Taco Bell, KFC, Pizza Hut, and A&W, and has become the world's largest quick service restaurant company in terms of total units

among its multiple brands. Yum! Brands and others in the quick service portion of the industry have also seen faster economic recovery after the global recession; their share price has risen to above \$50 after being below \$40 in 2009. Yum! Brands was also able to create synergies within their organization by opening up joint locations, where a KFC and a Taco Bell might share space within one location, creating more available and recognizable options for consumers as a method of differentiating between rivals.

2.4 Customer Bargaining Power

The customer bargaining power within the foodservice industry is high, as customers have multiple sources where they can obtain food supplies. Customers can simply go to a grocery store and purchase food, which can be cooked at home for a fraction of the cost of going to a full-service restaurant. This decision is completely controlled by the customer, who tends to be price sensitive, as shown by the impact of a recession on full-service restaurant frequency. Quick-service restaurants, because of their cost structure, are slightly less impacted by the effects of a recession and have been able to establish themselves in convenient locations for those travelling and working, who may not have the time to properly prepare a meal on their own. While food is necessary to sustain health and life, a consumer income spent on “eating out” is characterized as discretionary and consumers will reduce that expenditure during difficult financial times.

Information for a consumer to make an informed decision is also quite readily available. In Europe, it is quite common for restaurants to post their menus outside their restaurant, for potential customers to peruse while they walk down a street lined with different restaurants. When locations are further spread out, it does make the ability for a

consumer to select a different location somewhat more difficult, however based on the accessibility of transportation in 2011, this is not a significant switching cost for customers. With the advent of television and now the Internet, customers can seek out a wealth of information on the contents and quality of what they are consuming at a particular location and can subsequently make an informed decision on what they will eat. With increased immigration and exposure to other cultures, the viable options for potential restaurants have significantly increased.

Customers within this industry, however, are not able to consolidate and band together to increase bargaining power, forcing the customer to pay the set price of the restaurant. Customers can choose a different restaurant, however they will be faced with a similar dilemma regardless of the restaurant they select, as it is easy to switch to the lowest-price restaurant in the category on their next visit. Because there are a large amount of restaurants and customers, one can argue that the industry is in perfect or nearly perfect competition, particularly in the quick-service industry. This is largely the reason for price competition within quick service restaurant industry; the competition level creates no room for excess price or rent.

2.5 Supplier Bargaining Power

Within the industry, there are two major cost drivers, food and beverage supply and labour. Food costs average 35.5% of all expenses, while labour costs are approximately 34.8%, and the average profit margin is 4.4%. This section will focus on both of those respective areas (Industry Canada, 2011).

2.5.1 Supply of products

Supply chain power within this industry lies with the end-line restaurants, as they have direct interaction with the consumer and manage that relationship. Customers are only exposed to the end-line brand name restaurant, and rarely inquire about the source or delivery of the product within the supply chain, with the exception being the recent trend towards organically sourced products. Drink producers have more control than food producers, as their brand names are on display in full-service and quick-service franchises. Consumers will ask for a brand of carbonated or alcoholic beverage by name, and make their choice based on the brand's availability and price.

Figure 9: Industry Supply Chain

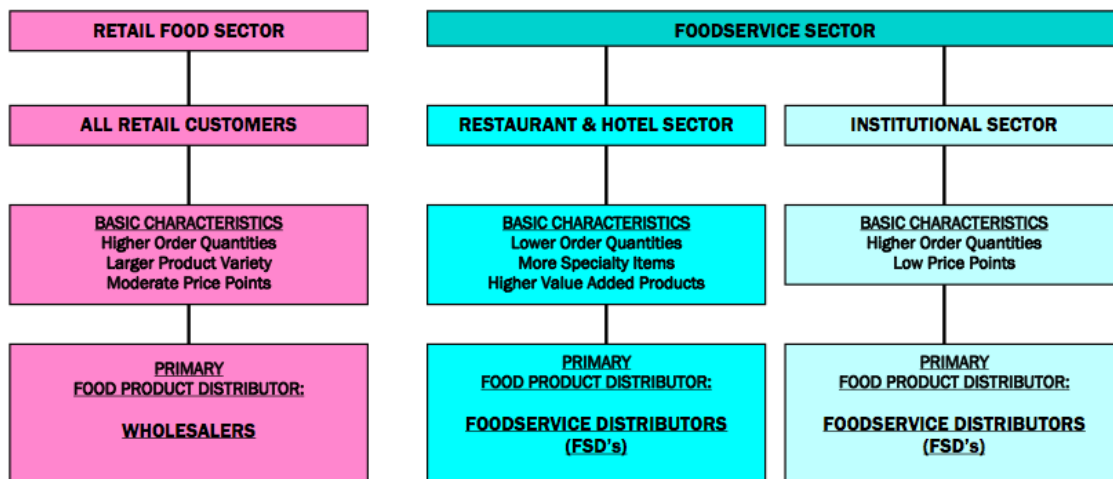


Quick service restaurant franchises succeed on their ability to bargain within the supply chain and achieve the best price and best quality product for their consumers.

Raw food (grain, fruits, vegetables etc...) is taken from the farm and distributed by either an exporter (if food is being sourced from a foreign country) or by a cooperative agent within the country's border. In the fast food industry, the majority of menu items require processing, and are subsequently taken to a manufacturing/processing facility. Manufacturing and processing may include washing, cleaning, milling, cutting, chopping, heating, pasteurizing, blanching, cooking, canning, freezing, drying, dehydrating, mixing, packaging, or other procedures that alter the food from its natural state. Processing may include the addition of other ingredients to the food, such as preservatives, flavors, nutrients, and other food additives or substances approved for use in food products, such as salt, sugars, and fats. Processing of foods, including the addition of ingredients, may reduce, increase, or leave unaffected the nutritional characteristics of raw agricultural commodities (Food Information Council, 2010).

Because the brand of ingredients and raw food is less significant than beverages, restaurants can switch suppliers to improve their position. There is also efficient distribution, which lowers the cost of switching suppliers for restaurant producers.

Figure 10: British Columbia Food Distribution Industry Sectors



Value can be added within the distribution network, both in overall speed and response time to quantity of orders. Due to the consolidation of this industry, there are less than 15 major local distributors. Within that group, there are a few companies who specialize in a specific product, namely seafood, while major companies like Sysco Foodservice have led in the consolidation of the business. This reduces the purchasing power for smaller firms in comparison to larger firms. In speaking directly with a number of small restaurant owners in Vancouver's Commercial Drive district, this appears to be a contentious issue, as Sysco and their competitors require minimums on purchases with penalties if minimum orders are not met. This also makes it difficult to differentiate when food is being sourced from a smaller number of distributors. There are strategic alliances and partnerships for larger franchise chains and suppliers, McDonald's has an exclusive partnership with Coca-Cola, who provides their carbonated beverages and juices, and each side of the partnership is enhanced by the strong branding of each side.

Suppliers may have increased power if they are supplying an item that is increasingly rare or unique, or if there is an unexpected shortage of a certain product. Within the vegetarian industry, the recent Japanese earthquake and tsunami will likely affect the tofu industry and the exporting of Japanese tofu to North America, increasing power for the suppliers of these products.

2.5.2 Supply of Labour

While the supply of products is an issue for the industry as a whole, the supply of labour is an issue at individual locations. The food-service industry employs 1,084,500 Canadians, representing 6.4% of total employment. More people work in foodservice

than in agriculture, forestry, pulp and paper, banking and oil and gas extraction combined (CTFA Research, 2011). Part-time or flex-time labour is a staple of the industry, quick-service restaurants are often the benefactors of a labour force that is still completing high school. In fact, nearly 1 in 5 youth job in Canada are in the foodservice industry, while 462,000 young people between the ages of 15 and 24, are in the industry, nearly 43% of foodservice employees (CRFA Research, 2011).

Wage rates in the foodservice industry are relatively low, the majority of staff at quick service restaurants, with the exception of management, are paid the minimum wage, while staff at full-service restaurants rely on customer gratuities based on their service as payment on top of a minimum wage.

Because of the average age and salary offered to the labour supply, turnover is a significant issue within the industry. The average annual turnover rate for an hourly paid employee at a quick-service restaurant is 104.8%, compared to only 62.5% at casual or family dining restaurants. This limits the amount of successful individuals who may be promoted beyond the rank of cook or counter staff to that of manager or assistant manager, as many are utilizing this employment to pay for education aimed to help them find work in other, higher earning sectors.

The supply of labour also must take into account the change in population density, as the Canadian median age continues to get older. In 2011, the median age for a Canadian is 41, representing a 0.74% increase (Statistics Canada, 2011), a similar trend to what has occurred over the past decade. Canada is one of the oldest countries in the world; Japan is currently the oldest country in the world with a median age of 44.8. While

the population gets older, the demand for food will remain relatively constant, however the labour force will decrease, putting further strain on the industry.

Unions are not prevalent in the quick-service portion of the industry, and large conglomerates like McDonald's have fought to keep unions out of their restaurants. A famous case in Canada occurred in Quebec in 1998, when ninety percent of employees at a McDonald's franchise in St. Hubert, voted to become an affiliate of the Teamsters union. Franchisees instead elected to close the doors of the restaurant saying that the franchise would no longer be profitable (Helium, 2009). Unions however have existed at hotel restaurants and foodservice providers at major stadiums and arenas.

Labour supply has increased the operating costs for the industry, beyond inflation, due to the increase of the minimum wage. Despite increasing prices within the industry, the increasing cost of labour has reduced marginal revenue for companies.

2.6 Threat of Substitutes

In a broad sense, if one views the restaurant industry as a place of leisure and social interaction, then substitution is quite high. If one however defines, as is the case with the quick-service industry, as a place strictly to consume food or beverage, then the only legitimate substitute is the retail grocery industry.

Restaurants, both full and quick-service, are typically more expensive than purchasing food at a grocery store, however grocery stores don't offer the same level of convenience as quick service restaurants.

In order to combat the convenience issue, retail grocery stores have elicited a number of factors in order to compete with the foodservice industry. In order to facilitate more convenience within their locations, retailers like Safeway have employed self

checkout grocery scanners, allowing consumers to manually swipe their groceries and pay without interacting with an actual clerk. Kroger Co.'s recently created an advanced checkout system that largely resembles an MRI machine that scans and completes customers' orders at a rate at the speed of two to three traditional checkout stands.

Grocery stores have also seen the increase in prepared or pre-packaged meals. While the frozen food section has been the traditional place where grocers have competed with pre-packaged meals, health food retailers like Whole Foods have created large sections of their stores featuring food that is cooked, heated and ready to eat, and sold by weight. Consumers can select the size of container and amount of food they wish to purchase, as well as quite a large selection of meal options from a number of different cultures. While this doesn't have the same atmosphere as a sit-down restaurant, it is a competitor to the quick service segment of the industry.

2.7 External Pressures on the Industry

Government has an incredible amount of power within this industry due to health regulations, both on the sourced materials as well as health regulations on the individual establishments. In 2010, there were 19 establishments that were closed either temporarily or permanently in Vancouver by Vancouver Coastal Health inspectors.

The quick-service restaurant industry has seen a number of changes in recent years, particularly surrounding the quality of product. These changes have been largely due to societal pressure, forcing market shifts within the industry.

The term quality of product references the relative 'healthiness' of menu items. In 2006, the Canadian government released a study entitled, Transforming The Food

Supply, commissioned through a task force in 2005. The mandate of the study was to make recommendations to “effectively eliminate or reduce processed trans fats in Canadian foods to the lowest level possible.”

Trans fats are primarily industrially produced and found in foods with partially hydrogenated oil, baked or fried foods. Metabolic studies show that trans fats increase blood levels of LDL (bad) cholesterol and decrease blood levels of HDL (good) cholesterol (Health Canada, 2006).

While foods in grocery stores contain trans fats, legislation forcing producers to detail the specific ingredients and nutritional contents of their food products aid consumers in their ability to decide if a product is healthy for consumption. This has not been the case in the food service industry, however the anti-trans fat movement in Canada has placed additional requirements on restaurants to properly list the ingredients and nutritional content of their food.

Technological advances also play an important role within the industry. As grocery stores are requiring less and less staff by utilizing self-serve automated kiosks, the quick-service industry is developing new technologies in order to expedite the process, including a company out of Pittsburgh called Hyperactive Technologies, which is using computer vision and artificial intelligence to manage kitchens at fast food restaurants. The technology monitors the parking lot and uses traffic patterns to monitor the restaurant’s warming bins, ensuring that the appropriate amount of food is being manufactured with minimal waste for the restaurant and minimal wait time for the consumer.

2.8 Overall Assessment and Key Issues

Observing the industry as a whole, entry does not constitute success, despite the expected increase in demand for foodservice. Odds are not in favour of an entrant lasting longer than eight years in the industry and due to low barriers to entry, it is quite easy for a competitor to imitate a product or style of restaurant.

The competition level in Canada is quite high in comparison to other industries, and incumbent organizations, particularly in quick-service, are competing on price, reducing margins in this sector. Increases in labour costs, as well as costs to supplies, particularly if oil prices continue to increase and proper substitutes are not developed, will reduce margins significantly. Under this scenario, the supplier becomes increasingly more powerful and the increase in their costs will be passed along to restaurants. The industry has also proven susceptible to changes in the economic climate, however quick-service restaurants are significantly less impacted by recession like conditions.

As a whole, the industry is quite saturated, and expansion beyond one or two restaurants is quite a challenge, and therefore is not overly attractive as an industry. There are attractive features within the quick-service portion of the industry, however the power in this segment lies with larger conglomerates, and is quite difficult for start-ups to reach expansion targets.

3: Internal Analysis

This section will evaluate Lean as a business plan and determine its position relative to the current marketplace.

3.1 Strategic Position

Lean is seeking to obtain market share by gaining first mover advantage and establishing Lean as the dominant vegetarian quick service franchise. Currently there are no incumbent vegetarian quick service restaurant chains, however, as the industry analysis indicates, it is difficult to advance beyond one or two locations without an established franchise model and supply chain.

The other battle facing Lean is that consumers currently seek out vegetarian restaurants and have become accustomed to finding full-service vegetarian restaurants, either casual or up-scale, to satisfy their cravings for quality vegetarian food. In Vancouver, restaurants like The Naam and Foundation, offering a casual setting, are known for a particular aesthetic that attracts a very distinct clientele. These types of restaurants are typically in the mid-level to high-level range on the foodservice spectrum.

Lean's positioning therefore raises an immediate question; are consumers prepared to visit a quick service restaurant for food they would typically associate with a casual dining experience. Rephrased, "Would anyone order beef brisket from McDonald's?"

The other positioning dilemma for Lean is that their average cheque, in comparison to incumbents in the quick service restaurant industry, will be higher. When launching the franchise, Lean will not have access to the same supply chain efficiencies and synergies that large quick service franchises already have, and will also be offering food and beverages made from organic ingredients, which cost substantially more than the processed ingredients utilized by the existing fast food industry. In order to maintain profitability, Lean will have to charge more per meal than current quick service franchises, raising another point; will consumers pay the difference?

This positioning does not currently match industry dynamics, which means Lean either creates a Blue Ocean Strategy, or will be a failed endeavour for its founders.

3.2 Organizational Structure

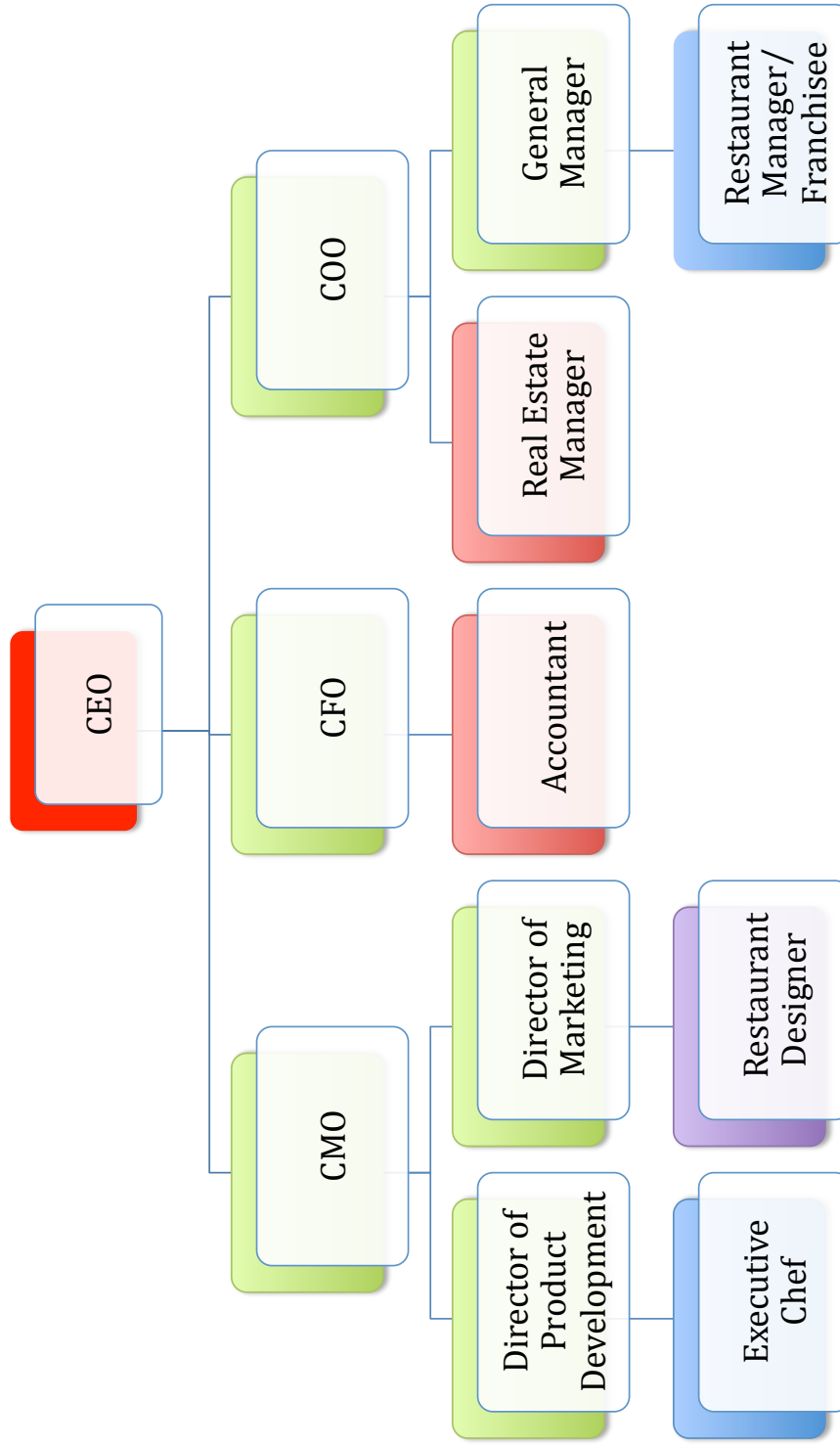
This is a difficult section of the strategic analysis as the organization does not exist beyond concept. However this does allow for a discussion on how Lean expects to structure the organization, and how it expects to manage growth within the organization. This is a critical section within Lean's business plan; the organizational structure will enable the firm to create appropriate processes and mechanisms to ensure success at the outset of the launch of the first restaurant.

The organizational structure of Lean will consist of two distinct sections, the administration of the overall brand and the individual restaurant management. The administrative level will include a finance department, a product development and marketing department, and an operations department, with each area reporting to the CEO of Lean. Each individual restaurant will have either a franchisee or head office

designate in place to oversee restaurant operations, as well as a manager, and part-time counter and kitchen staff based on traffic patters within the restaurant.

The following page includes a preliminary organizational chart for Lean, including a timeline as to when each position will be hired along with the expansion of the organization.

Figure 11: Lean Organizational Chart



Legend:
 Red – Existing Position
 Blue – Hiring
 Green – Next Level Expansion
 Purple – Contract Employee

3.2.1 Structure and Alignment of the Organization

Three departments are listed for the first version of the Lean head office organizational chart. Currently the only positions that have actual employees completing the functions are the positions of Chief Executive Officer, Real Estate Manager, and Accountant. The divisions are split by function; subsequently the Chief Marketing Officer will oversee both the Director of Product Development and the Director of Marketing. The Chief Financial Officer will oversee the head accountant, while the Chief Operations Officer will oversee the Real Estate Manager and the General Manager.

The marketing department, headed by the CMO, will be tasked with discovering new product innovations, as well as external brand development and advertising initiatives. The objective of the product development team is to continually find new and innovative vegetarian menu items to offer a vast array of choices catering to any vegetarian or vegan dietary wish. They are also tasked with crafting a menu that will maximize the value wedge, by lowering the cost of the product while increasing a customer willingness to pay. Finally they are to work with the operations team in order to create efficiencies within the supply and purchasing chain with their ingredient selection. These individuals will be given significant leeway to innovate, as they are the foundation of Lean's success. The advertising department will begin with grass roots brand building, utilizing word-of-mouth advertising and social media to create an initial buzz without incurring significant overhead in the outset. Once the initial restaurant advances past trial stage, their budget will be increased in order to begin a more traditional advertising campaign.

Another area of importance for the marketing team will be their ability to increase the frequency and repetition of customers. The key to return purchasing will be the focus

on the product, and therefore the organization will not be offering significant discounts on their product on a trial basis, but rather rewarding return customers with a point system on their client cards in order to increase frequency of visits.

Figure 12: Lean Products Component Analysis

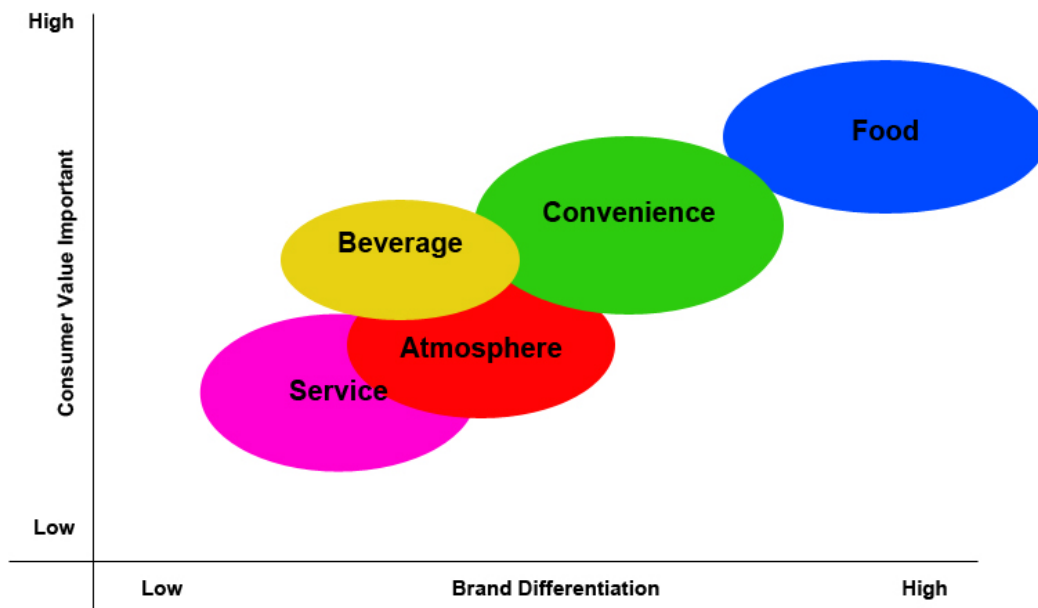


Figure 12 estimates Lean’s customer focus on their experience when they select Lean and will be the internal focus of the organization to build brand differentiation through food selection and convenience of transaction.

The CFO’s role is quite typical to these organizations, and is required to liaise on a regular basis with both the CMO and COO in order to ensure that the organization is

running efficiently. While the CFO, CMO and COO have control over their respective departments, the CFO is the second in command within the decision making structure of the organization. Therefore the CFO will be required to regularly sit in on monthly meetings with both the CMO and COO's respective teams.

The COO's team, which will be relatively small at launch, is required to develop the product strategy and execution of the strategy. This unit will be required to source product, and achieve the greatest synergies within the structure of the organization. Unfortunately, as the vast majority of food products are perishable, this unit cannot create huge economies of scale within the supply and value chains. One of the key functions of this unit will be creating a training system that can exist under the constraints of the current quick service labour force. The training and point of sale systems designed or sourced by this unit must be able to withstand the large volume of turnover that occurs with both front line and management level employees at individual locations. Each restaurant cannot have an executive chef, and therefore the processes must be refined to the point that they can be understood by the lowest level employees in order to ensure the quality of product and service.

The COO's team will also be tasked with developing an automated point of sale system that can eliminate the need for multiple counter operators at any location.

3.2.2 Risk profile and capital structure

With Lean launching only one initial location, risk is relatively low for the overall corporation. When the brand expands to three locations in the first year, and 12 locations by year five, this will add an increased level of risk due to the volatility of the industry and the difficulties for smaller brands to compete with larger chains. At this juncture, the firm may need to investigate diversification, limited partnerships with other firms, or perhaps an exit strategy involving a takeover by a larger conglomerate.

One method to mitigating risk in the restaurant industry is ensuring that the rented or owned properties are malleable for takeover by another restaurant. Lean's two principle scouted locations for their first restaurant are both examples of failed restaurants, where the proprietor is selling all aspects of the business.

The capital structure of the firm at inception is quite conservative, and the corporation will be utilizing personal funds from both owners as well as a federally insured small business loan provided by a local bank. The firm is attempting to grow to three locations without a major influx of cash, rather re-investing profits into the growth of the organization, however the plan beyond that point is to seek franchisees to purchase licenses to run the expansion locations.

3.2.3 Summary of strategic alignment

The actions of Lean are aligned to create a differentiated product to its targeted consumers, however the ability to deliver that high quality, differentiated and specific product will be dependent on the organization's ability to sufficiently regulate processes at the individual restaurant level. Working with a highly unskilled and temporary labour

force is a challenge, however this does limit the costs associated with a higher skilled and more permanent labour force. The ability to regulate these processes and create an imitable model within the confines of the brand will be paramount to Lean's success. Marketing will also be a critical component within the expansion, creating enough foot traffic and reaching sales targets in the early stages is essential to Lean's expansion targets.

3.3 Core Competencies and Competitive Advantages

For Lean, determining the organization's core competencies will help narrow focus on which key activities create value for a Lean customer. From marketing, to finance, to operations, each area must be able to demonstrate their value by creating value for the consumer. In the quick service industry, product development and real estate location are two important components within the value chain. The vegetarian menu that Lean creates in the product development department will need to be protected in order to create and maintain market share.

3.3.1 Concept

Product development is a significant core competency. Creating delicious vegetarian meals that will satisfy the desires of the customer while being manufactured in a cost effective and scalable way is by no means an easy function of this department, and

the executive chef who creates the menu will be an important employee to retain if they are successful at creating this menu.

In conjunction with the menu, the restaurant design team must work with the real estate manager to ensure that appropriate locations are selected that will fit the design of Lean restaurants. An understanding of the operational side of the business is also of great importance. There must be sufficient foot traffic to ensure that project volume is met, however if foot traffic is too great, the restaurant may also have issues meeting demand.

Engaging consumers and creating dialogue is also a core function within the concept. Lean anticipates a level of “crowd sourcing” with their menu, with ideas being generated from their customers and wants to create a sense of ownership among their consumers. Coordination of community engagement is subsequently an important core competency for Lean.

3.3.2 Operations

Working in conjunction with the marketing team, operations will be enlisted to ensure the brand is consistent across each location. The difference between an individual restaurant and a chain of franchises is the ability to maintain a level of consistency of product and service at each location. When a consumer eats at Subway, they expect the bread for their sandwich, which is baked on site, to taste exactly the same at each Subway franchise location.

Operations can achieve this consistency by regulating the process, and creating appropriate standards and functions within the operational process to ensure that consistency is achieved. Consistency of product can also be classified as a sustainable

competitive advantage. McDonald's cites their ability as a pioneer in creating consistency among their product as one of their principle competitive advantages and a pillar of their success.

The employee-training program in this industry must also be a core competency due to the part-time nature and high turnover rates of the staff at quick service locations. Lean's other attempt at achieving competitive advantage is their concept of an automated point of sale systems designed to eliminate the need for multiple front counter staff and expedite the process of customized orders for the customer.

The individuals selected as general manager and COO of Lean will have a great deal of impact on the success of the franchise.

3.3.3 Competitive Advantage

Competitive advantage can be created for Lean in multiple areas within the organization, however if the firm is solvent beyond the first year, and reaches its target of three restaurants in 12 months, a debate will need to be settled. The principle variation between one or two locations and a chain of franchises with multiple locations is the control the parent head office maintains over each franchise. Will each franchise be operated entirely independently, and if so, how often will the head office inspect each location to ensure a consistent product is being presented to the consumer?

A competitive advantage that may be under immediate threat is first mover advantage. Lean does not have access to the same infrastructure and supply chain of established major franchises, particularly giants McDonald's and Subway. What prevents any of these large conglomerates from entering the market with their own vegetarian

quick service brands to compete directly with Lean? With their incredible capital resources, it would be quite easy for a major corporation to attempt to imitate Lean's product and marginalize the organization.

Protecting the executive chef and knowledge base among the marketing and operations team will be of incredible importance and ensuring that the individuals who take these positions remain with the firm and do not head to a competitor will ensure that competitive advantage is protected.

The relationship between Concept and Operations is also difficult and complex to manage. Creating synergies and maintaining communication between each function can mitigate process delays and ensure timely growth of the organization.

3.3.4 Outsourcing

For Lean, a start-up organization, an important decision must be made as to create certain departments within the organization or outsource a particular function completely. Currently the knowledge base of the managing partners is quite limited within the quick service restaurant industry, and the hiring of an executive chef to create the menu is the single most important decision the company will make. At this stage however and at the managing group's current level of capital, a permanent restaurant designer is a luxury and cannot be hired as a full-time employee.

These decisions of where to outsource may expose Lean for easy imitation. Without a larger parent company sharing knowledge within the group, this may put Lean at a competitive disadvantage when the organization is attempting to expand beyond their wholly owned three locations.

3.4 Value Creation

A number of activities will have to take place in order to ensure that value is created for the customer. Lean will target above-average income vegetarians and flexitarians who are physically active and have a fast-paced urban recreation lifestyle. These consumers are either seeking a healthy alternative to “fast food,” or desire a greater amount of vegetarian options at a quick service restaurant.

These consumers will seek out convenience in order to reduce the amount of time involved in this process, freeing up time for other areas of their lives. They however do not want to frequent the typical “fast food” restaurant, and are willing to pay slightly more for a healthier option. In Vancouver, these consumers are more likely to purchase their groceries at Whole Foods over Safeway, and are concerned about the state of the environment and make conscious purchase decisions accordingly due to these concerns. Lean has created a product that fits into these needs. How effectively it will be able to fulfil those needs will be determined by both its marketing action plan and growth strategy.

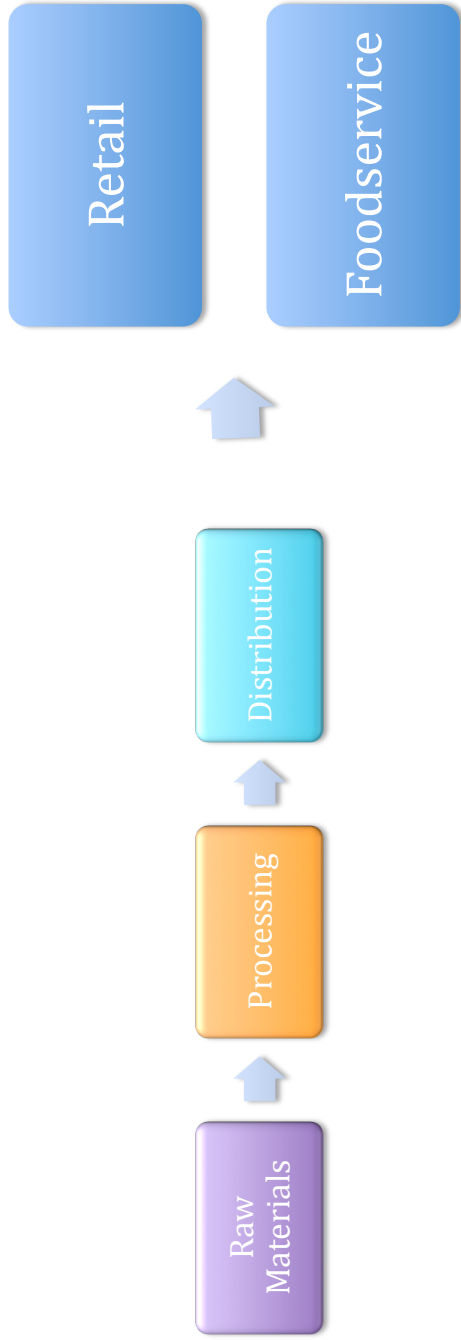
3.4.1 Industry Value Chain

The value chain for the quick service industry encompasses the raw materials needed as ingredients for both food and beverages, as well as the labour requirements for the industry and the administrative requirements needed to convert concept into an actual restaurant. The value chain for the quick service industry therefore needs to be separated into base or primary activities, which encompasses foodservice, and all the activities of

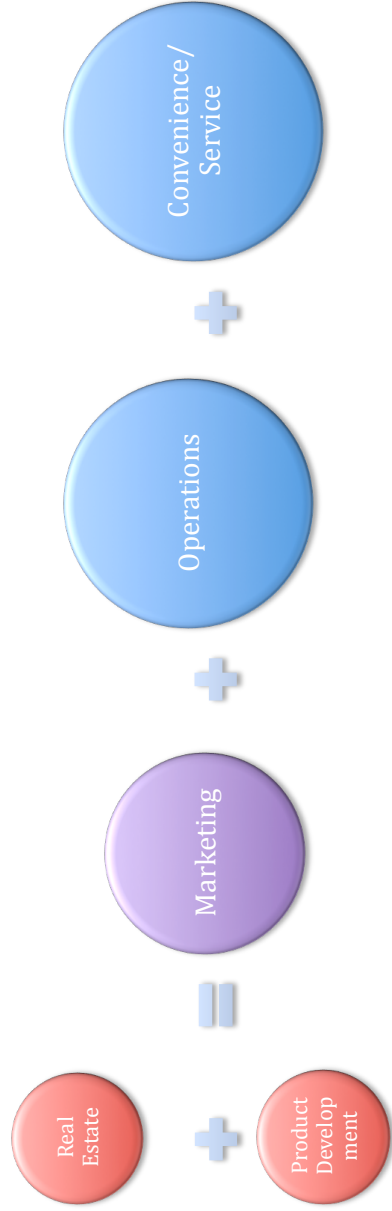
the restaurant. In the beginning the majority of primary activities will be done by external suppliers.

The primary stage of the value chain encompasses the sourcing of raw materials in order to create food and beverages, the processing and manufacturing of those raw materials and the distribution of the ingredients. The difference following the distribution stage between retail and foodservice is quantity and packaging. A typical retail customer will purchase significantly smaller quantities of food from their local grocer, and the quantity and quality of packaging reflects those differences at each location.

**Industry Value Chain
Primary Stages**



Secondary Stages at Restaurant Level



3.4.2 Internal Activities

Once the sourced products reach the restaurant, the operations team along with each individual restaurant will prepare the food for final consumption. Both the head office and the restaurant therefore need to have substantial inventory control, to ensure in particular that perishable food does not spoil.

Value can be created through product development at this stage. By repurposing the ingredients into vegetarian menu items that are of greater desire for the customer, value is created. Value can also be created through the convenience/service function. If Lean is able to prepare not only delicious vegetarian food, but also provide the food in a timely fashion, it can enhance customer value.

Real estate and restaurant design play important roles in both the marketing and convenience/service functions, as the selection of a convenient location, whether it is in a downtown hub where foot traffic is high during lunch, or in a convenient place on the way home from work where customers can pick up their dinners, the location of a Lean restaurant. Design and functionality determine how quickly and enjoyable the customers experience in each particular location will be. Marketing will aid in determining what exactly a customer wants, and the product's Lean is offering matches what the customer demands.

It's important at this point to discuss opportunities for Lean to create value among marketing/development, operations and convenience/services. These next sections will detail the plans where Lean expects to create value among each of these three areas.

It will not discuss areas that occur in the value chain prior to the corporate office or individual restaurant function, as currently it has no ability to affect operations or procedures at any of those stages, and issue that will be addressed as Lean develops.

3.4.2.1 Marketing/Development

By becoming the first vegetarian quick-service franchise, Lean wants to establish first mover advantage. To create market penetration the organization needs to be able to gather information on its customers and respond to that information based on the astute analysis of the organization.

Key among these value-adding activities will be the function of the executive chef and that individual's role in satisfying the customers taste in new and innovative ways within a mature industry. The executive chef must work with marketing in terms of menu selection as well as price point, in order to match Lean's targeted customer demographics.

Marketing must also communicate Lean's concept to customers, by creating marketing standards for logo usage, restaurant design, advertising design and experience control. Value added services within this area then create a consistent atmosphere and experience, so that when a consumer enters a Lean restaurant, their experience is a pleasurable, but also controlled and replicable.

3.4.2.2 Operations

Operations are paramount to creating consistency within all core activities of a Lean franchise. Therefore the processes Lean employs to manage consistency among its locations will dictate success in this regard.

Within the current proposed structure of Lean, the General Manager will be the key bridge between the individual restaurants and the overall corporation. That position will be responsible to ensure that pertinent information, most often directly from the customer, is communicated back to the head offices. The General Manager will also be

responsible for building sales and performance quotas for each location, and ensuring that consistency of brand is maintained at each location.

The franchisee or restaurant manager will work in conjunction with the General Manager in order to ensure successful operations at each location. Their primary responsibilities will include: staffing (including training), inventory and cost control, maintenance, restaurant cleanliness and quality control. They may have a supplemental floor or shift manager to oversee operations in their absence or during non-traditional hours of operation.

Expected shift staff at each location is three, one counter/drive through operator and two line cooks. This will expand to either five or six employees during peak operating times of the day. The staffers are trained through the entire system, because of the nature of the business and the high turnover rate, a staffer must be able to operate any area of the restaurant.

Logistic software will be in place at each location that communicates with the head office via hand-held ordering devices or iPads. This logistical software will also work in conjunction with point of sale software in order to achieve a minimal amount of spoilage. Improper inventory control and rotation, along with poor management of the storage of food supplies can also affect the quality of the product.

While supplies are managed between the head office and each restaurant location, the preparation of the food is almost entirely done at the restaurant level. The “back-of-the-house” staff fulfills the final production functions of the food, including operating a grill and stove to prepare different parts of each menu item. The design of the restaurants

will most likely partially impede the visibility of the customer to the “back-of-the-house” operations.

The speed of the “back-of-the-house” staff is critical, but cannot compromise the quality of the food. As marginal revenue is of considerable importance, customer turnover must occur quite quickly, and therefore the preparation of menu items must undergo considerable evaluation, not only for quality, but also for preparation time.

The first point of contact when a customer enters the restaurant on their first trip will likely be the front counter staff, while a more experienced customer will visit one of the computerized kiosks to enter their order. The software that communicates that information to the “back-of-the-house” staff must do so in way that is easy to digest, but also clearly states when variations among orders are going to occur. Software will also track average time it takes staff at the restaurant to prepare menu items, and the results will be communicated to the General Manager and shared amongst other restaurants. Therefore if one particular location is having success or developing new processes that eliminate wait times, they will be shared, while conversely when there are considerable delays at one particularly location, the General Manager can intervene, and possibly remove the restaurant manager if they are inefficient at their job.

The counter staff must also keep an eye on the eating area within the restaurant, to ensure that it is properly clean. The entire process for counter and “back-of-the-house” staff will be extremely regulated in order to maintain a standard level and time for all service.

While service is not considered a critical value added function or a differentiator for Lean, it is important that this area is not significantly deficient in comparison to the

competition, as a friendly and welcoming environment includes the behaviour and actions of service staff. Lean's training function for these employees will be highly regulated in order to deliver both a quality product and experience in order to maximize the performance of these entry-level, part-time staffers.

3.4.2.3 Convenience/Services

This area, while currently only formalized on the organizational chart as falling under the financial area's responsibility, will normalize the business processes among all three areas. The benefit of having consistent language and functions among all levels ensures that information is communicated in a method that is discernable for a member of the marketing team, a member of the operations team, the General Manager or the CEO. Consolidation among these processes can also help to create economies of scale, however will require supporting technology and systems to create these efficiencies.

3.4.3 Outsourced activities

A number of activities that Lean will undertake for the launch of the initial franchise will need to be outsourced. A design team will be hired to help create the initial design for the restaurant, allowing Lean to focus on the core responsibilities of menu creation. A third-party supplier (Sysco) will be tasked with providing supplies to the restaurant (s), until at which point Lean achieves desired growth and can begin expanding along the value chain. Suppliers will provide both food supplies as well as items like napkins, cutlery, beverage containers and cleaning supplies for the restaurants day-to-day operations.

Lean will also have to source its point of sale and inventory system, as in the beginning it will not be able to create this system from scratch. There are however numerous systems already on the market that can be customized to Lean's specifications.

3.5 Creating culture within the organization

While Lean is currently only in its infancy, the organization is committed to creating a culture that is harmonious and friendly for employees, as the belief at the top of the organization is that this culture will translate into the experience of the customer. Looking well into the future, Lean intends to model its head office in a similar fashion to complexes designed by Electronic Arts and Pixar, in that there is considerable free space and autonomy for employees who are empowered to achieve goals of the firm, but can do so in whatever way they see fit.

This culture will be created in a three-fold process. Goal creation and alignment is the first process, Lean will clearly articulate corporate goals, but will also seek out individual and personal goals from employees and ensure that there is overlap between levels.

The second process will be the establishment of cross-functional teams to ensure coordination between areas of the corporation. These teams will consist of mid-level staff empowered to create synergies and eliminate the silo effect that occurs in most organizations.

The final process will be a reward/profit sharing system designed to reward employees based on the goals set during the first process. A profit sharing plan, with room for individualization among employees, will be established to recognize team and individual achievement among teams. For example, a cross functional team that achieves

its goal or finds a desired solution to the problem it was tasked with solving, will be rewarded for its performance.

These three processes will be evaluated regularly and refined in order to ensure that team leaders within the organization are developing best practices for Lean. This team approach however will need evaluation as well, as the process may inhibit the advancement of individual leaders to take over roles at the chief or director levels.

3.6 Financial Forecast

The financial outlook for Lean has been created with the assistance and information provided by two separate restaurant managers based in the Lower Mainland. The statements are projections based on the information provided by these two locations to Lean's potential restaurants in the Lower Mainland (Main Street or Kitsilano as principle location).

The first exhibit details the expected foot traffic and numerical sales for one Lean franchise in these locations. Traffic patterns were based on information provided by other restaurant owners, as well as observational and anecdotal information provided by a number of quick service restaurant employees.

Exhibit 1 - Estimated Volume					
	Lunches/day	Other/day	Total	Days	
Weekdays	150	50	200	5	1,000
Weekends	75	50	125	2	250
Weekly average					1,250
Annual average					65,000
Monthly Average					5,417

The second exhibit details the average price estimate and break-even quantity of sales of principle meals, excluding beverages, for one Lean restaurant under the franchise model. Fixed costs include expected rental price on a property, as well as licenses, fees and staffing costs.

Exhibit 2 - Average Price Estimates					
	Retail Price	COGS	CM	COGS% of Sale	Weighted COGS
Breakfast Sandwich	\$6.60	\$1.40	\$5.20	21.21%	\$1.40
Burrito	\$7.50	\$1.40	\$6.10	18.67%	\$1.40
Cashew Rice	\$9.50	\$1.90	\$7.60	20.00%	\$1.90
Noodle Bowl	\$7.50	\$1.10	\$6.40	14.67%	\$1.10
Soy Burger	\$9.50	\$2.10	\$7.40	22.11%	\$2.10
Spanakopita	\$8.50	\$1.70	\$6.80	20.00%	\$1.70
Veggie Sandwich	\$7.00	\$1.50	\$5.50	21.43%	\$1.50
					\$11.10
<u>Break Even Point for inaugural restaurant</u>					
Fixed Costs per month		\$20,807			
CM average		\$6.43			
Break even quantity per month		3,236.64			

The third exhibit is a proposed statement of operations for the first calendar year. It is entirely based on the financial information provided by an owner of a small restaurant specializing in breakfast, located on Commercial drive in Vancouver.

Exhibit 3 - Statement of Operations

Projected first year of operations	Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov	Dec	Annual	Average Month*
Sales	\$ 19,393	\$ 19,393	\$ 30,000	\$ 30,000	\$ 30,000	\$ 61,821	\$ 61,821	\$ 61,821	\$ 61,821	\$ 30,000	\$ 19,393	\$ 19,393	\$ 444,856	\$ 30,000
Food cost	2,586	2,586	4,000	4,000	4,000	8,243	8,243	8,243	8,243	4,000	2,586	2,586	59,314	4,000
Gross Margins	\$ 16,807	\$ 16,807	\$ 26,000	\$ 26,000	\$ 26,000	\$ 53,578	\$ 53,578	\$ 53,578	\$ 53,578	\$ 26,000	\$ 16,807	\$ 16,807	\$ 385,542	\$ 26,000
Labour	\$ 7,666	\$ 7,666	\$ 11,858	\$ 11,858	\$ 11,858	\$ 24,436	\$ 24,436	\$ 24,436	\$ 24,436	\$ 11,858	\$ 7,666	\$ 7,666	\$ 175,842	\$ 11,858
Rent	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000	2,500
Professional fees	417	417	417	417	417	417	417	417	417	417	417	417	5,000	417
Property tax	563	563	563	563	563	563	563	563	563	563	563	563	7,000	563
Business license	33	33	33	33	33	33	33	33	33	33	33	33	400	33
Liquor license	83	83	83	83	83	83	83	83	83	83	83	83	1,000	83
Patio license	75	75	75	75	75	75	75	75	75	75	75	75	900	75
Hydro	450	450	450	450	450	450	450	450	450	450	450	450	5,400	450
Total selling and general costs	\$ 11,807	\$ 11,807	\$ 16,000	\$ 16,000	\$ 16,000	\$ 28,578	\$ 28,578	\$ 28,578	\$ 28,578	\$ 16,000	\$ 11,807	\$ 11,807	\$ 225,542	\$ 16,000
EBIT	\$ 5,000	\$ 5,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 10,000	\$ 5,000	\$ 5,000	\$ 160,000	\$ 10,000
Sales / Average Month	65%	65%	100%	100%	100%	206%	206%	206%	206%	100%	65%	65%		
Average check													\$ 7.78	\$ 6.29

The statement of operations does not include total start up costs for the franchise itself, more as a guideline for each restaurant's operations. Lean only currently has done a financial analysis per restaurant and does not have a long term forecast for the corporation as a whole. Head offices salaries are listed at a reduced wage based on the principle that the founders will be filling those roles during the first three years of operations.

4: Issues

While Lean is a serviceable idea and has feasible market positioning and penetration strategies, there are a number of pertinent issues facing Lean, from both positive and negative perspective from this analysis.

1. Creating and maintaining a competitive advantage as an upstart in a mature industry.
2. Lean's positioning does not match customers' expectations for quick service or vegetarian products.
3. The model may not lend itself to high-level scalability in a franchise model in a saturated market.

Each of these issues, along with recommendations, is discussed in the following section and will be addressed through each of the core functions of Lean, Marketing/Development, Operations and Convenience/Services.

4.1 Creating and Maintaining Competitive Advantage

The main issue surrounding the entire concept of Lean is that of the corporation's competitive advantage and ability to avoid replication of that competitive advantage. What prevents a large conglomerate from observing Lean's operations, and subsequently going to market with a similar concept, utilizing their strengths along the value chain in an effort to take market position from Lean?

This issue inhabits all facets of the organization that have potential to create value, and either increases the customers willingness to pay or decreases the cost to the organization.

Due to Lean's insistence on utilizing organic and fair trade products as source materials, they are significantly increasing their variable cost per meal and reducing the firm's contribution margin, which requires significantly more foot traffic in order to maintain the projected revenue levels. Organic suppliers are also relatively limited in comparison to established suppliers who trade in standard and processed products. Organic products also spoil at faster rates, and therefore require quicker turnaround and more frequent deliveries from suppliers to maintain a similar level of inventory in comparison to a company that does not source organic products.

Larger corporations already embedded in the quick service industry also have better access to established locations, and in a number of instances, own their locations. While this tactic is primarily employed to keep down monthly costs in the long run and avoid rent increases, it also can be used as a mechanism to reduce with customer switching. For example, Yum! Brands has multiple quick service brands under its umbrella, and if it owns a prime real estate location and finds that a Kentucky Fried Chicken restaurant is not profitable in a certain area based on consumer taste, it can remove the KFC and put a Taco Bell, or other franchise, in its place. With only one concept for Lean, the corporation does not have the same opportunity, and must investigate the selection of retail space with incredible precision.

Due to the nature of staffing at quick service franchises, the other significant issue within competitive advantage will be maintaining a high level of convenience with the vegetarian product in the face of high employee turnover rates.

4.2 Lean's positioning within the marketplace

Lean's product, a vegetarian quick-service menu, is not currently aligned with the current expectations of either a quick-service restaurant customer or a vegetarian product consumer.

The typical quick service customer expects "fast food" at extremely low prices and understands that the product may not be the healthiest option, but has chosen to eat at a quick service restaurant because of any of four principle reasons.

Customers of fast food will make their selection based on the speed of production of the meals. In a large city like Vancouver, downtown business employees are regularly forced to eat at their desk because of their daily time constraints, and must either pack a lunch or purchase food on the run. The perception is that quality food takes time to produce, and therefore vegetarian or other healthier options simply aren't on the radar screens of these customers.

The cost of fast food is also viewed as cheaper than other restaurant options. A cheque for a meal at a sit-down restaurant usually begins at a minimum of \$10, while the average meal price at McDonald's or Burger King is less than \$6. A family of four on a fixed income may elect to purchase Happy Meals for their children at \$2.99 each, and select a meal of the regular menu for \$5.99, meaning a family of four could eat for approximately \$20 at a typical fast food restaurant, while if that same family went to a casual or family dining restaurant, the cost would easily exceed \$40 with tax and tip.

Lean's cost for a family of four would be approximately \$32, which is significantly above the cost of traditional fast food.

Fast food restaurants also rely on foot traffic from travellers. Because of their streamlined processes and brand awareness, a weary budget conscious traveller in a foreign place, either domestic or international, will choose to eat at a fast food restaurant because they understand and expect a certain product, and remove the insecurity of potentially having a bad experience at a restaurant that may also cost them more.

Finally, there is also a taste component to fast food. Children are usually targeted at fast food restaurants; because the meals are highly processed they contain high levels of sugar and salt, which are proven to delight the palates of younger consumers. The common perception is that healthy food does not taste as good as fast food, and therefore creates a potential barrier for health food proprietors targeting families.

Vegetarians on the other hand are not used to the current foodservice system, and have established routines accordingly. They understand that there will be only one or two options at established chains, and if they wish to seek out multiple options, they are required to visit full-service restaurants specializing in vegetarian cuisine. These consumers also trend towards health conscious behaviour, and therefore are less likely to eat with frequency at a "fast food" franchise.

4.3 Scalability of the model and market saturation

There is a link between scalability of the model and market saturation, as market saturation may impede the expansion of Lean due to the inaccessibility of available locations. This market saturation also prevents Lean from increasing the average cheque beyond their current price levels, which are already moderately high in comparison to

traditional fast food. Lean must quickly establish market positioning and share in order to compete with industry incumbents.

Scalability is also impacted by Lean's reliance on organic products. Heavily processed foods are easier to transport to remote locations, and therefore Lean may have substantial issues in creating franchise locations in remote locations outside of traditional transport hubs. This is not an issue for the company within the first five years, however if the organization seeks an initial public offering to finance expansion or is in the process of being purchased by another organization, this may impact share price or goodwill within the purchase.

Scalability may also be impacted by Lean's desire to seek customer input and create a moderately "crowd-sourced" menu at their locations. Lean may tailor their menu to regional customs and tastes, however there are clearly regions within North America where a vegetarian menu is entirely a foreign concept. While studies, as listed earlier in this text, have shown that the proportion of vegetarians within the population are increasing, those vegetarians are living in predominantly urban, coastal areas within Canada and the United States, thereby limiting expansion and market penetration across North America.

5: Recommendations

Securing competitive advantage is the single most important challenge for Lean, and will provide the groundwork as a solution for the other remaining issues within this strategic analysis. The ability to properly establish and maintain a distinct competitive advantage, particularly in an extremely saturated market, is paramount for Lean to advance beyond an average quick service location into a national brand.

5.1 Competitive Advantage

Lean currently has an aggressive mandate for expansion, seeking to establish three legitimate franchises in Vancouver within the first year of launch and proceed to franchising in year two and three. While this is an achievable goal, this is not where the company should be placing the majority of its focus, on aggressive expansion plans, before properly settling on their concept and fine-tuning processes. If Lean seeks outside investment other than from a bank, in the form of venture capitalists or angel investors, the pressure to grow the corporation will be even greater.

Lean instead needs to focus on its core competencies at the first location, refining processes until they are proven successful at one or three locations before seeking outside franchisees that may further dilute the brand. A narrow, more defined strategy, focusing on perfecting and experimenting with the vegetarian menu at one location will aid in finding products that are broad enough in taste that they would be able to survive in different markets.

The other strategy that Lean should employ involves their timing of launch and expansion. Clearly the founders of Lean believe they have a concept that is a Blue Ocean Strategy and one that will be successful. However in their race to obtain first mover advantage, they may not create a menu or concept that will succeed in the short or long term. Mapping a timeline for both goals and expansion will aid in this endeavour, ensuring that proper sequencing within the plan occurs.

If Lean is able to create value within its core competencies, then positioning in the marketplace as well as its scalability issues will be mitigated by its competitive advantages.

Appendix 1. Restaurant Industry Overview

Restaurant Industry Overview		
Segment	Annual Revenues (CRFA's 2010 forecast)	Market Share (% of total industry revenues)
COMMERCIAL FOODSERVICE: Operations whose primary business is food and beverage service.		
Full-service restaurants Licensed and unlicensed fine-dining, casual and family restaurants, as well as restaurant-bars.	\$20.7 billion	35%
Limited-service restaurants Quick-service restaurants, cafeterias, food courts and take-out and delivery establishments.	\$20.4 billion	34%
Contract and social caterers Contract caterers supplying food services to airlines, railways, institutions and at recreational facilities, as well as social caterers providing food services for special events.	\$3.8 billion	6%
Drinking places Bars, taverns, pubs, cocktail lounges and nightclubs primarily engaged in serving alcoholic beverages for immediate consumption. These establishments may also provide limited food service.	\$2.5 billion	4%
TOTAL COMMERCIAL	\$47.5 billion	79%
NON-COMMERCIAL FOODSERVICE: Self-operated foodservice in establishments whose primary business is something other than food and beverage service. Branded restaurants in any of these settings are counted in commercial restaurant sales if they are owned by the restaurant chain.		
Accommodation foodservice Foodservice in hotels, motels and resorts.	\$5.5 billion	9%
Other foodservice Foodservice in hospitals, residential care facilities, schools, prisons, factories, remote facilities and offices. Includes patient and inmate meals. Also included are retail foodservice and all other foodservice (vending, sports and private clubs, movie theatres, stadiums and other seasonal or entertainment operations.)	\$7.1 billion	12%
TOTAL NON-COMMERCIAL	\$12.6 billion	21%
TOTAL RESTAURANT INDUSTRY	\$60.1 billion	100%

From: <http://www.crfa.ca/research/>

Appendix 2. Restaurant and Food Service Managers Statistics (0631)

Employment Distribution by Gender 0631 All occupations

Males	56.7%	52.7%
Females	43.3%	47.3%

Employment Distribution by Age 0631 All occupations

15- 24 years	8.0%	14.1%
25- 44 years	53.9%	45.1%
45- 64 years	36.4%	38.8%
65 years and over	1.7%	2.0%

Employment Distribution by Status 0631 All occupations

Full-time	90.9%	79.2%
Part-time	9.1%	20.8%

Average Annual Employment Income (Full-Time, Full-Year) 0631 All occupations

Full-time, full-year	67.7%	53.2%
Average income	29,883	45,157
0- 19999\$	33.0%	16.5%
20000- 49999\$	54.9%	52.4%
50000\$ and over	12.1%	31.1%

Employment Distribution by Highest Level of Schooling 0631 All occupations

Less than high-school	16.8%	14.1%
High-school	30.2%	21.9%
Post-secondary	39.9%	43.1%
Bachelors	13.0%	20.9%

Employment Distribution by Region 0631 All occupations

Gaspésie-îles-de-la-Madeleine	0.6%	1.1%
Bas-St-Laurent	2.0%	2.5%

Employment Distribution by Region	0631 All occupations	
Capitale-Nationale	8.8%	9.1%
Chaudière-Appalaches	4.1%	5.4%
Estrie	3.0%	3.9%
Centre-du-Québec	2.3%	2.9%
Montérégie	17.5%	18.7%
Montréal	30.2%	24.1%
Laval	7.6%	5.0%
Lanaudière	3.9%	5.8%
Laurentides	6.6%	7.0%
Outaouais	4.2%	4.7%
Abitibi-Témiscamingue	1.8%	1.8%
Mauricie	3.3%	3.1%
Saguenay-Lac-St-Jean	2.7%	3.3%
Côte-Nord-Nord du Québec	1.5%	1.7%

0631 All occupations

Employment Distribution by Self-employment 37.3% 11.2%

0631 All occupations

Employment Distribution by Immigration 25.3% 12.2%


Main Areas of Employment	(%) (%)
Food Services and Drinking Places	93.2
- Full-Service Restaurants	49.7
- Limited-Service Eating Places	27.1
- Drinking Places (Alcoholic Beverages)	9.8
- Special Food Services	6.5




http://www.servicecanada.gc.ca/eng/qc/job_futures/statistics/0631.shtml

Appendix 3. List of Vegetarian Restaurants in Vancouver via Happy Cow

Organic Lives    **6**
Reviews

1829 Quebec Street, Vancouver, British Columbia (V5T 2Z3) (at East 2nd Ave)

 778-588-7777


 Vegan, Organic, All Raw, Western, International, Juice bar, Take-out, Catering
 




Organic Lives features a living foods restaurant menu with weekly changing specials, a juice and smoothies bar, and a retail space featuring prepared snacks, desserts, chocolate, organic and sustainably grown nuts, dried fruits, and superfoods. Small and casual, situated in the warehouse space of a superfood distribution company just outside the Olympic village. Accepts credit cards. Open Mon-Sun 9am-9pm.

[Add Photo](#) [Map](#) [SAVE](#) [Add2Favs](#) [Update](#) [Website](#)  Own this business?

Radha Yoga and Eatery    **16** Reviews

728 Main Street, Vancouver, British Columbia (V6A 2V7)

 604-605-0011


 Vegan, Organic, Western, International, Raw, Beer/Wine, Catering
 

Vegetarian restaurant connected to a yoga center, centrally located near Chinatown. Serve local organic food, both raw and cooked. Menu includes quinoa nut burger, Moroccan tangine style chickpeas, raw dishes, and more. Vegan and bio-dynamic wines. Free wi-fi. Accepts credit cards. Open Wed-Sat for dinner 6-10pm.

[Add Photo](#) [Map](#) [SAVE](#) [Add2Favs](#) [Update](#) [Website](#)  Own this business?

Greens and Gourmet    **14** Reviews

2582 W Broadway, Vancouver, British Columbia (at /upstairs)

 737-7373

 Vegan-friendly, Macrobiotic, Buffet, Organic



Self-serve buffet spread includes hot and cold food, with each dish labeled. Pay for food by weight. Serene, cafeteria style set-up.

[Add Photo](#) [Map](#) [SAVE](#) [Add2Favs](#) [Update](#) [i](#) Own this business?

Everybody Loves Veggies



6 Reviews

555 W 12 Ave, Vancouver, British Columbia (BC V5Z) (at Cambie, City Square food court)



604-873-4417



Vegan, Fast food, Take-out



Vegan restaurant Vancouver. Menu includes baked lima beans with vegan cream sauce, potato cake, tofu scramble, stuffed green peppers with brown basmati rice, and vegan brownies. Note that fresh juices and salads are available at the next food stall, the Hyrise Salad Bar. Pleasant atmosphere in the mall. Cash only.

[Add Photo](#) [Map](#) [SAVE](#) [Add2Favs](#) [Update](#) [i](#) Own this business?

Gorilla Foods



23 Reviews

101 - 436 Richards Street, Vancouver, British Columbia (V5Z 2K6) (at Hastings Street, downtown Vancouver)



604-722-2504



All Raw, Vegan, Organic, Western, Juice bar, Catering, Delivery, Take-out



Vancouver raw food takeaway. Everything on the menu is raw including raw pizza, lasagna, chocolate fudge, fresh juices, and much more.

Open Mon-Sat 11am-7pm, Sun 11am-5pm.

[Add Photo](#) [Map](#) [SAVE](#) [Add2Favs](#) [Update](#) [Website](#) [i](#) Own this business?

Panz Veggie Restaurant



4 Reviews

1355 Hornby Street, Vancouver, British Columbia (at downtown Vancouver)



604-266-3637



Vegan, Chinese



Vancouver vegan restaurant serving Chinese cuisine. Its Chinese name translation means "compassion." Opened since March 2010 as reported to happycow.net. Accepts credit cards. Open Tue-Sun 11am-9pm, closed Mon.

[Add Photo](#) [Map](#) [SAVE](#) [Add2Favs](#) [Update](#) [Website](#) [i](#) Own this business?

Rooted on the Drive Cafe at Eternal Abundance



2 Reviews

1025 Commercial Drive, Vancouver, British Columbia (BC V5L) (at Venables, East Vancouver)



604-707-0088



Vegan, Organic, Raw, Western, Juice bar, Take-out



Rooted on the Drive Cafe is an all-organic vegan cafe located inside the Eternal Abundance organic market. The menu offers whole-food dishes, including soups, grain bowls, fresh juices and smoothies, salads, and a diverse selection of raw dishes, most of which are wheat-free. There are sweet items too like crumbles, cakes and cookies. It is under new ownership since October 2010 and has an expanded menu, larger cozy cafe area, and plans for extended hours, including weekend brunch Open daily 10:30am-7:30pm.

[Add Photo](#) [Map](#) [SAVE](#) [Add2Favs](#) [Update](#) [i](#) Own this business?

3G Vegetarian Restaurant



7 Reviews

3424 Cambie Street, Vancouver, British Columbia (V5Z 2W8) (at 18th Ave)



604-568-9008



Vegan-friendly, Lacto, Chinese, Thai, Take-out



Flavorful Chinese and Thai fusion food. Use Sheese vegan cheese. Wheelchair accessible. Accepts credit cards.

[Add Photo](#) [Map](#) [SAVE](#) [Add2Favs](#) [Update](#) [i](#) Own this business?

Annapura



10 Reviews

1926 W. 4th Ave, Vancouver, British Columbia (V6J1M4)



604-736-5959



Vegan-friendly, Lacto, Indian, Beer/Wine



Vancouver Indian restaurant serving well-seasoned and spiced vegetarian food. Convenient location moved down the same street in May 2010. Open daily 11:30am-10pm.



Own this business?

Bandidas Tacqueria

Vegetarian



7 Reviews

2781 Commercial Drive, Vancouver, British Columbia (V5N 4C5)



604-568-8224



Vegan-friendly, Lacto, Ovo, Organic, Mexican, Wifi



Veggie tacos, burritos, nachos, spicy Mexican hot chocolate, and more. Weekend brunch. Large community table seating. Accepts credit cards. Open Mon-Thur 12-10pm, Fri 12pm-12am, Sat 10am-12am, Sun 10am-9pm.



Own this business?

Best Quality Sweets

Vegetarian



Be first to review!

7260 Main St, Vancouver, British Columbia (V5X3J4) (at 57th Ave)



604-324-6677



Lacto, Indian, Fast food, Take-out



Indian sweets and veggie food restaurant. Open daily 9-9.



Own this business?

Bodhi Choi Heung Vegetarian Restaurant

Vegetarian



5 Reviews

3932 Fraser St, Vancouver, British Columbia (BC V5V) (at 23 Ave)



604-873-3848




Ova, Vegan-friendly, Lacto, Chinese, Take-out option




Try the Buddhist style veggie stews and stir-frys. Offerings such as curry sang kung, gluten, Szechuan bean curd skin rolls. Helpful staff always ready with suggestions. Closed Tuesday. Accepts credit cards.

[Add Photo](#) [Map](#) [SAVE](#) [Add2Favs](#) [Update](#) [i](#) Own this business?

Budgie's Burritos [Vegetarian](#)  **6 Reviews**
 44 Kingsway, Vancouver, British Columbia (V5T3H9) (at Main)

 604-874-5408


 Vegan-friendly, Lacto, Fast food, Take-out, Mexican, Pizza




Small Mexican fast food vegetarian restaurant with limited seating. Huge burritos. Tacos with your choice of tofurkey sausage, roasted potatoes or chipotle tofu. Vegan pizza. All items can be made vegan by substituting dairy with guacamole at no extra charge.

Accepts credit cards.

[Add Photo](#) [Map](#) [SAVE](#) [Add2Favs](#) [Update](#) [Website](#) [i](#) Own this business?

Cafe Deux Soleils [Vegetarian](#)  **4 Reviews**
 2096 Commercial Dr (East Vancouver), Vancouver, British Columbia

 604-254-1195


 Ovo, Lacto, Take-out




All vegetarian as of May 2010. Some items contain eggs and/or dairy; limited vegan options. One dessert item, the rice crispy square, may use marshmallows with gelatin. Casual atmosphere. Live music on weekends. Open 8am-midnight.

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Cafe Du Soleil [Vegetarian](#)  **3 Reviews**
 1301 Commerical Drive, Vancouver, British Columbia (V51 3X5) (at Kitchener and Charles)

 604-254-1145

 Vegan-friendly, Lacto



Tofu scramble with split beans or potatoes, oatmeal chocolate muffin, baked goods, and more. A serene setting. Has outdoor seating.

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Deserts

Vegetarian



2 Reviews

905 Commercial Dr, Vancouver, British Columbia (BC V5L)



604-251-4171



Vegan-friendly, Lacto, Ovo, Indian, Middle Eastern



Veggie offerings from falafel, pakoras, samosa, latkes, soups, to salads and desserts. All vegetarian, as reported to HappyCow.

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Dharma Kitchen

Vegetarian



18 Reviews

3667 West Broadway, Vancouver, British Columbia (BC V6R) (at Alma)



604-738-3899



Vegan-friendly, Organic, Asian, Buddhist



Vancouver vegan restaurant (except for honey used in drinks). Quiet atmosphere. Parking on street.

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Golden Fortune

Vegetarian



1 Review

4963 Joyce Street, Vancouver, British Columbia



604-437-3818




Chinese



Vegetarian Chinese food in a simple atmosphere. Try the food. Accessible from the Joyce Skytrain Station. Wheelchair accessible. Accepts credit cards.

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Planet Veg Vegetarian  **5 Reviews**
1941 Cornwall Ave, Vancouver, British Columbia (at Cypress)

 604-734-1001

 Vegan-friendly, Lacto, Ovo, Fast food, Indian



Healthy and fast food veggie restaurant.

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Po Kong Vegetarian Restaurant Vegetarian  **2 Reviews**

1334 Kingsway, Vancouver, British Columbia (at Clarke St)

 604-876-3088




Vegetarian Dim Sum and faux meat and tofu dishes. The staff is very friendly and the portions are generous.

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Saravanaa Bhavan Vegetarian  **7 Reviews**
955 West Broadway, Vancouver, British Columbia (V5Z 1K3) (at Oak)

 604-732-7700

 Vegan-friendly, Indian, Buffet, Beer/Wine, Take-out




Vancouver Indian restaurant serving vegetarian South Indian cuisine. Non smoking. Wheelchair accessible. Accepts credit cards. Open daily lunch and dinner, buffet 11:30am-3pm.

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Sejuiced Vegetarian  **5 Reviews**
1958 W4th Ave, Vancouver, British Columbia (BC VJ6) (at Maple St)

 604-730-9906

 Vegan-friendly, Ovo, Organic, International, Juice-bar, Take-out



Veggie restaurant offering a large variety of fresh juices; also organic salads, soups, and veggie burgers. Accepts credit cards.

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Spice [Vegetarian](#) **1 Review**

2963 W Broadway, Vancouver, British Columbia (V6K2G9) (at Bayswater)

604-568-6462

Vegan-friendly, Indian



SPICE is a small and cozy Indian restaurant which has just recently changed their menu to 100% vegetarian with lots of vegan options. The owners have been vegetarian for their entire lives. Please note that their website still shows the old menu but be assured that they no longer serve meat! The website will be updated soon. Open Mon-Sun 12-9pm.

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Sweet Cherubim Restaurant and Natural Food Store [Vegetarian](#)

5 Reviews

1105 Commercial Dr (East Vancouver), Vancouver, British Columbia

604-253-0969

Vegan-friendly, Lacto, Organic



Menu features a variety including baked goods, breakfast burritos, and tofu scrambler. Also has a health food section. Confirmed open June 2010. Open daily.

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The Foundation Lounge [Vegetarian](#) **12 Reviews**

2301 Main St, Vancouver, British Columbia (at 7th Ave and Kingsway)

604-708-0881

Vegan-friendly, Lacto, Ovo, Western, International, Beer/Wine, Take-out



Menu is extensive and varied, and portions are large. Casual atmosphere, full liquor license. Not totally vegan, serves dairy in some dishes and honey in sauces (can be substituted with maple syrup for most items). Open lunch and dinner.

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The Naam Vegetarian  **38 Reviews**

2724 W 4th Ave, Vancouver, British Columbia (at Kitsilano district)



604-738-7151



Vegan-friendly, Lacto, Ovo, Macrobiotic



Popular Vancouver vegetarian restaurant. Varied menu and nightly live music. Not totally vegan, uses honey on gravy and sauces. Also, not all items marked dairy-free and egg-free on the menu are vegan, check with the server for confirmation. Open 7 days, 24 hours.

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Whole Vegetarian Restaurant Vegetarian  **4 Reviews**

3068 Main Street, Vancouver, British Columbia (V5T 3G5) (at 15th Avenue)



604-876-8899



Vegan-friendly, Chinese, Take-out



Former location of the Bo Kong Vegetarian Restaurant. The restaurant has a new name and new owner, but the chef and staff remain the same. The menu is slightly different, though old favorite dishes remain with an added selection of new dishes as well. Limited parking to the rear of the building, in the alley, and more on the side streets, and parking meters on Main Street. Wheelchair accessible. Accepts credit cards. Open

6: Bibliography

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