***“We believe that respect for nature and all that grows is the beginning of the understanding of good food.”***

# Marketing and Competitive analysis for L’etoille

Compiled by Andrea Mattson, Steve Miller, Chris Moberg & Rebecca Petzel

Our ongoing project this semester allowed us to work with one of Madison's premier restaurants, L'Etoile. L'Etoile, a restaurant that embodies the ideals of sustainability, has been thriving on Madison's capitol square since 1976. The restaurant provides an upscale but warm nightly diner service emphasizing local and seasonal ingredients. Founded by Odessa Piper, L'Etoile now grosses $1.2 million dollars a year while supporting local produce and traditions through culinary creativity.

In addition to its second floor dining room, L'Etoile has a semi-finished ground floor space that has traditionally been used quite profitably in accordance with the weekly Dane County Farmers Markets for high-volume coffee and pastry sales. They have recently expanded these breakfast pastry sales to 7:00am-10:00am M-S and are interested in doing more. In their words: "We would like to expand the profitable, accessible street-level venue into expanded year-round hours and high-volume prepared foods that reflect the fine dining restaurant's reputation for ingredient purity, creativity, and artisan production."

L'Etoile presented us with five potential directions for the development of this space. Our project goal was to help them "discern and qualify which of the options we should develop, as well as working with [L'Etoile] to provide supporting materials for financing and business development." We summarized the 5 options into the following three categories:

-1)CAFÉ EXPANSION: Weekday morning operations featuring baked goods, simple breakfast, newspapers, fine coffees & teas. Lunch sales featuring sandwiches served on in-house breads and premium local ingredients: combination counter pickup and table side service. Afternoon sales featuring fine coffees, teas, fresh pastries & small savory plates.

-2)EVENING WINE BAR HOURS: Beginning at 4:30, featuring wines by the glass, desserts, and café food items as well as dishes drawn from repertoire of restaurant upstairs

-3)GOURMET FOOD RETAIL: Retail would feature a collection of fine Wisconsin artisan cheeses, ciders, and value-added perishable & non-perishable regional products.

Because of the variety of options, we were not able to go into the financing and business details for development of each plan, rather our aim was to provide a market and competitive analysis that could help L'Etoile discern which opportunity holds the most potential, as well as suggestions to aid whichever path they do chose. In order to do this, we examined the current market trends for the U.S., and then focused in on competition surrounding these three options here in Madison. From this information we provided L'Etoile suggestions regarding the strengths and weaknesses of the three options.

## Marketing Analysis

While L'Etoile is an establishment that emphasizes local ingredients, their reputation and clientele are both national and international. Because of this, we thought it was important to overview the current trends in the market for restaurants and cafes.

<u>Market Overview</u>

The US market for restaurants and cafes totaled $189.9 billion in 2003. This represents an overall increase of 4.5% over 2002 levels. The following table provides an overview of the sector's growth from 1999 to 2003:[1]

**TABLE 1 MARKET SIZE 1999-2003**

*US$ billion*

| | **market size** |
|---|---|
| 1999 | 155.1 |
| 2000 | 167.3 |
| 2001 | 174.4 |
| 2002 | 181.8 |
| 2003 | 189.9 |

*Source: Euromonitor*

This growth was driven mainly by changes and trends in consumer lifestyles. These trends include time pressure, eating away from home, and the adoption of frequent foodservice usage as an affordable luxury, particularly by individuals within the baby boomer generation. Market growth was inhibited by modest consumer traffic and reduced consumer spending as a result of post 9/11 concerns.

Full service restaurants remained the largest sector of the market in 2003 at $161.5 billion, an increase of 23.2%. Coffee shops advanced in value by 56.4 percent from 1999 to 2003 with Starbucks accounting for the majority of the growth. The main reason for the growth of the full-service restaurant sector is the number of independent restaurants. Whereas, chained restaurants concentrate on high volume concepts, independents take advantage of consumers' broad range of tastes and diversity in order to carve out niches, serving smaller markets or offering unique dining options. These trends and independent offerings also account for the rapid growth and increased demand for independent coffee shops.[2] Table 2 provides a breakdown of sales as well as a comparison between 1999 and 2003:

**TABLE 2 MARKET SECTORS 1999-2003**

*US$ billion*

| | **1999** | **2003** |
|---|---|---|
| Other cafes and bars | 6.0 | 7.0 |
| Specialist coffee shops | 4.5 | 7.0 |
| Pizza full service | 13.5 | 14.4 |
| Other full service restaurants | 131.1 | 161.5 |

*Source: Euromonitor*

Full-service restaurants, all sit-down establishments where the focus is on food rather than on drink, totaled 228, 407 in 2003 and accounted for 81.3 percent of the whole restaurant and café market. Table 3 provides an overview of the marketplace:

**TABLE 3 DISTRIBUTION 2003**

[1] www.euromonitor.com/mrm/
[2] ibid.

| US$ billion | |
|---|---|
| | **2003** |
| Other full service restaurants | 81.3 |
| Pizza full service | 8.2 |
| Other cafes and bars | 7.0 |
| Specialist coffee shops | 3.5 |

*Source: Euromonitor*

Specialist coffee shops and other cafes accounted for 7 percent and 3.5 percent of the total restaurant and café market in 2003.

As a result of the economic downturn, the US wine market experienced limited growth, increasing a mere 2.7 percent in 2003 (Table 4). However from 1999 to 2003 wine sales increased 9.6 percent from 2.0 billion liters to 2.2 billion largely as a result of an increase in the consumption of red wines.

**TABLE 4 MARKET SIZE 1999-2003**

| million liters | |
|---|---|
| | **market size** |
| 1999 | 2,025.0 |
| 2000 | 2,048.7 |
| 2001 | 2,064.8 |
| 2002 | 2,161.4 |
| 2003 | 2,219.0 |

*Source: Euromonitor*

This is likely associated with favorable health reports based on findings that moderate consumption of red wine may reduce the risk of cardiovascular disease and other ailments greatly benefited the demand for red wines. Furthermore, the US wine market experienced a growing consumer move to higher priced, premium wine. For an increasing number of consumers, higher quality wine is rapidly becoming a semi-staple good, rather than an occasional luxury item.[3]

## Industry Trends

Nationwide, foodservice sales are projected to total $455.4 billion for 2004, an increase of 4.4 percent from 2003. The International Foodservice Manufacturers Association predicts the segment of this industry that includes full-service restaurants, bars, cafes, and other eating establishments will experience 1.6 percent real growth. According to Joseph Pawlck, senior principal of Chicago-based Technomics, rising food and gas prices as well as interest rates pose the greatest threats to the industry as a whole. Sales for full-service restaurants and bars are expected to climb 5.2 percent to $135.3 billion with limited-service restaurants to increase 6.0 percent to $152.7 billion. Inflation will account 3.5 percent of the increases in these sectors.[4]

---

[3] www.euromonitor.com/mrm/

[4] Spilberg, S. 2004. IFMA forecast: foodservice sales up 4.4% for 2004. *Nation's Restaurant News.* Oct. 4, 38(40) pgs. 5-7.

There are several nationwide trends to be aware of for 2005. Specifically, comfort food is beginning to lose its post-9/11 appeal as Americans are looking for fancier items and menus as they are becoming more willing to spend a little more money. However, quality and uniqueness are still highly ranked regardless of the meal category. Although consumers are looking for fancier menus, the wine lists are becoming shorter, but better as young wine stewards create sensible lists with precisely the best wines to go with the individual menus in their restaurants, and plenty of New World offerings. Finally, the no-smoking laws will ultimately be advantageous to health costs, fire insurance, and threat of lawsuits.[5]

## Consumer Profile

Baby boomers, ages 45-63, are the most accounted for consumers of casual dining restaurants. This group more than any other has grown accustom to the idea of eating out as a cultural mainstream activity. Greater proportions of females than males frequent restaurants on a monthly basis. 68% of the female population does so, versus 64.4% of males. On average, 62 percent of women drank tea in 2003, compared with 59.5 percent for ground coffee and 24.2 percent for other beverages such as instant coffee, juice and soda. Tea tends to be perceived as a premium beverage, with consumption highest among affluent consumer with an average income above $75,000. However, the tea sector is expected to grow as consumers are expected to trade up to premium teas as more consumers become aware of the health benefits associated with premium teas.[6] The following table provides a sector forecast for the tea and coffee market:

**TABLE 14 SECTOR FORECASTS 2004-2008**

*US$ million*

| | **2004** | **2008** |
|---|---|---|
| Coffee | 5,577.6 | 6,081.4 |
| Tea | 1,460.3 | 1,623.0 |
| Other hot beverages | 373.3 | 328.5 |

*Source: Euromonitor*

## L'Etoile's point of differentiation

This market analysis bodes very well for L'Etoile's expansion. The overview illustrated how important finding a point of differentiation is, stating that independent restaurants that offer unique dining options are growing faster than chain restaurants. In addition, the consumer trends uncovered how consumers are emphasizing quality and uniqueness over price in growing numbers. This bodes extremely well for the niche L'Etoile has carved out of buying local, seasonal, and high quality ingredients that are good for the consumer and the earth. We believe this trend is even stronger in Madison. Just on the capital square a McDonalds has recently gone out of business. Consumers are looking for something more from their food, and if L'Etoile capitalizes on their emphasis of high quality and unique ingredients, the store front expansion should flourish.

---

[5] Mariani, J. 2004. 10 trends to watch. *Restaurant Hospitality.* Feb. 88(2) p.44
[6] www.euromonitor.com/mrm/

# Competitive Analysis and Methods

Given these market trends, the next important step for our group was to analyze the competition of the burgeoning restaurant market in Madison. Once we gathered an overview of the central Madison area, we focused on the wine bar markets and the capital square markets.

## Methods

We conducted our market research using several methods. First we used several online sources such as, yellowbook.com and madisonmagizine.com to create a list of restaurants in the central Madison area (See Appendix A). We also used these sources to provide general information on each restaurant like addresses, telephone numbers, hours of operation, types of cuisine, etc. Then using a combination of online sources, telephone interviews, individual research and personal experience we gathered more in depth information that was relevant to the espresso cafe and the wine bar options. Specifically, we determined if each restaurant served drip coffee, espresso, or a combination of the two. We also identified whether each restaurant served alcohol and if they had a wine specialty, defined as any restaurant that either serves more than four options of each type of wine or has a self selected specialty. In addition, we determined the average price range based on information from Madison Magazine's dining guide. We compiled a comprehensive list of the 128 restaurants in downtown Madison for which we could gather information (note: some restaurants which are brand new, recently closed, changing ownership, or not well advertised may not be on the list). We broke down the comprehensive list further into three more categories. The first is all of the restaurants in central Madison that serve espresso style coffee (See Appendix B). The second category is a list of all the restaurants in central Madison that have a wine specialty (See Appendix C). The final list includes all of the restaurants on or very close to the capitol square (See Appendix D). We defined the capitol square all restaurants within one block of the actual square.

## Espresso market

We found that there are a total of 32 restaurants in downtown Madison that serve espresso coffee, which is roughly 25 per cent of all the restaurants in the area. However, we also found that 15 of those restaurants serving espresso are located on the capitol square, which amounts to 44 per cent of the restaurants on the capitol square. This indicates that the espresso style coffee market is more concentrated around the capitol square relative to the entire downtown area. Of the restaurants serving espresso on the capitol square only two offer local and/or organically grown ingredients. These two are Ovation and Harvest. However, both of these only serve dinner and are not open for the Breakfast/Lunch hours that L'Etoile's espresso café would target. Thus, although there are significantly more espresso restaurants on the capitol square, none of them directly compete with L'Etoile's business strategy.

## Wine Market

We also found that in the downtown area there are a total of 26 restaurants that have a wine specialty, or about 20 percent of the total. 38 percent of the restaurants on the capitol square have a wine specialty. This also implies that there is a higher concentration of wine specialty restaurants around the capitol square. As before, Harvest and Ovation are the only wine specialty restaurants that are similar to L'Etoile in their differentiation strategy of serving local and organic foods, thus they will be key competitors in the wine bar market.

Café Market

There were a total of 34 restaurants on the capitol square. We found that ten of these provide lunch and breakfast service. However, only four of those ten offer an organic coffee option and none of those have an organic specialty. There are 13 restaurants that focus on lunch and dinner service. Only three of these serve espresso and none of those three serve organic food. Finally, there are 11 restaurants that only serve dinner. At least half of those only serving dinner have a wine specialty, thus suggesting a saturation of the dinner/wine bar market. Also, Ovation and Harvest are the only two on the capitol square offering a wine specialty and organic food. It may be possible that these two will have a competitive advantage in the wine bar market because they are narrowly focused on dinner service.

## Pros and Cons of 3 options

With the statistical evidence gathered through our surveys of Madison restaurant markets, our group made conclusions on the potential strengths and weaknesses for each of the 3 choices presented. Our conclusions are as follows:

Retail

Our study did not incorporate a competitive analysis of the local and organic retail food market in Madison. That being said, retail expansion would appear to face large barriers. Opening a retail store requires a very large capital investment in inventory and display furniture. This cost is far larger than that associated with the opening of a morning and lunch café. In addition, there is a very limited selection of gourmet food retail vendors currently on the square. While this leaves the market wide open, it could be worth considering why so few food retailers have thrived in this geographic area. If L'Etoile does decide to pursue this option, their best asset will be the farmers market; utilizing their close bonds with unique local retailers already established through this seasonal event. A retail operation does not capitalize on the core competency of L'Etoile: cooking great food. This option would require redefining the entire public image of L'Etoile, whereas a café would capitalize on that image. While a in-depth competitive analysis of the high-end retail market in Madison is still required to make any absolute claims on the matter, we believe other options would reap better profits in this retail space.

Wine bar

Based on the overall survey we provided of Madison, as well as the random sample of 8 wine bars, this Madison scene appears fairly crowded. This is especially true of the Capitol Square region. Our research found that 38% of the restaurants in the Capitol Square area have an extensive wine list, and nine have that list accessible from a bar area. (See Appendix D) While L'Etoile would have a competitive advantage because of the size and quality of their particular wine list, this might not be enough to differentiate their establishment from the other preexisting wine bars in the area. And as we pointed out in the market analysis, consumers are trending towards smaller wine lists with new world offerings, while L'Etoile's list is quite large with lots of old world, European offerings.

On the other hand we did see an opening for a hard cider bar. Our study did not come across a single bar advertising an emphasis on hard cider or mead. Of the bars with a large selection of wine, none offered cider on tap, and only a few offered a single selection of cider (woodchuck) in bottle form. This being said, a cider bar still faces some of the same problems as a wine bar.

Certainly the market and competitive analysis show there is a demand for happy hour wine bars. While high quality wine is becoming a consumer staple, more and more restaurants on the square and around Madison are opening for happy hours and offering wine lists. It is our conclusion that the implementation of a wine bar or cider bar would face more barriers than the café expansion for L'Etoile. In addition to the problem of high market saturation, there is also the fact that a downstairs wine bar would likely entail more immediate capital investment, seeing as the semi-finished café space does not currently hold its own bar. The wine-oriented plan also does not seem to agree as well with the public image of L'Etoile as does the café plan. L'Etoile, while certainly a leader in the Madison wine culture, is much better known as a purveyor of locally, sustainably, and organically grown foodstuffs. To create an establishment focused on the one part of L'Etoile's aura that is not local to Wisconsin (imported wines) seems counterproductive to the L'Etoile mission.

Café Expansion

This is the area where we see the greatest potential for L'Etoile to expand. Our research showed that the market is not saturated with breakfast and lunch operations offering high quality ingredients through counter service. Breakfast options near the square generally fall into two categories: coffee shops with limited food menus, and more expensive sit-down, table service restaurants. The exception to this rule is the highly popular Marigold Café.

L'Etoile's reputation for high quality, sustainable food service places them at a very unique and advantageous place in the Madison breakfast market. They can provide better food than a coffee shop, but at a better price and in a faster setting than at a traditional table service restaurant. The model of Marigold's Café proves that this is a service that consumers want, and Marigold's current high volume and success proves that the market has a higher apatite for this service.

## Final Recommendations

As stated earlier, our intention with this project was to provide L'Etoile with insight into the current market for the services they might provide in the café. While it is ultimately up to L'Etoile to discern how they could best express their personal character and uniqueness in a profitable way through this storefront, it is the general recommendation of our group that it would be best to put initial investment into further developing the breakfast/lunch café services in place now. In their initial proposal to our group, L'Etoile suggested that all three of these ideas could be launched simultaneously or slowly staged in. If L'Etoile decides to pursue any or all three of these ideas, our group would suggest initially investing in the café expansion and staging the other two options in later due to greater barriers of entry.

As a group we've suggested an emphasis on the Café because we believe it has the most opportunities to "increase the entire operations' income by capitalizing on L'Etoile's intellectual property." L'Etoile's greatest asset is its emphasis on high quality local and organic ingredients both good for the health of our environment and the community. There is growing interest in these issues throughout the market, and we feel the café offers the most potential for expansion and capitalization.

However it is clear there will be competition no matter which direction L'Etoile decides to pursue. In order to be successful, L'Etoile will have to emphasize publicly and market very strongly its commitment to high quality, local and organic ingredients in order to differentiate themselves from the fairly saturated preexisting capital square market.

Regardless of the direction L'Etoile decides to go, we would like to make a few suggestions for implementation. First, they will need to approach their economic logic for the café differently than the restaurant in order to fit in with competitive breakfast and lunch prices currently offered on the square. In addition, we think it is vital to the success of any project at that location that a large investment be made into storefront signage. The space is very hard to find in its current state (something our group experienced first hand).

We hope the data and analysis of current food service options in Madison that we have provided will help L'Etoile make a decision on expanding their ground level operations, and we would suggest that once this decision is made, Tom Eggert's new semester could aid in developing the financing and business development materials for that particular option.

**Appendix to competitive analysis spreadsheet:**

**Definition of terms:**

Sunday Brunch: open for breakfast exclusively on weekends

Lunch: open before 11:01 am
Wine List: 4 or more options for any one wine classification or, subjectively, if the establishment promotes itself as a wine bar.
Average Cost: Dinner costs as listed in Madison Magazine's restaurant guide (http://www.madisonmagazine.com/diningguide/)
'On Capitol Square': within one block radius of capitol square.
Food type: subjective
'Restaurants' indicates establishment serves food or espresso

Counter Service: Tipping Wait-staff required