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A Study to Determine the Feasibility of Locating a Family Type Restaurant in Logan, Utah

Lynne A. Anderson
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1968

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Two Plan B Reports

AN ANALYSIS OF BOISE CASCADE CORPORATION
FOR LONG-TERM INVESTMENT PURPOSES

and

A STUDY TO DETERMINE THE FEASIBILITY OF
LOCATING A FAMILY TYPE RESTAURANT IN
LOGAN, UTAH

AN ANALYSIS OF BOISE CASCADE CORPORATION
FOR LONG-TERM INVESTMENT PURPOSES

by

Lynne A. Anderson

Report No. 1 submitted in partial fulfillment
of the requirements for the degree

of

MASTER OF BUSINESS ADMINISTRATION

Plan B

UTAH STATE UNIVERSITY
Logan, Utah

1968

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Lynne A. Anderson

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INTRODUCTION

Increasing attention is drawn to the stock market as the number of shares traded continues to reach new highs. The purchase of common stock as an effective hedge against inflation is also broadly discussed. Obviously, not all stock presently offered for sale will yield a favorable return on investment. The use of comprehensive financial analysis has proven to be essential in effective investment management. It is the purpose of this report to thoroughly analyze the Boise Cascade Corporation to determine whether or not the purchase of its common stock would be a profitable long-term investment.

Financial data used in this paper are generally developed from year-end figures with comparisons and evaluation made through the year 1966. In addition, some information is presented for the 1967 operating year.

The first section of this analysis covers a review of the background and history of Boise Cascade. Major events and acquisitions since the merger of the Boise Payette and Cascade Lumber Companies are covered and important changes in philosophy and product lines are treated. Comment is made regarding the industries within which Boise Cascade competes and historical data and trends are presented.

In the second section, the company organization and management is discussed with considerable attention given to the company president and his views. Company procedures in budgeting, personnel

management, etc., is reviewed.

The third section includes an extensive analysis of the financial results of company operations. Various ratios are developed and evaluated, and important trends are singled out. Current (1966) balance sheet and income statements are included for closer examination.

A fourth section considers the extent of present operations, breaking down the assets and presenting timber holdings, etc. Capacities and production statistics are presented for the various major product lines. International operations and research and development activities are discussed.

In the fifth section, the growth rate for company earnings is determined and the intrinsic value of the stock is developed from this rate.

The sixth section is a summary of the factors affecting the profitability of the common stock. Recommendations are made concerning the stock.

HISTORY AND BACKGROUND

Coming into existence but a short twelve years ago, Boise Cascade has developed from a small regional lumber company into a highly diversified and integrated wood products company with worldwide interests. Functioning in an industry that is subject to significant changes in long-term interest rates and the availability of long-term mortgage money, Boise Cascade has sought from its incorporation to diversify its operations and lessen its dependence on these volatile money factors.

Boise Cascade's history began in 1956, with the original Boise Payette Lumber Company. The lumber business was becoming increasingly competitive and some firms were moving into the pulp and paper field in an attempt to utilize the great amount of waste material common in all lumber operations. Boise Payette lacked sufficient timber reserves and the financial resources necessary to expand operations substantially. Robert Hansberger was hired as company president in 1956. He advocated and succeeded in merging Boise Payette with the Cascade Lumber Company. The resulting company became known as Boise Cascade Corporation.

The new company was in a better position to enter the pulp field. A \$7 million kraft and paper mill was built at Wallula, Washington, and a corrugated box plant was constructed nearby to use the paper mill product. That was the beginning of Boise Cascade's expansion program. From that time to the present, continued expansion

and integration has been a constant company practice.

Expansion into other areas was made during the next two years. Entry into the concrete business was made through the Graystone division, which sold sand and gravel, concrete, pre-stressed beams and other concrete products. This was not a permanent addition, however, as low profits and lack of natural identity to wood products prompted the company to eventually drop the operation. Ames Harris Neville (sporting goods, fabrics) and Morrison-Merrill (building supply wholesalers) were also acquired.

In 1959, additional timberlands and sawmills were obtained through the merger of the Valsetz Lumber Company. The Valsetz acquisition also included Boise Cascade's first plywood plant. In addition, a national lumber wholesaler, the Herbert A. Templeton Lumber Corporation, became part of Boise Cascade. Further developments that year included the introduction of "Cascade Soil-Aid," a soil additive, which provided a use for the heretofore wasted tree bark.

During the early 60's, Boise Cascade entered the component housing field, building finished housing units ready to be moved onto the buyer's lot. A laminated beam plant began operation in Emmett, the custom furniture business of Hallack and Howard of Denver was acquired, and additional corrugated container and folding carton plants were built. Expansion in retail and wholesale building outlets occurred through absorption of the Monarch Lumber Company and the Building Service, Inc. The Western Stud Mills was also purchased. The paper operations expanded in 1962 through the purchase of

Columbia River Paper Company. At the time, Columbia was the largest producer of fine papers¹ in the West.²

In 1964, the St. Helens Division paper mill was purchased from Crown Zellerbach, and the Minnesota and Ontario Paper Company was merged into Boise Cascade. Minnesota and Ontario was practically debt-free, and by issuing preferred stock for the company Boise Cascade's debt-to-equity ratio dropped from 60-40 to 40-60. Minnesota and Ontario had extensive timber holdings in Canada which were then pooled with previous Boise Cascade holdings.

During 1966, Boise Cascade's lumber operations expanded into the South with the purchase of considerable timberlands, two sawmills and a 1800 acre paper mill site at DeRidder, Louisiana. The eventual capital outlay at that site will exceed \$180 million.

A joint venture with the R. A. Watt Company and a similar arrangement with Perma-Bilt Enterprises, Inc., was completed in 1966. These companies were involved in on-site home construction and the development of large housing tracts. The Kingsbury Homes division was also purchased during the year. Kingsbury designs homes and pre-builds the homes at its plants for on-site assembly.

¹"Fine paper includes stationary, bond paper (such as that used for stock and bond certificates and other documents) and ledger paper. These papers are made from bleached sulfite, bleached sulfate, and alpha pulps and rag stock. . . . These papers usually have watermarks and are produced at speeds well below those used for printing papers." (Standard and Poor's Industry Surveys, "Paper-Basic Analysis," August 24, 1967, p. P-15.)

²Tom Alexander, "It's Grow Or Die At Boise Cascade," Fortune, December 1965, p. 183.

In 1967, R. C. Can Company of St. Louis, a manufacturer of fibre foil cans (oil, juice), was acquired. United States Land, Inc., and Lake Arrowhead Development Company, both dealing in real estate development, were also added. In the latter part of the year, stockholders agreed on a merger of Divco-Wayne Corporation into the company. Divco-Wayne has about \$76 million of its sales in mobile homes and relocatable buildings. With the addition of Divco-Wayne, Boise Cascade became the "largest producer of single-family dwellings in the U.S."³

Despite its many mergers, BCC is not a conglomerate. The expansion pattern has grown logically from straightforward aims: 1. to utilize the whole tree for its best use; 2. to boost profits per tree by integrating forward towards the consumer; and 3. to keep assets fully and effectively employed.⁴

The extent and degree of achievement realized by Boise Cascade in its program of integrated expansion is evident in the sales breakdown shown in Figure 1.

Sixty percent of the 1966 sales were in pulp and paper products, an area where Boise Cascade did not even compete ten years earlier. During the same decade, building materials distribution dropped from 61 percent of the 1956 sales to 9 percent of the 1966 sales.

Boise Cascade operates in highly competitive fields. Both the paper industry and the building industry have experienced difficulty

³Business Week, "Building a Case For Youth," February 24, 1968, p. 148.

⁴"Building Revival," Dean Witter & Co. Review & Analysis, DJIA 901.29, September 1967, p. 2.

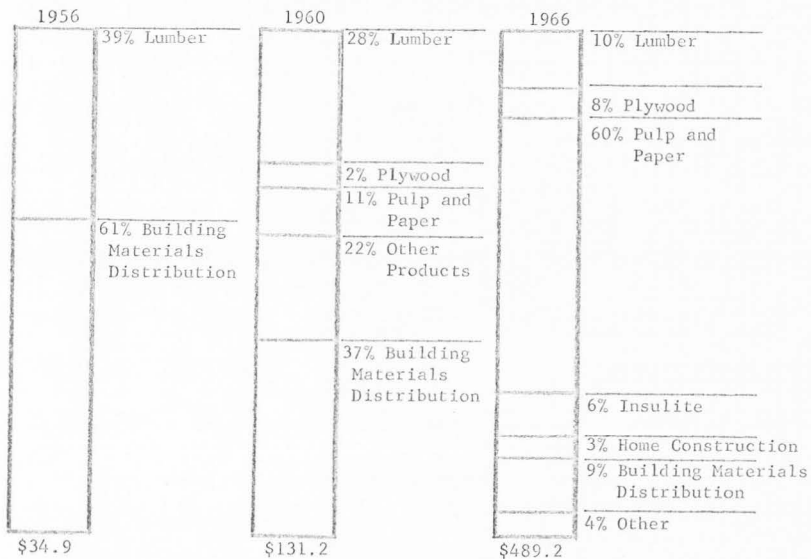


Figure 1. Change in the sales mix, 1956-66.

Source: Boise Cascade Annual Stockholder's Report, 1966, General Offices, Boise, Idaho, p. 5.

in stabilizing prices for their products. The paper industry is very large with approximately 3500⁵ companies having major product lines in the paper field. It may be noted, however, that about 20 of these companies whose sales exceed \$100 million a year account for 40 percent of the industry output (1962 figures).⁶ Net sales in 1966 totaled slightly over \$17 billion dollars.⁷ Table 1 compares capacity and actual production for the industry as a whole.

Although the United States has 40 percent of the world's paper production, it is still a net importer of paper. As Table 1 indicates, the industry has experienced almost continual growth with consumption per capita increasing from 412 pounds in 1957 to 530 pounds in 1966. Some of the major paper producers, as listed by Standard and Poor, are found in Table 2.

All but four of the companies listed in Table 2 experienced gains in 1967 over 1966. The average gain for the 15 companies listed was 3.0 percent. During the same period Boise Cascade had a sales growth of 11.7 percent.

Paper industry projections are pointing towards a continual growth of the industry. Dr. Benjamin Slatin, economist for the American Paper Institute, estimates that the total consumption of

⁵"The United States Paper and Allied Products Industry," (Prepared for Agence Economique and Financiere - 12/65), American Paper Institute, New York, p. 1.

⁶Ibid., p. 2.

⁷"Market Data Fact Sheet," American Paper Institute, New York, November 21, 1967.

Table 1. U. S. paper industry capacity, consumption, and production figures

Year	Capacity	Short tons ^a		
		Production	Consumption (per capita)	Consumption (total)
1957		30,666	412.0 lbs.	35,268
1958		30,823	403.5 lbs.	35,119
1959		34,014	435.5 lbs.	38,725
1960	41,334	34,444	433.2 lbs.	39,138
1961	42,800	35,698	438.2 lbs.	40,261
1962	43,423	37,542	452.4 lbs.	42,218
1963	44,671	39,230	461.6 lbs.	43,716
1964	46,250	41,703	482.9 lbs.	46,385
1965	48,266	44,048R	504.4 lbs.	49,071
1966	50,503	46,576P	530.0 lbs.	52,133

P = preliminary

R = revised

^aFigures are in thousands of tonsSource: The Statistics of Paper, 1967 Supplement, American Paper Institute, New York, November 21, 1967.

Table 2. Major paper producers in the United States and their sales

Name	No. of months	1966	1967	Percent change
		(in millions of dollars)		
Boise Cascade	9 Sept	415.1	463.7	+11.7
Chesapeake Corp.	40 weeks	44.1	43.0	- 2.5
Crown Zellerbach	9 Sept	567.7	587.8	+ 3.5
Gt. Northern Paper	3 Dec	29.9	35.4	+18.4
Hammermill Paper	36 weeks	177.9	182.0	+ 2.3
Hudson P. & Paper	3 Nov	21.4	21.9	+ 2.3
International Paper	9 Sept	1,093.0	1,074.0	- 1.7
Kimberly-Clark	6 Oct	337.9	359.7	+ 6.4
Mead Corp.	9 Sept	470.6	481.9	+ 2.4
Nekoosa Edwards	9 Sept	89.0	92.5	+ 3.9
Rayonier Inc.	9 Sept	150.9	135.1	-10.5
St. Regis Paper	9 Sept	522.9	535.3	+ 2.4
Scott Paper Co.	12 Dec	145.6	156.0	+ 7.2
Union Camp Corp.	12 Dec	323.0	320.9	- 0.7
West Va. P. & P.	12 Oct	366.0	366.3	+ 0.1

Source: Standard and Poor's Industry Survey, "Paper-Current Analysis and Outlook," January 25, 1968, p. 1-4.

paper and paperboard will rise to "60 million tons by 1970 and 73 million tons by 1975."⁸

Boise Cascade is also involved in the construction and building products industry. Table 3 gives a breakdown of new construction in the United States for 1957-66.

Table 3. New construction in the United States

Year	Non-farm dwelling units	Value of residential (millions of dollars)	Value of private (millions of dollars)	Total value (millions of dollars)
1957	1,224,000	\$19,006	\$35,080	\$49,139
1958	1,382,000	19,789	34,696	50,153
1959	1,531,300	24,251	39,235	55,305
1960	1,274,000	21,706	38,078	53,941
1961	1,336,800	21,680	38,299	55,447
1962	1,468,700	24,292	41,798	59,667
1963	1,613,400	25,843	43,642	62,968
1964	1,563,700	26,507	45,914	66,221
1965	1,520,400	26,689	49,999	71,930
1966	1,228,600	24,633	50,623	74,369

Source: Standard and Poor's Industry Survey, "Basic Analysis-Building," June 29, 1967, p. B-66, B-68.

⁸Dr. Benjamin Slatin, "United States Paper Industry: Production and Capacity, 1966-1975," (reprinted from Indian Pulp and Paper, Vol. XXII, No. 1, July 1967), p. 2.

The total value of new construction in the United States has increased quite steadily, except for 1960. The value of residential construction and the number of units started have fluctuated considerably, however. Boise Cascade is oriented towards the private residential sector and is thus quite sensitive to the fluctuations within this market. The net income figures for Boise Cascade do reflect this fact, with significant drops in 1960, 1961, 1966, as illustrated later in Table 7.

Although the population of the United States increased 16.5 percent from 1956 to 1966, housing starts did not change in any great magnitude. The high birth rate of the post World War II period is expected to result in more marriages and greater demands for housing during the next few years. The relative scarcity of mortgage money has helped contribute to a backlog in the demand for housing units. Increased housing will have to be provided to meet these demands.

A listing of the major forest product firms involved in the construction industry (wood products), according to Standard and Poor's, is found in Table 4. Boise Cascade is listed in this table for comparison purposes, as Standard and Poor's places Boise Cascade only in the paper industry in their tables.

The 1967 earnings of Boise Cascade were announced on February 16, 1968, with sales totaling \$769 million and net income after taxes totaling \$28,351,000.⁹ Speaking in Boise,

⁹"Boise Firm Notes Rise In Income," Idaho Daily Statesman, Boise, Idaho, February 16, 1968.

Table 4. Major forest product firms

Name	Number of months	Gross income		% Change
		1966 (millions)	1967 (millions)	
Evans Products	9 Sept	\$214.4	\$209.9	- 2.1
Georgia Pacific	9 Sept	502.8	525.3	+ 4.5
U.S. Plywood - Champion Paper	9 Sept	785.4	782.7	- 0.4
Weyerhaeuser Co.	39 wks	609.4	649.8	+ 6.6
Boise Cascade	9 Sept	415.1	463.7	+11.7

Source: Standard and Poor's Industry Survey, "Building-Current Analysis," November 30, 1967, p. B-64; and Standard and Poor's Industry Survey, "Paper-Current Analysis," January 25, 1968, p. 1-4.

Boise Cascade President R. V. Hansberger attributed the rise in all categories to several factors, including a pickup in the demand for shelter during the latter half of 1967 which boosted the company's sales of lumber and plywood, factory built homes and on-site construction. "Past investment in paper manufacturing, converting and distribution facilities also began to pay off during 1967," he said. "This resulted in our being able to match price weakness in certain paper grades with diversity in product lines. It also gave us an important flexibility in serving new markets."¹⁰

¹⁰ ibid.

MANAGEMENT

Flexibility is a key word at Boise Cascade where it aptly describes the management philosophy. President Hansberger sums up this philosophy quite simply: "We have no limiting job descriptions at Boise Cascade and few organization charts. We prefer to let people set their own altitudes, operating by direct drive rather than as cogs in a gear-train."¹¹ This analogy with gears is a favorite one of Hansberger's. The idea of people fitting into well-planned, detailed parts of an organization, with "thick rule books," policy manuals, committee meetings, company newspapers, and written announcements fits his conception of the inflexible gear-train.

The alternative arrangement is the "direct drive" system of Boise Cascade. Here are its claimed advantages: (1) less red tape and better communication means less friction loss, (2) increased flexibility, (3) each individual can operate in his most efficient manner, and (4) there is no limitation on the extent of individual output.¹²

"Actually, the system is almost impossible to chart," Hansberger admits. "It is the toughest form to coordinate, but the most productive because individuals are encouraged to use all their

¹¹"The Motivating Spirit," a Boise Cascade publication. (n.d.)

¹²R. V. Hansberger, "Revolution in the Forests," Seattle Post-Intelligencer, June 12, 1966, p. 14-15.

ability and compete for promotion and other motivational rewards."¹³

"Ideas have priority over tenure at Boise Cascade. Compensation belongs to the person, not the job. We encourage ideas and coordinate them by maintaining free and easy communications," says Hansberger.¹⁴

To facilitate such a program, a company-wide objective is necessary. Boise Cascade's objective is very commonplace in company literature. As stated in the company publication "The Motivating Spirit," the objective is to increase our value as a company to shareholders, customers, employees, suppliers, and general public, through application of new ideas and improved service.

The company is divided up into individual profit units, and each unit is held accountable for its own success, however all expenditures over \$10,000 must be okayed at the general offices in Boise.

Each year during the third quarter,

each of the operating groups and staff departments presents to top management detailed strategies for the coming year as well as long-range plans for the next 5 years. Discussions which take place during these give-and-take presentations provide a most effective communications and planning medium. Shortly after approval of strategies, key budgets for operations and capital expenditures are, in turn, presented for review. Once approved, the individual manager is charged with responsibility and authority for all operations under his direction. Results are compared with approved budgets each month. Assistance is provided, if needed, but additional

¹³ Boyd Burchard, "Free-Form Business Adapted To Change," The Seattle Times, reprint. (n.d.)

¹⁴ Ibid.

controls are imposed only in the case of significant deviations. This goal setting method provides special challenges by which highly motivated and capable people can demonstrate their abilities, and it puts a high premium on individual capabilities.¹⁵

Boise Cascade encourages its employees to be involved in community affairs and encourages activity in cultural circles as well. This is all part of its program of motivating its personnel to accomplish company goals. An example of the motivational emphasis in on-the-job affairs is the Safety Achievement Scholarship Program. This program offers \$1000 scholarships to the children of hourly employees in every company plant. To meet the requirements the employees "must reduce yearly accident frequency rates 50 percent below the current rate for their kind of industry without any accidental deaths or total disabilities."¹⁶

The present corporate officers and directors are listed below, as given in Poor's Register of Corporations, Directors and Executives, 1968.

*Chairman - Gilbert H. Osgood

*President - R. V. Hansberger

Exec. V.-P. (Paper Division) - John B. Fery

*Exec. V.-P. - S. R. Moser

*Exec. V.-P. - R. W. Halliday

V.-P. and Secy - Charles F. McDevitt

V.-P. - Cecil Taylor

¹⁵Boise Cascade 1966 Annual Stockholder's Report, p. 4.

¹⁶Pulp and Paper, "Boise Cascade Scholarships Aimed At Safety," March 27, 1967, p. 35-36.

V.-P. - Vern L. Gurnsey
V.-P. - Edward W. Hughes
V.-P. - Jon Miller
V.-P. - Charles C. Tillinghast
V.-P. - Juan del Valle
Treas. - W. M. Agee
Comptroller - E. W. Cleary

*Also Directors; other Directors are:

J. D. Bronson
James E. Bryson
W. O. Eberle
Robert Faegre
Albert J. Moorman
John S. Pillsbury
T. H. Smith
Hall Templeton
E. R. Titcomb

FINANCIAL OPERATIONS

Table 5. Boise Cascade consolidated balance sheet

	December 31	
	1966 (000)	1965 (000)
<u>ASSETS</u>		
<u>Current</u>		
Cash	\$ 10,912	\$ 13,818
Receivables, net	67,985	62,718
Inventories, lower, cost or mkt	<u>78,910</u>	<u>71,987</u>
	\$157,807	\$148,523
<u>Fixed</u>		
Timber and timber lands, less depletion	87,880	34,075
Property, plant and equipment, at cost	372,673	337,360
Less-reserves for depreciation	<u>(132,076)</u>	<u>(117,932)</u>
Property, plant and equipment-net	\$240,597	\$219,428
Investments, at cost plus equity in undistributed earnings, and non-current advances		
50%-owned joint venture	9,042	---
Overseas subsidiaries, not consolidated	5,412	2,879
Non-current receivables	7,988	8,881
Other assets	<u>15,755</u>	<u>12,489</u>
	<u>\$366,674</u>	<u>\$277,752</u>
TOTAL	<u>\$524,481</u>	<u>\$426,275</u>
<u>LIABILITIES</u>		
<u>Current</u>		
Notes payable	\$ 17,176	\$ ---
Current portion of long-term obligations	2,275	1,319
Accounts payable	29,744	26,985
Accrued liabilities	18,435	17,258
Accrued income taxes	<u>2,601</u>	<u>6,412</u>
	\$ 70,231	\$ 51,974
<u>Debt</u>		
Long-term notes payable, less current	\$193,909	\$167,621

Table 5. Continued

	December 31	
	1966 (000)	1965 (000)
<u>Other</u>		
Lease-purchase obligations, less current	\$ 23,039	\$ 19,913
Timberland rental obligations, less current	31,198	
Deferred income taxes	13,353	11,437
<u>Equity</u>		
Convertible preferred stock	\$ 75,213	\$ 75,068
Common stock	22,769	22,705
Paid-in surplus	14,976	14,783
Earned surplus	81,230	70,069
Less-treasury stock at cost	(1,437)	(7,295)
	<u>\$192,751</u>	<u>\$175,330</u>
 TOTAL	 <u>\$524,481</u>	 <u>\$426,275</u>

Source: Boise Cascade Annual Stockholder's Report, 1966, General Offices, Boise, Idaho, p. 18-19.

A breakdown of the long-term debt as of December 31 is given below.

Table 6. Long-term debt

	1966 (000)	1965 (000)
Notes payable to insurance companies, unsecured, 5.70%, payable in annual installments of \$6,500,000 beginning in 1968	\$110,000	\$110,000
Notes payable to insurance companies, unsecured, 5.25%, payable in annual installments of \$1,470,000 beginning in 1970	25,000	---
Revolving credit notes payable to banks, unsecured, 6% in 1966 and 5 1/4% in 1965, convertible not later than 1968 into four-year term notes	50,000	50,000
Note payable, unsecured, non-interest bearing, due in 1969	6,000	6,000
Other	<u>3,806</u>	<u>2,024</u>
	\$194,806	\$168,024
Less-current portion	<u>897</u>	<u>403</u>
	<u>\$193,909</u>	<u>\$167,621</u>

Source: Boise Cascade Annual Stockholder's Report, 1966, General Offices, Boise, Idaho, p. 23.

Stock authorized and outstanding as of December 31, 1966, was as follows.

Table 7. Stock authorized and outstanding

	Shares
\$1.40 cumulative convertible preferred stock	
Authorized	3,000,000
Outstanding	2,663,534
Held in treasury	3,000
Reserved for stock option	11,250
Common stock, par value \$2.50	
Authorized	15,000,000
Issued	9,107,346
Treasury stock	74,525
Reserved for stock options	677,000
Reserved for conversion of preferred stock	3,462,581

Source: Boise Cascade Annual Stockholder's Report, 1966, General Offices, Boise, Idaho, p. 23-34.

The 1966 Boise Cascade consolidated income statement has been included for purposes of evaluation.

Table 8. Consolidated income statement

	Year ended December 31	
	1966 (000)	1965 (000)
<u>Income</u>		
Net sales	\$489,196	\$430,556
Other income less deductions	<u>3,270</u>	<u>2,914</u>
	<u>\$492,466</u>	<u>\$433,470</u>
<u>Expenses</u>		
Cost of goods sold	\$369,525	\$322,528
Depreciation	18,396	17,499
Depletion	1,453	1,853
Selling and administrative expenses	64,532	55,548
Interest expense	11,146	8,682
Provision for income taxes	12,000	11,527
Less--investment credit	<u>(1,600)</u>	<u>(2,257)</u>
	<u>\$475,452</u>	<u>\$415,380</u>
Net income	\$ 17,014	\$ 18,090

Source: Boise Cascade Annual Stockholder's Report, 1966, General Offices, Boise, Idaho, p. 20.

Boise Cascade experienced a substantial drop in earnings in 1966 which may be attributed to several factors. As illustrated earlier in Table 3, during 1966 residential construction suffered the biggest drop in housing starts in more than a decade. Since Boise Cascade is heavily involved in the construction industry the effect was felt especially hard.

Another factor contributing to the smaller net income figure in 1966 was the increase in taxes. Net income before income taxes actually increased from \$26,988,000 in 1965 to \$27,414,000 in 1966. A major cause for the increased taxes in 1966 was the decrease in

investment tax credit. The credit decreased from \$2,257,000 in 1965 to \$1,600,000 in 1966.

The next few pages of this report are devoted to the computation and analysis of the various ratios and percentages dealing with past operations. Table 9 indicates the percent earned on invested capital after taxes for the past ten years. In this study invested capital is defined as being the stockholder's equity plus all non-current liabilities. Net profit is defined as net income after taxes plus interest paid on long-term obligations.

Table 9. Percent earned on invested capital after taxes

Year	Invested capital	Net profit before depreciation	%	Net profit after depreciation	%
1957	\$ 37,548,000	\$ 4,367,000	11.6	\$ 2,559,000	6.6
1958	45,501,000	5,960,000	13.9	3,612,000	7.9
1959	65,854,000	10,691,000	16.2	6,678,000	10.1
1960	74,570,000	9,719,000	13.0	4,982,000	6.7
1961	82,452,000	9,391,000	11.3	4,931,000	6.0
1962	124,382,000	15,892,000	12.7	9,077,000	7.3
1963	130,456,000	21,748,000	16.6	11,704,000	9.1
1964	293,475,000	37,754,000	12.8	20,673,000	7.0
1965	370,522,000	45,715,000	12.3	26,517,000	7.0
1966	454,250,000	48,009,000	10.5	28,160,000	6.2

Source: Boise Cascade Annual Stockholder's Reports, General Offices, Boise, Idaho.

Since 1963, there has been a constant decline in the percentage earned on invested capital. This may be attributed to increasing expenditures for timberlands and expensive paper equipment, where large amounts of reserves are required and start-up costs are excessive. Also, the merging of various companies has required time to refine and improve the consolidated operations. A decrease in sales per dollar of total capital invested has also contributed to this decline, as illustrated in Table 10.

Table 10. Sales per dollar of total invested capital

Year	Total capital	Sales	Sales/capital
1957	\$ 37,548,000	\$ 52,032,000	\$1.41
1958	45,501,000	72,734,000	1.59
1959	65,854,000	126,085,000	1.92
1960	74,570,000	131,182,000	1.76
1961	82,452,000	137,631,000	1.66
1962	124,382,000	175,074,000	1.40
1963	128,478,000	218,096,000	1.69
1964	293,475,000	361,608,000	1.23
1965	374,301,000	420,059,000	1.12
1966	454,250,000	489,196,000	1.07

Source: Boise Cascade Annual Stockholder's Reports, General Offices, Boise, Idaho.

As illustrated in Table 10, the drop in sales/capital from 1963 to 1964 is most pronounced. Some of this decrease in capital turnover can be attributed to the merger in 1964 of Minnesota and Ontario Paper Company. Minnesota and Ontario Paper, when figured separately, had a sales/capital figure of \$.99 in 1964, resulting from net sales of \$91,219,000 on a total capital investment of \$92,107,000. Boise Cascade had a separate sales/capital figure of \$1.34 based on \$270,389,000 sales on capital of \$202,343,000. There is an obvious trend toward a lower turnover of company capital. The heavy investment in timberlands and expensive paper equipment, as mentioned earlier, tends to decrease this turnover rate, although it is not entirely responsible.

Table 11 shows the percentage of net income earned per dollar of sales for Boise Cascade. It appears that the Minnesota and Ontario merger helped to improve the income per dollar of sales. In 1964, Minnesota and Ontario had a separate net income/sales percentage of 5.7 percent, while Boise Cascade, alone, had a percentage of 3.9 percent.

When compared with the paper industry, Boise Cascade's income/sales ratio is consistently lower. Part of this is due to the large amount of leverage used by Boise Cascade. The interest payments are deducted from gross profit, thus lowering net income. From 1965 to 1966, net income decreased. This is especially noticeable since the paper industry average gained .2 percent during the same period.

The tight money situation during 1966 which affected Boise Cascade's construction business, company strikes during the third

Table 11. Net profit and net income per dollar of sales: Boise Cascade compared with the paper industry

Year	Net profit (000)	Net income (000)	Net sales (000)	Net profit/ sales	Net income/ sales	Paper industry
1957	\$ 2,559	\$ 2,141	\$ 53,032	4.8%	4.0%	7.2%
1958	3,612	3,036	72,734	5.0%	4.2%	6.5%
1959	6,678	5,616	126,085	5.4%	4.4%	7.0%
1960	4,982	3,365	131,182	3.8%	2.6%	6.2%
1961	4,931	3,051	137,631	3.5%	2.2%	5.7%
1962	9,077	5,050	175,074	5.2%	2.9%	5.6%
1963	11,704	7,390	218,096	5.4%	3.4%	5.4%
1964	20,673	14,947	361,608	5.7%	4.1%	6.0%
1965	26,517	18,090	420,059	6.3%	4.2%	6.3%
1966	28,160	17,014	489,196	5.8%	3.5%	6.5%

Source: Boise Cascade Annual Stockholder's Reports, General Offices, Boise, Idaho.

quarter, and the substantial reduction in income tax credit appear to be the major causes of this decrease. With the exception of 1966, the company has experienced consistent increases in the net income/sales rate since 1961, almost doubling the percentage from 2.2 percent in 1961 to 4.2 percent in 1965.

To better analyze the growth of Boise Cascade, sales growth, net profit, and earnings per share data are presented in Tables 12 through 15. These tables were tabulated in two three-year periods,

Table 12. Sales growth in thousands of dollars: 1960-62, 1963-65, 1966

1960-62	1963-65	1966
1960 . . \$131,182	1963 . . \$218,096	
1961 . . 137,631	1964 . . 361,608	1966 . . \$489,196
1962 . . <u>175,074</u>	1965 . . <u>420,059</u>	
Ave..\$147,962	Ave..\$333,254	Ave..\$489,196
= 100%	= 225.2%	= 330.6%

Source: Boise Cascade Annual Stockholder's Reports, General Offices, Boise, Idaho.

Table 13. Net profit growth in thousands of dollars for total capital: 1960-62, 1963-65, 1966

1960-62	1963-65	1966
1960 . . \$4,982	1963 . . \$11,704	
1961 . . 4,931	1964 . . 20,673	1966 . . \$28,160
1962 . . <u>9,077</u>	1965 . . <u>26,517</u>	
Ave..\$6,330	Ave..\$19,631	Ave..\$28,160
= 100%	= 310.1%	= 444.8%

Source: Boise Cascade Annual Stockholder's Reports, General Offices, Boise, Idaho.

Table 14. Earnings per share growth: 1960-62, 1963-65, 1966

1960-62	1963-65	1966
1960 . . \$.46	1963 . . \$.93	
1961 . . .41	1964 . . 1.30	1966 . . \$1.48
1962 . . <u>.68</u>	1965 . . <u>1.62</u>	
Ave..\$.52	Ave..\$1.28	Ave..\$1.48
= 100%	= 246%	= 284%

Source: Boise Cascade Annual Stockholder's Reports, General Offices, Boise, Idaho.

Table 15. Summary of sales, net profit and earnings growth:
1960-62, 1963-65, 1966, 1967

	1960-62	1963-65	1966	1967
Sales average	\$147,962,000 = 100%	\$333,254,000 = 225.2%	\$489,196,000 = 330.6%	\$769,000,000 = 519%
Average net profit for total capital	\$6,330,000 = 100%	\$19,631,000 = 310.1%	\$28,160,000 = 444.8%	
Average earnings per share	\$.52 = 100%	\$1.28 = 246%	\$1.48 = 284%	\$2.00 = 385%

Source: Boise Cascade Annual Stockholder's Reports, General Offices, Boise, Idaho, except 1967 data taken from Idaho Daily Statesman, February 16, 1968.

plus the year 1966. It was assumed that an average figure would show trends better than would individual yearly figures.

Table 12 compares the percentage growth in sales. In Table 13 the net profit available for the total invested capital is compared, and Table 14 illustrates the growth in earnings per share during the same period.

The sales growth exhibited in Table 12 and Table 15 indicates that the 1966 sales were 330.6 percent of the 1960-62 sales average. Sales in 1967 were 519 percent of the 1960-62 average.

Table 15 indicates that the net profit for the total invested capital has increased even more than sales. The net profit increases for the 1963-65 average and 1966 are 310.1 percent and 444.8 percent respectively. Considering the information given in Tables 10 and

13, it appears that while the capital turnover has decreased the efficiency of the invested capital, other changes in the company have served to increase the net profit available for the total capital investment.

In Table 15, the effect of the high degree of leverage used by the company becomes noticeable. The earnings per share increased considerably, but lagged much behind the net profit available for all invested capital. In 1967, earnings per share increased significantly, amounting to 385 percent of the 1960-62 average. Management has said that it "expects this rapid growth in share earnings to continue, at a minimum rate of 20 percent over the next few years."¹⁷

Although the earnings per share have experienced fairly consistent gains, the dividends paid per share have shown little correlation with that growth. As indicated in Table 16, the percent of earnings paid as dividends has been steadily declining.

It is evident from the table that Boise Cascade is considerably below the industry average in the percentage of earnings paid as dividends. However, the equity per share of common stock has increased from \$5.39 in 1958 to \$13.01 in 1966, as illustrated in Table 20. The large number of acquisitions and mergers during the past few years has required that company funds be used for these purposes and additional internal expansion instead of dividends.

¹⁷ Financial World, "Boise Cascade's Metamorphosis," August 24, 1966, p. 21.

Table 16. Percent earnings paid on common stock per share

Year	Earnings per share	Dividends paid	Percent of earnings paid on dividends	Paper ^a industry
1957	\$.405	\$.225	55.5%	59.2%
1958	.55	.15	27.3%	64.1%
1959	.755	.15	19.9%	54.6%
1960	.455	.175	38.5%	61.4%
1961	.41	.20	48.8%	65.2%
1962	.68	.20	29.6%	65.8%
1963	.93	.20	21.7%	66.8%
1964	1.30	.20	15.8%	59.7%
1965	1.62	.20	12.3%	55.2%
1966	1.48	.2375	15.5%	50.5%

^aStandard and Poor's Industry Survey's, "Paper, Basic Analysis," August 24, 1967, p. 21.

Source: Boise Cascade Annual Stockholder's Reports, General Offices, Boise, Idaho.

The company has invested heavily in the future, with extensive expenditures for timberlands, plant and equipment. Table 17 compares the company's capital expenditures against industry averages.

Boise Cascade has consistently invested more in capital outlays in relation to its size than the industry average. This has served to cut down present dividend payments. The capital expenditure in 1966 represented an 86 percent increase over 1965. Fifty-five million of this total represented payments on timberlands in Louisiana.

Table 17. Capital expenditures

Year	Amount	As a % of gross plant	Industry ^a percentage
1959	\$ 8,170,000	--	--
1960	7,030,000	10.8%	8.1%
1961	10,650,000	14.5%	7.0%
1962	8,430,000	7.4%	5.6%
1963	12,240,000	9.8%	7.3%
1964	59,980,000	19.5%	9.4%
1965	51,450,000	13.9%	10.1%
1966	95,680,000	20.8%	13.3%

^aStandard and Poor's Industry Survey, "Paper-Basic Analysis," August 24, 1966, p. 19.

Source: Boise Cascade Annual Stockholder's Reports, General Offices, Boise, Idaho.

Careful scrutiny is given these capital outlays, and in the 1966 capital spending budget the lowest projected return, except for replacement items, was 14.5 percent after taxes.¹⁸

The current ratio, although fluctuating somewhat, has consistently been maintained at 2:1 or higher. Table 18 lists a historical record of the current ratio. Boise Cascade has generally had a slightly lower current ratio than the industry average. This does not necessarily mean that the financial policy is weak, but can also

¹⁸ Ibid.

Table 18. Current ratio

Year	Current assets	Current liabilities	Working capital	Current ratio
1957	\$ 23,141,000	\$ 5,241,000	\$17,900,000	4.4:1
1958	32,176,000	12,473,000	19,703,000	2.5:1
1959	43,717,000	16,331,000	27,386,000	2.6:1
1960	47,132,000	13,808,000	33,324,000	3.4:1
1961	51,447,000	16,610,000	34,837,000	3.1:1
1962	64,323,000	28,361,000	35,962,000	2.2:1
1963	71,353,000	35,283,000	36,070,000	2.0:1
1964	122,537,000	47,896,000	74,641,000	2.5:1
1965	144,273,000	50,355,000	93,918,000	2.8:1
1966	157,807,000	70,231,000	87,576,000	2.2:1

Source: Boise Cascade Annual Stockholder's Reports, General Offices, Boise, Idaho.

be attributed to keeping a minimum amount of cash and securities on hand and in low return investments.

As Table 18 indicates, the working capital is not extremely strong standing at 2.2:1 at the end of 1966. In a period of business slowdowns, the low ratio coupled with the large amount of long-term debt could present a problem to the management.

In Table 19, the significant growth of long-term debt financing at Boise Cascade is indicated. Here the common stockholder's equity is compared to the total long-term debt and also to the total capital account.

Table 19. Common equity as a percent of total capital and long-term debt

Year	Total capital (000)	Long-term debt (000)	Common equity (000)	Common equity as a % of total capital	Common equity as a % of long-term debt
1957	\$ 37,548	\$ 9,553	\$ 27,995	74.5%	293%
1958	45,501	13,440	32,061	70.4%	278%
1959	65,854	20,423	45,431	68.9%	222%
1960	74,570	27,441	47,129	63.2%	172%
1961	82,452	33,177	49,275	59.7%	148%
1962	124,382	71,548	52,834	42.4%	74%
1963	130,456	65,793	64,663	49.5%	98%
1964	293,475	126,979	94,435	32.1%	74%
1965	370,522	198,271	97,183	26.2%	49%
1966	454,250	248,146	117,538	25.9%	47%

Source: Boise Cascade Annual Stockholder's Reports, General Offices, Boise, Idaho.

Once again the high leverage is apparent. The common stockholder's equity in total capital fell from 65.4 percent in 1957 to 25.9 percent in 1966. The lower degree of equity acts to lessen the amount of security available to the investor. The debt-to-equity ratio has exhibited a general rise over the past ten years. Boise Cascade has chosen to expand its operations through the use of borrowed funds and expanded its position in the market to the detriment of the debt-to-equity ratio.

Further analysis of the security offered the stockholders is given in Table 20, which presents the after tax coverage of interest and preferred dividends.

Table 20. After-tax coverage of interest and preferred dividends

Year	Net profit for total capital	Interest and preferred dividends	Ratio
1957	\$ 2,559,000	\$ 418,000	6.1:1
1958	3,612,000	576,000	6.2:1
1959	6,678,000	1,062,000	6.3:1
1960	4,982,000	1,617,000	3.1:1
1961	4,931,000	1,880,000	2.6:1
1962	9,077,000	4,022,000	2.2:1
1963	11,704,000	4,314,000	2.7:1
1964	20,673,000	NA	NA
1965	26,517,000	NA	NA
1966	28,160,000	14,873,000	1.9:1

NA = Not Available

Source: Boise Cascade Annual Stockholder's Reports, General Offices, Boise, Idaho.

Here the vulnerability of the common stockholder's dividends is apparent. The coverage of interest, and preferred stock dividends is down to a 1.9:1 ratio. As long as business conditions remain progressive and strong, these senior charges should be able to be

satisfied, however an extended business downturn could be harmful to dividends.

Table 21 presents a review of the common stock history of the company, as it pertains to earnings and operations.

As indicated in Table 21, sales per share and earnings per share have both shown fairly consistent increases. Sales per share increased from \$12.97 in 1958 to \$70.92 in 1967, while earnings per share increased from \$.55 in 1958 to \$2.00 in 1967. The dividends per share have not increased to the same extent, but the book value per share has expanded consistently from \$5.39 in 1958 to \$13.01 in 1967.

Stock prices have varied considerably during the past two years. This, along with profit changes, has led to even greater ranges in the price earnings levels. The industry as a whole, because of increased profits and mediocre stock market performance, ended 1966 with the lowest price-earnings ratio in more than ten years. Boise Cascade's P-E ratio stayed well above the industry average in 1966.

With the exception of 1962 and 1966, the sales per dollar of common at market have remained quite uniform over the last six years. The earnings per dollar of common have continually shown good increases, excepting 1966. The dividend yield, based on the closing price each year on the New York Stock Exchange, has not presented a large return. There are no indications at the present that this dividend rate will be increased appreciably in the near future. The investor would have to consider any substantial return on Boise

Table 21. Common stock data on a historical basis^a

Year	December 31 closing price	<u>Price range</u>		<u>Price earnings ratio</u>		<u>Industry P-E ratios</u>		Sales per share	Earned per share	Percent gain	Dividends per share
		High	Low	High	Low	High	Low				
1958	---	7	3.63	13	7	22.7	17.0	\$12.97	\$.55	+ 35.8	.15
1959	---	12.63	7.63	17	10	21.2	18.8	\$16.98	.755	+ 37.3	.15
1960	---	13	7.5	29	16	22.8	17.7	\$17.71	.455	- 40	.175
1961	---	11.5	7.5	28	18	24.3	20.1	\$18.39	.41	- 10.9	.20
1962	\$21.50	10.75	7.5	16	11	23.3	15.2	\$23.39	.68	+ 65.8	.20
1963	33.00	17.5	10.63	19	12	21.8	17.5	\$27.22	.93	+ 36.7	.20
1964	48.375	24.38	16.83	19	13	19.0	17.3	\$40.29	1.30	+ 39.7	.20
1965	56.00	30.13	23.25	19	14	16.7	14.5	\$48.64	1.62	+ 24.6	.20
1966	23.25	37.5	17.25	25	12	15.2	10.9	\$54.15	1.48	- 9.0	.2375
1967	41.00	44.63	23.25	22	11.6	--	--	\$70.92	2.00	+ 35.6	--
										+ 21.5%	
										average	

Table 21. Continued

Year	Book value per share	At year end	Market price is the closing price at year end			
		Number of shares	Sales/dollar common at mkt.	Earned/dollar common at mkt.	Dividends/dollar common at mkt.	Net assets/dollar common at mkt.
1958	5.39	5,608,008	--	--	--	--
1959	6.12	7,424,408	--	--	--	--
1960	6.36	7,407,596	--	--	--	--
1961	6.58	7,482,796	--	--	--	--
1962	7.06	7,482,796	\$2.18	6.3%	1.86%	\$1.54
1963	8.07	8,011,996	1.64	5.6%	1.21%	.97
1964	10.53	8,973,278	1.66	5.4%	.82%	1.35
1965	11.25	8,635,022	1.72	5.8%	.71%	1.54
1966	13.01	9,032,821	2.33	6.4%	1.02%	2.16
1967	--	10,844,503	1.79	4.9%	--	--

^a Figures are adjusted for the following stock splits:

- 1) 2 for 1 split in May, 1960
- 2) 2 for 1 split in April, 1966

Source: Boise Cascade Annual Stockholder's Reports, Boise, Idaho, except for 1967 data taken from Idaho Daily Statesman, February 16, 1968.

Cascade stock as coming through stock appreciation. The net assets per dollar of common at market have been steadily increasing and this, plus the generally increasing earnings per dollar of common, should contribute to further stock appreciation.

ASSETS, CAPACITIES, PRODUCTION

It is quite natural that timber and timberlands should be of first importance to Boise Cascade. Originally, the timber resources were used only for lumber production for the company's retail outlets. The merger with the Cascade Lumber Company provided enough additional timber reserves to allow the company to build the first pulp and paper mill to utilize scrap wood material previously wasted. Since that time Boise Cascade has been adding to its timber reserves. Major additions were made through the merger with Minnesota and Ontario Paper Company, and in 1966 through the purchase and lease-back arrangements of timberlands in Louisiana. Other large holdings are in the Pacific Northwest and the Philippines. The timberland breakdown is as follows:¹⁹

<u>Leased under long-term cutting rights</u>	<u>Owned outright</u>	<u>Total acreage</u>
4,758,000 acres	1,291,000 acres	6,048,000 acres

The reserves include 7.4 billion board feet of sawtimber and 34.6 million cords of pulpwood.²⁰ The timber is quite diversified, consisting of softwoods in the northwest, soft and hard wood in the northeast and Canada, and considerable hardwood in the south. The Philippine property contains hardwood holdings.

¹⁹ Boise Cascade Annual Stockholder's Report, 1966, General Offices, Boise, Idaho, p. 5-6.

²⁰ Ibid., p. 6.

Not all timber used in operations comes from company holdings. In 1966, approximately two-thirds of the total wood requirements came from federal, state, and other land holders.²¹ It is the policy of Boise Cascade Corporation to use its timber reserves on a sustained production basis.

A breakdown of the sales mix is given below in Table 22.

Table 22. Sales mix, 1959-66

Category	1959	1960	1961	1962	1963	1964	1965	1966
Pulp and paper	8%	11%	14%	25%	33%	48%	52%	60%
Lumber	33%	28%	27%	25%	21%	14%	12%	10%
Plywood	2%	2%	2%	3%	7%	6%	7%	8%
Insulite						9%	8%	6%
Bldg. supplies distribution	38%	37%	36%	29%	22%	13%	12%	9%
Home construction			1%	1%	1%	4%	4%	3%
Other products	19%	22%	20%	17%	16%	6%	5%	4%

Source: Boise Cascade Annual Stockholder's Report, 1966, General Offices, Boise, Idaho, p. 9.

The diversification and integration program is much in evidence when analyzing the sales mix changes. From 1956 to 1966 pulp and paper have come from 0 percent to make up 60 percent of all sales.

²¹Ibid.

A closer look at the items making up the bulk of sales is given in Table 23.

Table 23. Quantities shipped, 1962-66

Item	1966	1965	1964	1963	1962
Paper (thousands of tons)					
Newsprint	280	274	276		
Paperboard	196	159	144	134	108
Converting papers	189	158	123	31	17
Printing papers	123	98	93	38	7
Business papers	<u>108</u>	<u>98</u>	<u>83</u>	<u>42</u>	<u>48</u>
Totals	896	787	719	245	180
Corrugated containers (millions of sq. feet)	3037	2479	2215	1112	920
Lumber (millions of board feet)	710	707	654	635	600
Plywood (millions of sq. feet)	602	474	398	259	117
Insulite building products (millions of sq. feet)	422	447	421	---	---

Source: Boise Cascade Annual Stockholder's Report, 1966, General Offices, Boise, Idaho, p. 26.

The company has a total of 21 paper machines in seven U. S. and Canadian pulp-paper mills, plus one paper mill each in the Philippines and Guatemala. The 1966 production topped 896,000 tons. In 1967 production is expected to exceed 1,000,000 tons. Plans are on the drawing boards for a 1,200-ton pulp and paper mill at DeRidder, Louisiana. This added production should be on stream in 1970. At the present time, the company sells more paper than it has the capacity to produce, necessitating outside purchases.²² This sales

²² Ibid., p. 9.

potential tends to make future expansion an attractive prospect.

The corrugated container division has shown continual growth over the past few years. Seventeen new container plants have been added since 1958, making the capacity close to 40 million containers a month.

In the construction field, Boise Cascade is the largest producer of single-family dwellings in the United States, producing approximately 20,000 units a year.²³ On-side construction in the California market through R. A. Watt and Perma-Bilt Enterprises, Inc., component homes in the mountain states, factory-built houses by Kingsberry in the east and central sections of the country, and the Divco-Wayne mobile home operations account for the total output.

Boise Cascade is the number two producer of lumber in the United States.²⁴ Lumber is cut at 14 sawmills in Idaho, Oregon, Washington, and Louisiana. Production in 1966 totaled 710 million board feet.

Plywood production topped 602 million square feet in 1966, coming from six separate plants.

The sales are not limited to any particular geographical region. An extensive sales organization has been set up with specific company operations in 30 states and 6 Canadian provinces. A major portion of the sales force is centered in Portland, although branch

²³Business Week, "Building a Case For Youth," February 24, 1968, p. 148.

²⁴Tom Alexander, "It's Grow or Die At Boise Cascade," Fortune, December 1965, p. 180.

offices are located in most major cities. There is also a large sales force working out of International Falls, Minnesota.

Overseas operations include a plywood plant, paper mill and timber holdings in the Philippines, a corrugated container plant in Austria, a multiwall bag plant in Guatemala and a multiwall bag plant, a folding carton plant, and a land development project in Costa Rica. An international department has been established to further develop foreign business opportunities.

Considerable research is being carried on at Boise, International Falls, Minnesota, and Chamblee, Georgia. Expenditures for product development are running approximately \$4 million a year. This continual research with its integrated application has helped reduce the waste factor from 35 percent a decade ago to around 10 percent today.²⁵

²⁵Financial World, "Boise Cascade's Metamorphosis," August 24, 1966, p. 21.

STOCK VALUATION

Several years ago Standard and Poor's developed certain criteria for defining growth companies. A company was considered to be a growth company if:

- 1) Growth in share earnings over the past five years has been steady, it must have amounted to at least 7 percent per annum, compounded; or
- 2) Growth has been interrupted in only one year and the decline has been less than 5 percent, annual growth must have been at least 10 percent; or
- 3) Growth has been interrupted in more than one year, or if in one year the decline was more than 5 percent, the annual growth rate must have been at least 12 percent.²⁶

The earnings growth rate computed in Table 24 is by the annual compounded method. Boise Cascade has had an average growth rate of 15.4 percent over the past ten years. A decline in earnings of more than 5 percent occurred in 1966 which indicates that Boise Cascade qualifies as a growth stock under option number 3 of Standard and Poor's limitations.

The growth rate by the simple average method over the same time period results in a growth rate of 21.5 percent (not illustrated). Both of these growth rates qualify Boise Cascade for growth stock classification according to the Standard and Poor standards.

Graham, Dodd and Cottle²⁷ have developed a formula for determining the multiple at which stocks could be purchased as an investment.

²⁶ Donald E. Vaughn, Survey of Investments (New York: Holt, Rinehart and Winston, Inc., 1967), p. 297.

²⁷ Ibid., p. 289, 297, 298.

Table 24. Historical growth rate of earnings per share

Year	Earnings per share ^a	E/S as a % of the previous year	Log of column 3
1957	\$.405	---	---
1958	.55	135.8 %	2.1329
1959	.755	137.27%	2.1377
1960	.455	60.26%	1.7800
1961	.41	90.11%	1.9547
1962	.68	165.8 %	2.2196
1963	.93	136.7 %	2.1357
1964	1.30	139.7 %	2.1452
1965	1.62	124.61%	2.0955
1966	1.48	91.32%	1.9605
1967	2.00	135.13%	<u>2.1306</u>
			20.6924
			÷ 10 = 2.0692

^aEarnings adjusted for stock splits in 1960 and 1966

Average log = 2.0692

Antilog = 1.154

Growth rate = 15.4%

Source: Boise Cascade Annual Stockholder's Reports, General Offices, Boise, Idaho, except for 1967 figures taken from the Idaho Daily Statesman, February 16, 1968.

The formula is $E(8.5 + 2G)$, "where E equals the average estimated earnings per share for the next seven years and G refers to the annual forecasted growth rate."²⁸

²⁸Ibid., p. 289.

Inserting the computed growth rate of 15.4 percent into the formula a multiple of 39.3 is obtained.

$$E(8.5 + 2G)$$

$$E(8.5 + 2(15.4))$$

$$E (39.3)$$

Earnings are \$2.00 for the first year (1967), and should be \$2.30 for the second, \$2.65 for the third and \$3.06 for the fourth. Inserting \$3.06 in the formula gives a total of \$120.25. This is the amount that should be paid for the stock according to the formula.

There is a great danger, however, in relying on a multiplier as high as 39. If economic conditions were such that the company was to experience a decrease in the growth rate to 10 percent, the value of the stock would fall considerably, according to this method. Substituting the 10 percent figure in the formula in place of 15.4 percent gives a multiplier of 28.5. When this is multiplied with \$3.06 a value of \$87.21 is obtained, a decline of 27.5 percent. Thus under these assumptions, a 5.4 percent decrease in the growth rate can decrease the value of the stock by 27.5 percent.

In order to guard against such losses due to overvaluation, it is suggested that a growth stock should not be purchased at "more than 50 percent of the price"²⁹ for an average growth firm. Graham, Dodd, and Cottle suggest that 20 is the maximum multiplier to use except under most unusual circumstances.³⁰ Therefore, using this

²⁹ Benjamin Graham, David L. Dodd, and Sidney Cottle, Security Analysis (New York: McGraw-Hill Book Company, Inc., 1962), p. 514.

³⁰ Ibid.

multiplier of 20, the maximum price to pay for the stock would be approximately \$60 ($\3.06×20). This would place the value at 30 times the current earnings per share.

SUMMARY AND RECOMMENDATION

A company's stock is generally profitable to the investor only if it can provide the desired return on the invested money. To determine a value for the stock many factors are considered, including the industry outlook, sales record, earnings record, rate of growth, financial position, and management. All of these factors may be instrumental in determining the price at which purchase is recommended. Using these areas as guides, the desirability of investing in Boise Cascade common stock for a 5-10 year long-term investment can be evaluated.

The long-run growth picture for paper appears good. As indicated earlier, consumption is expected to rise from 52 million tons in 1966 to 73 million tons in 1975. Boise Cascade will probably be in good position to take advantage of the increased demand. With present sales exceeding capacity, the planned production facilities should find ready markets. Entry into the south should be beneficial to the company as the production facilities will be much closer to the southern and eastern markets, and pulpwood costs in the south are the lowest in the free world.³¹

The other major operation of the company, construction, is also dependent on general business conditions and especially long-term

³¹Standard and Poor's Industry Surveys, "Paper-Basic Analysis," August 24, 1967.

interest rates. Present interest rates are at an all-time high. However, rising construction costs negate somewhat the tendency to delay building. Post-World War II births are beginning to make their presence felt in the housing market and housing demands are expected to increase considerably during the coming decade. Also, new residential construction has failed to keep up with demand, as illustrated by the drop in housing starts in Table 3. The federal government is also going to have a considerable impact on the housing industry. Recent requests by the President to Congress have asked for help to "build and rehabilitate six million housing units over the next decade."³²

Boise Cascade, as the number two supplier and the number one builder of single-family dwellings, should be in good position to participate in any upturn in construction. On February 16, 1968, the president of Boise Cascade stated,

Boise Cascade is "optimistic about our business prospects in 1968 in spite of the uncertainties posed by war and by potential change in the domestic economy. Shelter, paper and packaging are all growth markets and fundamental to the needs of an expanding society. Boise Cascade is uniquely positioned to serve these markets."³³

Sales have consistently increased as indicated in Tables 12 and 15. Sales in 1967 were 519 percent of the 1960-62 average. Substantial increases have occurred every year over the last ten years. Only during 1961 was there any indication of a slowdown in sales.

³² Salt Lake Tribune, "Vital Election-Year Issues Face Action in Congress," March 11, 1968.

³³ Idaho Daily Statesman, "Boise Firm Notes Rise In Income," February 16, 1968.

Earnings have also shown substantial increases. Earnings in 1966 and 1967 were 284 percent and 385 percent, respectively, of the average earnings during the 1960-62 period. There was a drop in earnings from \$1.62 in 1965 to \$1.48 in 1966. This was the first drop in earnings since 1961, with earnings in other years making good gains. In 1967 earnings per share rose to \$2.00.

The growth trend exhibited by Boise Cascade is a primary reason for its attractiveness as an investment.³⁴ The ten year annual compounded rate of growth in earnings is 15.4 percent while the simple average rate of growth is approximately 21 percent. The recent acquisitions and mergers should help strengthen and balance the future growth of Boise Cascade.

Considering the present and expected dividends on Boise Cascade common stock, it is advisable that its purchase be made with the intention of holding for capital appreciation and not dividends.

Boise Cascade is a highly leveraged company. As of December 31, 1966, the total long-term debt was \$193,909,000. In 1966, after tax coverage of interest and preferred dividends was at a ratio of 1.9:1. The high degree of leverage could present a serious problem to the company if the economy should undergo a sustained recession. However, since the government is committed to providing substantially full employment and a progressive economy, the likelihood of an extended downturn is very unlikely. Nevertheless, an extended

³⁴Dean Witter Research Report, "Boise Cascade," DJIA 933.31, October 1967.

slowdown could have the effect of curtailing dividend payments to the stockholders.

The management appears capable of guiding the company towards higher profits, and seems to have the confidence of much of the business world. A New York banker has said that "many companies are eager to merge with Boise Cascade just to have Hansberger as their boss."³⁵

Boise Cascade common stock is currently selling at approximately \$48 a share (47 7/8, February 16, 1968). As of February, 1968, the 1967-68 price range was \$48-23. According to the information in the Stock Valuation section, one should normally be prepared to pay up to \$60 a share for Boise Cascade Corporation common stock. This would tend to be the upper price limit for the purchase of the stock, unless unusual circumstances such as prospective mergers, stock splits, attractive contracts, etc., warranted paying more. An investor should anticipate holding the stock for a minimum of 4-5 years when purchasing stock at a price near \$60.

All of the factors summarized above combine to recommend the purchase of Boise Cascade common stock as a long-term investment. Prospects for continued growth in the paper and construction industries look good.

³⁵Tom Alexander, "It's Grow Or Die At Boise Cascade," Fortune, December 1965, p. 183.

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A STUDY TO DETERMINE THE FEASIBILITY OF

LOCATING A FAMILY TYPE RESTAURANT IN

LOGAN, UTAH

by

Lynne A. Anderson

Report No. 2 submitted in partial fulfillment
of the requirements for the degree

of

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Grateful recognition is also in order to my wife, who assisted in the preparation of the paper.

Lynne A. Anderson

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FOREWORD

This study was made to determine whether or not it would be feasible to locate a ^{and then} "family-type" restaurant in Logan, Utah. In this paper, "family-type" refers to the type of restaurant typified by Denny's, J. B.'s Big Boy, Dee's Family Restaurant, and Harman's. Features characterized by this kind of restaurant include quick service, a definite atmosphere, a standard menu emphasizing fairly low prices, and a clean modern structure.

The author has been of the opinion that present restaurant facilities were somewhat inadequate for the area. Other people have also expressed similar opinions. These statements and other factors were instrumental in the decision to make this investigation.

As the first step it was necessary to determine whether or not an interstitial demand for such a restaurant existed. An informal marketing survey was developed and the present competition was evaluated to help ascertain the extent of the local demand.

Possible locations were evaluated and a site was selected. Financial statements for the first year of operation were developed, assuming both a franchised and a non-franchised operation. The options of leasing and buying were also considered in the statements. In addition, a possible building design was included and the legal aspects, tax rates, insurance coverage, and managerial policies were discussed.

The results of the study indicated that an investment of this type would be profitable.

TARGET MARKET

In order to determine the feasibility of a family-type restaurant it was necessary to evaluate whether an actual demand existed and who made up this demand. To accomplish this, market research was utilized.

The decision to use market research was made with the understanding that this part of the study was not to be the major effort of the paper. The survey was to be informal and implemented with the idea that it was to be only a guideline. Because of time and expense it was decided to interview approximately 230⁽²⁵⁾ people. The sample was stratified as in Illustration 1 with 1 questionnaire = 350 people.

Illustration 1: Stratified Breakdown^a

	<u>Population</u>	<u>Questionnaires</u>
The Total Drawing Area	56,000	<u>160</u>
Logan	33,000	
Income		
Low	2 16	
Medium	4 40	
High	2 14	
Students (20)	2 26	
Subtotal	96	96
Cache Valley Area	23,000	
Wellsville	1 10	
Hyrum	2 12	
Richmond	1 10	
Smithfield	2 20	
Preston	1 12	
Subtotal	64	64
Total		<u>160</u>
Business Questionnaire	7 70	70
Grand Total		<u>230</u>

^aPopulation statistics and estimates from the Logan Chamber of Commerce 1965 figures.

Since the study was to be informal, the Logan total was divided up into various income categories on a basis of Chamber of Commerce figures and the writer's personal opinion. Because adequate information was not available as to how many made up each stratification, it was not possible to use a random sampling.

A separate questionnaire was prepared for the businessmen. Again, the idea of simplicity and informality was used. It was felt that the working force in downtown Logan was sufficiently large to merit consideration in any restaurant study. Both questionnaires were designed to be disguised except for the last question on each. A copy of each type of questionnaire has been included on the following page.

The information from the two surveys has been grouped and shown in percentages on summary sheets in the Appendix. Totals are given for the complete survey and the low income, medium income, high income, student, Cache Valley, businessmen's, and different age groups. These groups are analyzed separately on the next few pages.

Grand Total Stratification

Seventy-seven percent of those interviewed said that they eat out as an individual at least once a month, and 66 percent indicated that they eat out as a family at least once per month. The fact that people do enjoy eating out this often is a favorable indication that the "right" restaurant could be quite successful.

Illustration 2: Restaurant Questionnaires

1. Male _____ Student _____ Age _____
 Female _____ Adult _____
2. Logan Resident _____
 Valley Resident _____
 Other _____
3. Do you enjoy going out to eat? Yes _____ No _____
4. How often do you go out to eat as an individual?
 More than once a week _____
 More than once a month _____
 Once a month _____
 Other _____
5. How often do you go out to eat as a family?
 More than once a week _____
 More than once a month _____
 Once a month _____
 Other _____
6. How often do you as a family go out of town to eat?
 More than once a week _____
 More than once a month _____
 Once a month _____
 Other _____
7. Are you dissatisfied with any of the following in Logan Restaurants?
 (Check one or more)
- | | | |
|------------------|------------------------|-------------|
| Service _____ | Cleanliness _____ | None _____ |
| Atmosphere _____ | Quality of Food _____ | Other _____ |
| Location _____ | Quantity of Food _____ | |
8. What is the average amount you spend per adult for a meal?
 \$1.00-2.00 _____ \$3.00-4.00 _____
 \$2.00-3.00 _____ \$4.00-over _____

9. Which of the following family-type restaurants would you prefer to eat at most of the time?

Denny's _____ Dee's _____

J. B.'s Big Boy _____ Harman's _____

10. Which of the following places would you like to eat at most of the time?

Chain pizza (Shakey's etc.) _____

Family Type (J. B.'s Big Boy, Dee's, Denny's) _____

Steakhouse (Sizzler, Topper) _____

Regular Type (Dick's, Greaver, Mt. Logan Cafe) _____

Fancy Dining (Bludbird, Andy's Smorgasbord) _____

11. Rank the following choices in order of your preference.

Chain pizza _____

Family Type _____

Steakhouse _____

Regular Type _____

Fancy Dining _____

12. If there was a family-type eating establishment in Logan would your eating habits change?

Yes _____ No _____

Illustration 2 (cont'd)

Businessmen's Questionnaire

1. Where do you enjoy eating during your noon-hour break?

Away from home _____ At home _____

If away from home where and why? _____

2. How often do you eat downtown?

Everyday _____

More than once a week _____

Once a week _____

More than once a month _____

Other _____

3. What is the average amount you spend per adult for a lunch-hour meal?

\$ 0-1.00 _____

\$1.00-2.00 _____

\$2.00-3.00 _____

Over \$3.00 _____

4. Are you dissatisfied with any of the following in Logan restaurants?
-
- (Check one or more)

Service _____ Quality of Food _____

Atmosphere _____ Variety of Food _____

Distance _____ Other _____

Cleanliness _____ None _____

5. If there was a new family type eating establishment in Logan would your eating habits change?

Yes _____ No _____

To some people, the "right" restaurant doesn't exist, at least in Logan. This statement is justified by the fact that of all people interviewed, only 28 percent felt they had no complaints concerning Logan restaurants. The other 72 percent directed their complaints towards lack of atmosphere (26 percent of total complaints); poor quality of food (15 percent); lack of cleanliness (10 percent); and poor service (10 percent). People actively demonstrated their dissatisfaction as 43 percent of those interviewed indicated that they ate out of town at least once per month. The writer realizes that many people desire to leave town for special occasions or for a drive. Perhaps the "right" restaurant could decrease this number.

Logan people are apparently not very big spenders. Seventy-five percent of those people interviewed said they usually spend \$3 or less on a meal, while 34 percent spend \$2 or less.

Harman's ranked first in preference when compared with other family-type restaurants. It received 45 percent of the responses. This reply could have been expected since Harman's has been established and rather heavily publicized in this area for many years. J. B.'s Big Boy was second in choice, probably because J. B.'s has been established longer than Dee's or Denny's. This seems to indicate that the people's choice may largely be determined by the familiarity with the restaurant name.

Thirty-five percent of the people interviewed said they would prefer to eat at a family type restaurant most of the time. Fancy dining was

second, receiving 28 percent of the votes. Two-thirds of all those interviewed said that their eating habits would change if a new family-type restaurant were brought into Logan.

Low Income Total Stratification

The questionnaire brought out some interesting facts about the low income classification. As individuals (76 percent), they eat out as much as the average person (77 percent), but as families they eat out much less. Sixty-six percent of the total questioned eat out at least once a month as a family, compared to 37 percent for the low income families.

Another interesting fact discovered was that they were more satisfied with Logan restaurants than the average person. Poor service was the complaint mentioned most often.

Sixty-two percent reported spending \$2 to \$3 for a meal, while only 13 percent indicated spending less than \$2 on an average meal. This answer could have included some exaggeration on their part. It is possible that lower income people spend more than they can afford in many situations.

The family-type restaurant was preferred 50 percent of the time by this group. The regular type restaurant was second with 25 percent.

Medium Income Total Stratification

The medium income individuals also had some interesting differences in their eating habits. These people eat out more as a family than they do individually. Ninety percent indicated eating out as a family "at least once a month."

The chief complaint of the medium income group regarding Logan restaurants was the lack of atmosphere. They seemed to be much more atmosphere conscious than the lower income class. One hundred percent of those interviewed said they usually spend less than \$4 for a meal. Eighty percent spend less than \$3 and 40 percent spend \$2 or less.

Members of this group differed from the average consumer in that 50 percent of them said they would like to eat at a fancy dining establishment most of the time. Family-type restaurants were the favorite of 30 percent of those questioned.

High Income Total Stratification

This group of people eat out more than any other income group. One hundred percent of those individuals interviewed dine out at least once per month. Eighty-six percent eat out as families once per month.

A significant characteristic of this group is that they are highly dissatisfied with Logan restaurants. A definite lack of atmosphere was their chief complaint followed by lack of quality food. It is interesting to note that 91 percent expressed some displeasure with local restaurants. This is significant when compared with the low income group where only 18 percent were dissatisfied. Because of the high rate of dissatisfaction, more of this group (56 percent) are traveling out of town to eat.

Another difference is the fact that 81 percent of the high income group usually spends \$3 and over for a meal, with the majority keeping their expenditures between \$3 and \$4.

Fancy dining type restaurants are preferred by this group, with family-type restaurants next in preference. These two types account for 94 percent of all responses. Apparently the other types are rarely visited by the high income groups.

Age Group 0-24 Years Stratification

The questionnaire indicated that as individuals 80 percent of the 0-24 age group goes out to eat at least once a month. However, only 8 percent indicated they dine out as a family more than once a week. A possible explanation for this low figure is that one-half of this age group is comprised of college students that are separated from their families while attending school.

Eighty-seven percent of the young people indicated dissatisfaction of one kind or another. Atmosphere and quality of food were mentioned most often (26 percent each). Ninety-six percent of this group spend \$3 or less for most meals, while 54 percent spend between \$2 and \$3, and 42 percent spend between \$1 and \$2.

This age group expressed equal preference for the regular type restaurants, steakhouses and fancy restaurants. Surprisingly, chain pizza ranked fifth with the younger people. Seventy-five percent indicated they would change their eating habits if a family-type restaurant were available.

Student Stratification

The students interviewed listed atmosphere and quality as their biggest source of dissatisfaction. Students seemed to have more complaints about Logan eating establishments than the average respondent.

All of the students interviewed indicated they spend less than \$3 per meal. About 50 percent spend between \$1 and \$2 for a meal.

Forty-six percent of the students preferred the regular type of restaurant most of the time. This may be attributed to the fact that they have not had the opportunity in Logan to become acquainted with a family-type restaurant such as Dee's or J. B.'s. Their second choice was the family-type restaurant.

Age Group 25-49 Years Stratification

Seventy-four percent of the middle-aged people considered atmosphere to be the most dissatisfying factor of Logan restaurants.

Of those questioned, 84 percent replied that they spend \$3 or less; and 51 percent indicated they spend between \$2 and \$3 for a meal. Thirty-eight percent acknowledged they would prefer to eat at family-type restaurants most of the time. Their second choice was fancy dining. This age group indicated less willingness to change their eating habits than the younger people.

Age Group 50-Over Stratification

Seventy-seven percent of this group go out to eat at least once a month as an individual, while only 53 percent eat out as a family at least once a month. Only 27 percent leave town during the month to eat.

Fifty percent expressed dissatisfaction with Logan restaurants. Again, the most dissatisfying feature was atmosphere, as most of the other groups indicated.

With age comes the apparent ability or willingness to spend more per meal. Seventy-three percent said they spend between \$2 and \$4 for a meal. Most of the elderly people (87 percent) listed Harman's as the family-type restaurant where they would most like to eat. But when five types of restaurants were listed in the next question, 68 percent of this age group preferred fancy dining. This group indicated they were generally unwilling to change their eating habits.

Business Stratification

A questionnaire was prepared especially for those people working in the downtown business district. This classification had certain characteristics due to their fixation and location.

The majority of the working people preferred to eat their noon meal downtown instead of eating at home (65 percent to 35 percent). When asked why they eat at a particular downtown location, the most frequent response was because of location or distance. They stated that they preferred those restaurants located within walking distance. This is an important fact to consider when the location of a downtown restaurant is being chosen.

Sixty percent of those people were dissatisfied with at least some aspects of the present Logan restaurants. Poor service was listed in 17 percent of the cases, variety of food in 15 percent, followed by atmosphere and cleanliness--each with 13 percent.

Forty-six percent said that their eating habits would change if a new family-type restaurant were brought into Logan. It is significant to

note that of this 46 percent, most of these added an "if" to their answer. That was "if" the new restaurant was within walking distance.

Summary

As a summary of the preceding stratification breakdowns a response grid was constructed. In this grid a group breakdown is presented showing the percent of interviewees (1) spending \$3 or less and (2) expressing dissatisfaction with the various aspects of Logan restaurants. For example, the figure in the upper left hand corner of the grid indicates that 75 percent of the low income group usually spend less than \$3 for a meal. Continuing across, one can see that in the low income group 27 percent were dissatisfied with the service, 18 percent with the atmosphere, 9 percent with cleanliness, and that they prefer the family-type restaurant.

Illustration 3: Response Grid

	Desire Prices Less than \$3	<u>Criteria</u>					Preference Of Restaurant
		<u>% of Respondents Dissatisfied With</u>					
		<u>Service</u>	<u>Atmos- phere</u>	<u>Quality of food</u>	<u>Cleanli- ness</u>		
Low Inc.	75%	27%	18%	0%	9%	Family type	
Med. Inc.	80%	0%	29%	20%	0%	Fancy type	
High Inc.	28%	0%	55%	18%	9%	Fancy type	
0-24 Yr.	96%	19%	26%	26%	9%	Steak, reg. Fancy (tie)	
25-49 Yr.	84%	7%	25%	9%	7%	Family type	
50-over Yr.	67%	0%	22%	6%	11%	Fancy type	
Students	100%	12%	24%	24%	10%	Regular type	
Cache Val.	95%	10%	18%	8%	13%	Family type	
Businessmen	100%	17%	13%	9%	13%	N. A.	

Stratification

The target market grid was constructed by marking an "X" in those boxes where percentages in the response grid exceeded 20 percent. Only those groups which had three or more "X's" qualified as part of the total target market.

The results indicate the major target market to consist of the low and medium income groups, those from 0-49 years old, and students. It would therefore appear that a new restaurant should attempt to cater to these groups of people.

Illustration 4: Target Market Grid

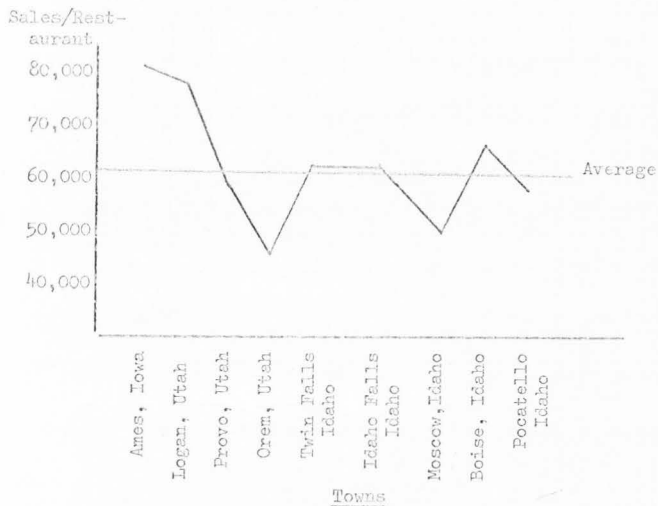
	<u>Criteria</u>					
	<u>Prices less than \$3</u>	<u>Fast service</u>	<u>Atmos-phere</u>	<u>Quality of food</u>	<u>Cleanli-ness</u>	<u>Preference of restaurant</u>
Low Inc.	X	X				X
Med. Inc.	X		X	X		
High Inc.	X		X			
0-24 Yr.	X	X	X	X		
25-49 Yr.	X		X			X
50-over Yr.	X		X			
Students	X		X	X		
Cache Val.	X					X
Businessmen	X					

Stratification

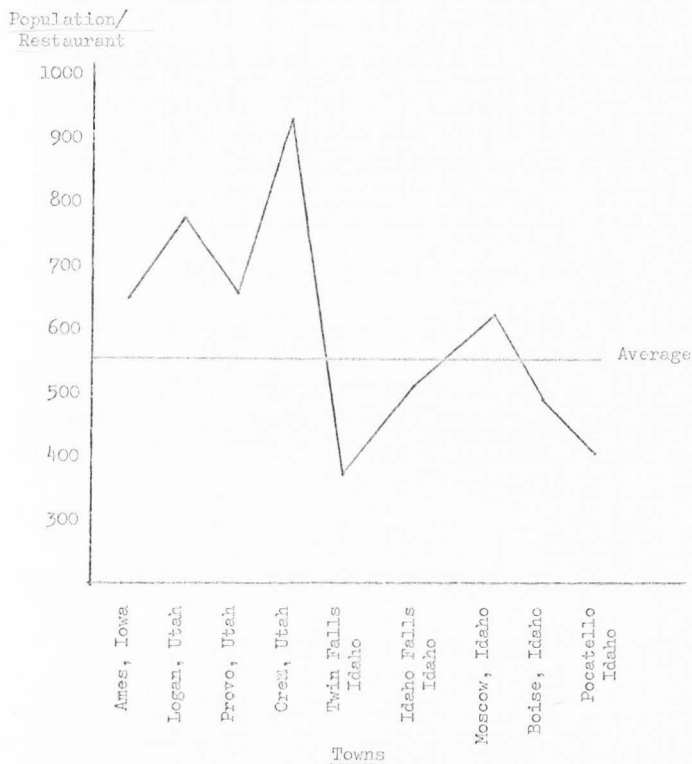
COMPETITION

Comparison of Communities

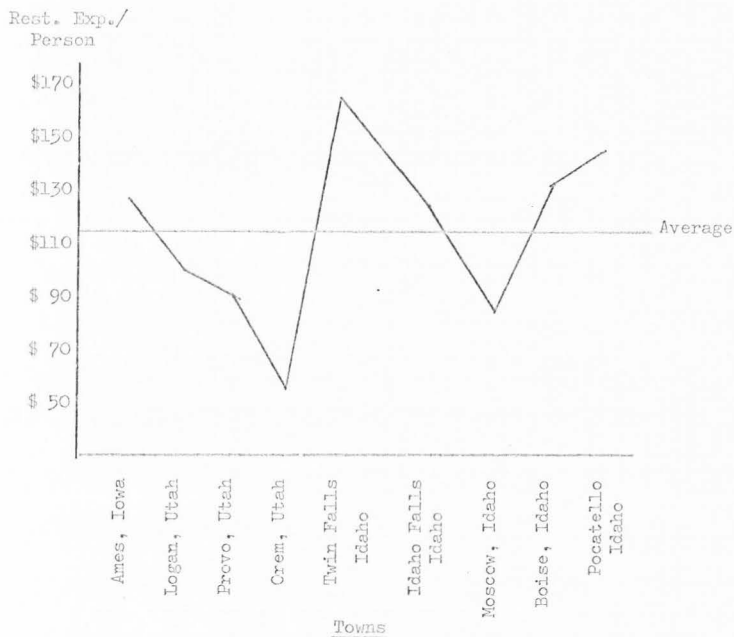
To get a better idea of how Logan restaurant needs compare with other communities the following data has been gathered:

Illustration 5: Sales/Restaurant^a

^a1963 Census of Business Retail Trade Area Statistics, Department of Commerce, Parts I, II & III, U. S. Government Printing Office, Washington, D. C., 1966, A. Ross Eckler, director.

Illustration 6: Population/Restaurant^a

^a1963 Census of Business Retail Trade Area Statistics, Department of Commerce, Parts I, II and III, U. S. Government Printing Office, Washington, D. C., 1966, A. Ross Eckler, director.

Illustration 7: Restaurant Expenditure/Person^a

^a1963 Census of Business Retail Trade Area Statistics, Department of Commerce, Parts I, II and III, U. S. Government Printing Office, Washington, D. C., 1966, A. Ross Eckler, director.

The above charts point out that Logan's sales/restaurant is \$1800 above the average of those cities indicated. This may indicate that there are too many restaurants in the other cities or that there are too few in Logan. A reason for high sales/restaurant is that Logan has a high population/restaurant. It has 781 people/restaurant, as compared to the average figure of 553 people/restaurant. Sales/restaurant would be even higher if restaurant expenditures/capita were not so low. In this area, Logan falls below the average with \$100.50/year compared with the average of \$113/year. (All figures in the above paragraph came from the preceding three documented graphs.)

Number, Breakdown and Characteristics of Competitors

In order to obtain a better understanding of our competition, competitors have been classified into similar groups. There are nine drive-ins and nineteen walk-in restaurants.¹ (Some of these are combination drive-in and walk-in.) The walk-in types have been further broken down into regular-type, specialty-type and fancy dining-type.²

Regular-type restaurants. Regular-type restaurants include for example: Dick's, Cache Cafe, Glauser's, Grand, Tally-Ho, Winget's, and Woolworths. This type of restaurant is usually characterized as follows:

1. Pricing is fairly low, usually ranging from \$1-\$2.
2. Most sales are lunches or sandwiches.
3. Little if no atmosphere - a few booths in a square room.
4. Located in the downtown district.
5. Old buildings with little modernization.

¹Population statistics and estimates received from Logan Chamber of Commerce.

²From observation of the researcher.

6. Service and cleanliness average or below.
7. Target market - mostly business people, daytime customers are the majority of trade.

Specialty-type restaurants. Specialty-type restaurants include the following: Fredrico's, The "Bird," Fred's Burger Chalet, Bistro, Steed's Dairy Bar, and Walgreen's. (Walgreen's was placed in this group not because they are a specialty type, but because most of the characteristics are applicable.) The following are characteristics of the specialty group:

1. Pricing and menu are oriented to students.
2. Most sales are from daytime trade, with the exception of Fredrico's and Fred's Burger Chalet.
3. Atmosphere is directed to appeal to the younger generation.
4. Most are fairly modern.
5. All are located out of the downtown district usually in buildings by themselves.
6. Their target market is made up of businessmen, students, families, and salesmen.
7. Service and cleanliness is average or above.
8. Informal and formal dress is accepted.

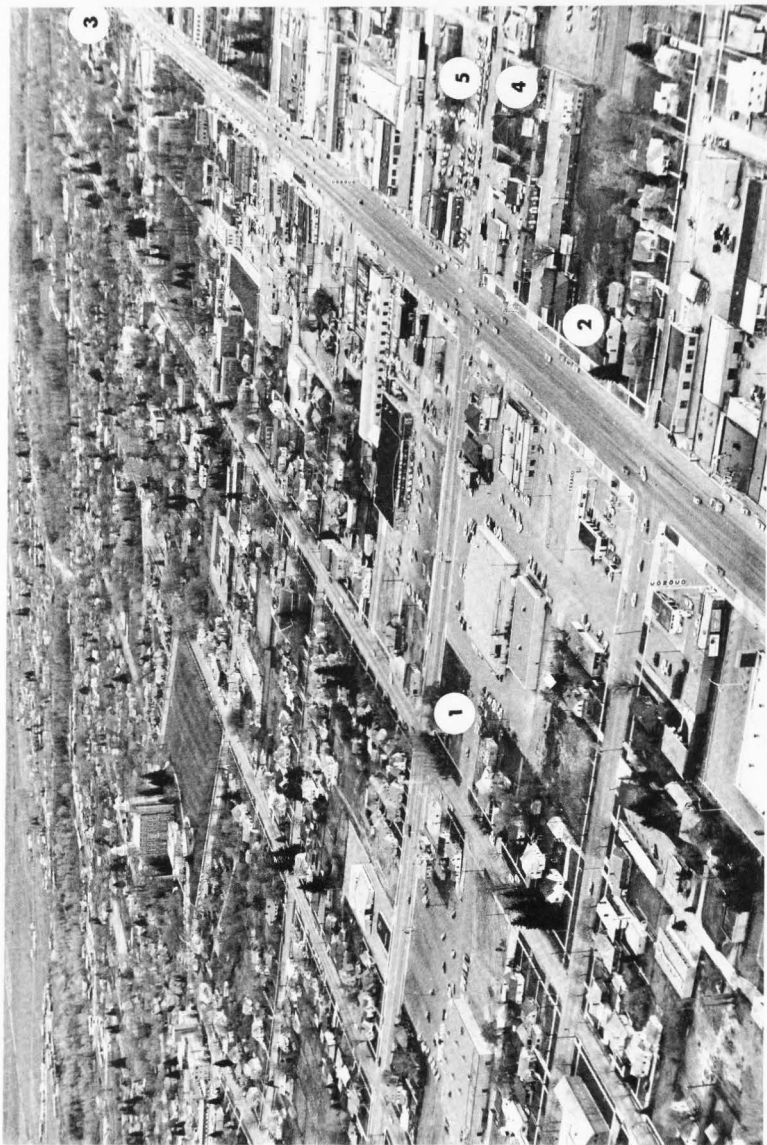
Fancy type-restaurants. Fancy dining-type restaurants include the Bluebird, Lofthouse, Mt. Logan Cafe and Polynesian Room, New Grandview, Mel's Steakhouse, and Zanavoo. Characteristics of the fancy dining group are given as follows:

1. Pricing is generally higher than the other two restaurant types.
2. Most sales come from full course dinners.
3. Each attempts to portray a certain atmosphere.

4. Most operate in individual units out of the business district.
5. Target market:
- a. Bluebird - appeals to the well-to-do, formally dressed and adult valley residents.
 - b. Lofthouse
 - c. New Grandview
 - d. Mt. Logan
 - e. Zanavoo
- appeal to families, dates, the in-
formally dressed, and daytime traf-
fic of business and sales people.
- f. Mel's - appeals to the informally dressed and those wanting to pay for top quality beef.
6. Service and cleanliness is desired although not always found.

With the overall competitive picture in view it is the opinion of the writer that a restaurant as proposed in this paper--one that is well managed, kept very clean, portrays a definite atmosphere, has low prices, fast service, in a modern structure, and has a well defined target market--will fit into the specialty-type group with its own interstitial demand.

Illustration 8: Location Photo



LOCATION

Five sites were considered as possible future restaurant locations. These five are shown on the accompanying photo (Illustration 8). A number is used to represent each one.

Illustration 9: Location Alternatives

<u>Numbers</u>	<u>Location Represented</u>
1	Albertson's Corner (93 East, 4 th North)
2	Next to Holiday House Motel (470 North Main)
3	Baugh Car Lot (110 South Main)
4	Across from Cook's Transportation (35 West 4 th North)
5	Cook's Transportation Car Lot (30 West 4 th North)

The location of the restaurant must conform to specific criteria. Each of the five locations under consideration was evaluated in light of the required criteria. The following location grid shows the results.

Illustration 10: Location Grid

X = Criteria not met

<u>Criteria</u>	<u>Location</u>				
	1	2	3	4	5
Lot size 30,000 sq. ft.					X
Progressive or growth area	X		X		
Has a consistent feeder					X
Cost of building and land not to exceed 8 percent sales		X			
High traffic - above 10,000 cars/day				X	X
Easy access					
Corner if possible		X		X	X
Proper zoning					
Good street condition & curb.			X	X	X
High volume neighborhood				X	X
No. of criteria not met	1	2	2	4	6

As the grid points out, location #1 meets all but one of the criteria. Locations #2 and #3 meet all but two of the criteria.

Location #3 is located close to both the Baugh and Crystal Motel, both of which would serve as feeders. Downtown businessmen would be within walking distance. The biggest disadvantage to this location is that this particular block is "run-down."

Location #2 offers certain advantages since it is located on Highway #91 on the north side of Logan. A consistent feeder in the Holiday House Motel is present. This area is much more progressive in expansion, traffic, and sales volume than is location #3. A new bank is being constructed across the street, service stations close by have improved their appearances, shopping centers are developing east through the next two blocks, and the Holiday House Motel plans on expanding in the near future. The main disadvantage to this location is the fact that the cost is above the maximum amount budgeted for this expense (\$2400/month is the maximum while this location would cost at least \$2450/month).

Location #1 met all criteria but one. Although not located next to a consistent feeder, like a motel, the high volume of surrounding stores and also the fact that Fourth North provides for heavy traffic flow might more than make up for the absence of a consistent feeder. This area is certainly one of the busiest in town and is certain to become busier as the nearby shopping centers expand.

This corner lot would be easily accessible. Traffic flow has been provided for through the interior of the block as well as from passing streets of Fourth North and First East. Easy access and heavy traffic

are both location prerequisites mentioned by Denny's, J. B.'s Big Boy, and Dee's family restaurants.

Denny's restaurant prefers to locate close to competitors. Their strategy is to give people an "area" to think of when they think of eating out. A new restaurant located on Albertson's corner along with Walgreen's east and a new taco house being built across the street south would provide the people of Cache Valley with such an "area."

Location #1 is recommended as the most advantageous site. Location #2 would be an acceptable alternate providing the owner would be willing to lower his price. Location #1 offers a reasonable lease or purchase price (\$2300/month compared with the budgeted amount of \$2400/month), and at the same time the immediate area is expanding at a faster rate than any of the other locations.

Illustration 11: Location Data

<u>Location</u>	<u>Traffic Count</u> ^a	<u>Cost</u> ^b	<u>Size</u> ^b
1	13,425/day	65,000 sale 650 lease	Adequate
2	16,000/day	80,000 sale 800 lease	30,000 sq. ft.
3	15,000/day	N. A.	30,000 sq. ft.
4	N. A. ^c	N. A.	30,000 sq. ft.
5	N. A.	350/mo. lease	27,000 sq. ft.

^aUtah State Highway Department, Traffic Control, Ogden, Utah, May 20, 1968.

^bEstimates were obtained from owners and local real estate agents.

^cFigures not available.

FINANCE

In order to obtain some general guidelines to use in projecting the costs of the restaurant, contact was made with Dee's Family Restaurants, J. B.'s Big Boy and Denny's. Since the estimated costs as presented by these firms were quite uniform, it was decided to use their cost recommendations, with some minor adjustments.

It was decided to project first year operations under both purchase and lease options for a franchised and a non-franchised operation. For the purchase option, a corporation was assumed to be organized with \$155,000 capitalization. In addition, a \$153,000, 8 percent, 20-year mortgage and a \$10,000, 7½ percent, 3-year note were obtained for construction and working capital.

The lease option was assumed to require corporation capitalization of \$75,000. The lease was to be a 10-year renewable arrangement costing \$2350 monthly. Lease costs were estimated to be 1 percent monthly of the land and building costs. The lessor would pay for structural maintenance, and the lessee would pay insurance and taxes.

The building was assumed to cost \$170,000 including the sign, landscaping and outdoor lighting. In addition to this, another \$60,000 would be expended for restaurant equipment, fixtures and in-store decoration.

Franchise costs were assumed to be \$5000 initially plus 2 percent of gross sales.

It is assumed that a staff of approximately 30 people will be hired. This includes four cooks, two bus boys, two dishwashers, one manager, one supervisor, and twenty waitresses. Salaries to be paid are as follows: cooks, \$500/monthly; bus boys and dishwashers, \$1.30/hr.; waitresses, \$1.20/hr.; supervisor, \$5800/year; and manager, \$9600/year.

In developing the pro forma income statement, costs have been based on "percent of sales" figures, as supplied by several restaurants located in the northern Utah area. Wherever specific local figures were obtainable which were more accurate, these were used to adjust the figure accordingly.

First year sales are estimated at \$300,000 without a franchise, and \$325,000 with a franchise. The major expense, food, is estimated to be 35 percent of gross sales. The rent expense, where applicable, is assumed to include taxes on the land, which are approximately \$335.

Depreciation is calculated on a simple straight line basis, assuming a 40-year life for the building, a 10-year life on the sign and a 10-year life on the restaurant equipment and fixtures. In calculating the taxes, a double declining balance method is used to determine the depreciation.

The organizational costs are being amortized over a 5-year period as is the franchise expenditure of \$5000.

The taxes during the first year are reduced \$4900 under each proposal because of the investment tax credit.

A Cash Flow Statement was prepared for the first three months. Cash on hand appears to be sufficient to meet any substantial demands which may arise. The nature of the business provides for substantial cash flows and with few exceptions, expenses are incurred at a fairly uniform rate. Property taxes may be paid from the mortgage loan reserve and payroll taxes should be allocated monthly. A Cash Flow Statement is presented for the first year as shown in illustration 17.

Pro Forma Comparative Balance Sheet
(Assuming Franchise and Purchase of Land and Buildings)

<u>ASSETS</u>	<u>1968</u>	<u>July 31</u>	<u>1969</u>
Cash	\$ 11,000.00	\$ 53,942.50	
Food Inventory & Cigarettes	3,000.00	3,000.00	
Food Supplies	1,500.00	1,000.00	
Office Supplies	400.00	250.00	
Maintenance Supplies	2,000.00	1,800.00	
Uniforms	800.00	950.00	
Printed Material (Menus, mats, etc.)	1,950.00	300.00	
Kitchen Supplies	4,000.00	<u>3,950.00</u>	\$ 65,192.50
	<u>\$ 24,650.00</u>		
Equipment, Booths, Furnishings	60,000.00	\$ 60,000.00	
Less Allowance for Depreciation		<u>6,000.00</u>	54,000.00
Building	160,000.00	<u>\$160,000.00</u>	
Less Allowance for Depreciation		<u>4,000.00</u>	156,000.00
Sign	10,000.00	<u>\$ 10,000.00</u>	
Less Allowance for Depreciation		<u>1,000.00</u>	9,000.00
Land	65,000.00		<u>65,000.00</u>
Organization Costs	500.00	500.00	
Less Amortization		<u>100.00</u>	400.00
Franchise Agreement	500,000.00	\$ 5,000.00	
Less Amortization		<u>1,000.00</u>	4,000.00
Total Assets	<u>\$325,150.00</u>	<u> </u>	<u>\$353,592.50</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 7,150.00	\$ 11,450.00	
Notes Payable	10,000.00	6,907.00	
Mortgage Payable	<u>153,000.00</u>	<u>149,328.00</u>	
Total Liabilities	<u>\$170,150.00</u>		<u>\$167,685.00</u>
<u>CAPITAL</u>			
Common Stock (50,000 shares auth. & issued, \$1, par)	50,000.00		\$ 50,000.00
Paid-in Capital	105,000.00		105,000.00
Retained Earnings			<u>30,907.50</u>
Total Capital	<u>\$155,000.00</u>		<u>\$185,907.50</u>
Total Liabilities & Stockholder's Equity	<u>\$325,150.00</u>		<u>\$353,592.50</u>

Illustration 13

 Pro Forma Comparative Balance Sheet
 (Assuming Lease of Land and Building)

	<u>July 31</u>	
<u>ASSETS</u>	<u>1968</u>	<u>1969</u>
Cash	\$ 11,000.00	\$ 49,073.50
Food Inventory and Cigarettes	3,000.00	3,000.00
Food Supplies	1,500.00	1,000.00
Office Supplies	400.00	250.00
Maintenance Supplies	2,000.00	1,800.00
Uniforms	800.00	950.00
Printed Material (Menus, mats, etc.)	1,950.00	300.00
Kitchen Supplies	<u>4,000.00</u>	<u>3,950.00</u>
	\$ 24,650.00	\$ 60,323.50
Equipment, Booths, Furnishings	60,000.00	54,000.00
Lease Agreement	282,000.00	254,800.00
Franchise Agreement	5,000.00	4,000.00
Organization Costs	<u>500.00</u>	<u>400.00</u>
Total Assets	<u>\$372,150.00</u>	<u>\$373,523.50</u>
 <u>LIABILITIES</u> 		
Accounts Payable	\$ 7,150.00	\$ 11,450.00
Notes Payable	10,000.00	6,907.00
Lease Payable	<u>282,000.00</u>	<u>254,800.00</u>
Total Liabilities	<u>\$299,150.00</u>	<u>\$273,157.00</u>
 <u>CAPITAL</u> 		
Common Stock (50,000 shares auth. & issued, \$1, par)	\$ 50,000.00	\$ 50,000.00
Paid-in Capital	23,000.00	23,000.00
Retained Earnings	<u>27,366.50</u>	<u>27,366.50</u>
Total Capital	<u>\$ 73,000.00</u>	<u>\$100,366.50</u>
Total Liabilities and Capital	<u>\$372,150.00</u>	<u>\$373,523.50</u>

Illustration 14

Pro Forma Income Statement
For The Year Ending July 31, 1969

	<u>Without Franchise</u>		<u>With Franchise</u>	
	<u>Buying Land</u>	<u>Leasing Land and Building</u>	<u>Buying Land</u>	<u>Leasing Land and Building</u>
Sales	\$300,000.00	\$300,000.00	\$325,000.00	\$325,000.00
Cost of Sales:				
Food	35% 105,000.00	105,000.00	113,750.00	113,750.00
Food Supplies	2,610.00	2,610.00	2,827.50	2,827.50
GROSS PROFIT ON SALES	<u>\$192,390.00</u>	<u>\$192,390.00</u>	<u>\$208,422.50</u>	<u>\$208,422.50</u>
Net Cigarette Income	1,500.00	1,500.00	1,550.00	1,550.00
Miscellaneous Income	<u>150.00</u>	<u>150.00</u>	<u>150.00</u>	<u>150.00</u>
TOTAL GROSS PROFIT	<u>\$194,040.00</u>	<u>\$194,040.00</u>	<u>\$210,122.50</u>	<u>\$210,122.50</u>
Controllable Operating Expenses:				
Salaries and Wages	79,200.00	79,200.00	79,200.00	79,200.00
Payroll Taxes and Insurance	8,250.00	8,250.00	8,250.00	8,250.00
Employee Meals	270.00	270.00	270.00	270.00
Utilities	5,820.00	5,820.00	5,820.00	5,820.00
Maintenance	8,250.00	6,000.00	8,250.00	6,000.00
Laundry	2,000.00	2,000.00	2,000.00	2,000.00
Printing	1,950.00	1,950.00	1,950.00	1,950.00
Breakage and Renewals	2,300.00	2,300.00	2,300.00	2,300.00
Cash (Shortage) or Overage	<u>330.00</u>	<u>330.00</u>	<u>330.00</u>	<u>330.00</u>
TOTAL CONTROLLABLE EXPENSE	<u>\$107,930.00</u>	<u>\$105,680.00</u>	<u>\$107,930.00</u>	<u>\$105,630.00</u>
Other Operating Expenses:				
Bonuses	\$ 720.00	\$ 720.00	\$ 720.00	\$ 720.00
Vacation Allowances & Sick Leave	630.00	630.00	630.00	630.00
Music	360.00	360.00	360.00	360.00
Insurance	1,260.00	1,260.00	1,260.00	1,260.00
Taxes and Licenses	4,335.00	4,335.00	4,335.00	4,335.00
Uniform Expense	900.00	900.00	900.00	900.00
Advertising	3,720.00	3,720.00	3,720.00	3,720.00

	<u>Without Franchise</u>		<u>With Franchise</u>	
	<u>Buying Land</u>	<u>Leasing Land and Building</u>	<u>Buying Land</u>	<u>Leasing Land and Building</u>
Other Operating Expenses (cont'd):				
Dues, Subscriptions & Contributions	\$ 600.00	\$ 600.00	\$ 600.00	\$ 600.00
Accounting and Legal	1,500.00	1,500.00	1,500.00	1,500.00
Office Supplies and Expense	450.00	450.00	450.00	450.00
Telephone	480.00	480.00	480.00	480.00
Rent Expense		28,200.00		28,200.00
Franchise Expense			<u>6,500.00</u>	<u>6,500.00</u>
TOTAL OTHER EXPENSES	<u>\$ 15,015.00</u>	<u>\$ 43,215.00</u>	<u>\$ 21,515.00</u>	<u>\$ 49,715.00</u>
TOTAL OPERATING EXPENSES	<u>\$122,945.00</u>	<u>\$148,895.00</u>	<u>\$129,445.00</u>	<u>\$155,395.00</u>
NET OPERATING PROFIT	<u>\$ 71,095.00</u>	<u>\$ 45,145.00</u>	<u>\$ 80,677.50</u>	<u>\$ 54,727.00</u>
Administrative Expenses:				
Amortized Organization Costs	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00
Amortized Franchised Costs			1,000.00	1,000.00
Depreciation Expense	11,000.00	6,000.00	11,000.00	6,000.00
Interest Expense	12,308.00	613.00	12,308.00	613.00
General Administrative Expense	15,900.00	15,900.00	15,900.00	15,900.00
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 39,308.00</u>	<u>\$ 22,613.00</u>	<u>\$ 40,308.00</u>	<u>\$ 23,613.00</u>
NET PROFIT BEFORE TAXES	<u>\$ 31,787.00</u>	<u>\$ 22,532.00</u>	<u>\$ 40,369.50</u>	<u>\$ 31,114.50</u>
Less Taxes	7,778.00	3,977.00	11,897.00	7,454.00
NET PROFIT AFTER TAXES	<u>\$ 24,009.00</u>	<u>\$ 18,555.00</u>	<u>\$ 28,472.50</u>	<u>\$ 23,660.50</u>
Applied to Principal Retirement (Loan)	<u>\$ 6,765.00</u>	<u>\$ 3,093.00</u>	<u>\$ 6,765.00</u>	<u>\$ 3,093.00</u>
Available to Stockholders	\$ 17,244.00	\$ 15,462.00	\$ 21,707.50	\$ 20,567.50
Return on Invested Capital ^a	11.1%	21.2%	14.0%	28.1%

^aSee Appendix D.

Illustration 15

Pro Forma First Quarter Cash Flow Statement^a
 (Assuming Franchise and Purchase of Land and Buildings)

	<u>August</u>	<u>September</u>	<u>October</u>
Cash Was Provided By:			
Beginning Balance	\$11,000.00	\$ 5,173.00	\$ 7,907.00
Net Income	507.00	2,433.00	3,137.00
Add:			
Depreciation	911.00	911.00	911.00
Amortization	98.00	89.00	98.00
Decrease in Food Supplies	217.00	218.00	217.00
Decrease in Office Supplies	37.00	38.00	37.00
Decrease in Maintenance Supplies	150.00	150.00	150.00
Decrease in Printed Material	162.00	163.00	162.00
Decrease in Kitchen Supplies	4.00	5.00	4.00
TOTAL PROVIDED	<u>\$12,886.00</u>	<u>\$ 9,170.00</u>	<u>\$12,613.00</u>
Cash Was Applied To:			
Payment of Payroll Taxes ^b		\$ 700.00	\$ 678.00
Mortgage Payable ^c	\$ 306.00	306.00	306.00
Note Payable ^c	257.00	257.00	257.00
Accounts Payable	<u>7,350.00</u>		
TOTAL APPLIED	<u>\$ 7,713.00</u>	<u>\$ 1,263.00</u>	<u>\$ 1,241.00</u>
MONTH END CASH BALANCE	<u>\$ 5,173.00</u>	<u>\$ 7,907.00</u>	<u>\$11,372.00</u>

^aSee Appendix B.

^bWithholding is paid by the 15th of the following month according to federal requirements.

^cPayments towards principal are figured by simple division of the yearly payments. Therefore, amounts here deviate slightly from actual amounts.

Illustration 16

Pro Forma First Quarter Cash Flow Statement^a
 (Assuming Franchise and Lease of Land and Building)

	<u>August</u>	<u>September</u>	<u>October</u>
Cash Was Provided By:			
Beginning Balance	\$11,000.00	\$ 4,777.00	\$ 6,942.00
Net Income	(784.00)	1,172.00	1,776.00
Add:			
Depreciation	600.00	600.00	600.00
Amortization	98.00	98.00	98.00
Payroll Taxes	700.00	678.00	700.00
Decrease in Food Supplies	217.00	218.00	217.00
Decrease in Lease Agreement	2,350.00	2,350.00	2,350.00
Decrease in Office Supplies	37.00	38.00	37.00
Decrease in Maintenance Supplies	150.00	150.00	150.00
Decrease in Printed Material	162.00	163.00	162.00
Decrease in Kitchen Supplies	4.00	5.00	4.00
TOTAL PROVIDED	<u>\$14,534.00</u>	<u>\$10,249.00</u>	<u>\$13,036.00</u>
Deduct:			
Decrease in Lease Payable	\$ 2,350.00	\$ 2,350.00	\$ 2,350.00
Decrease in Notes Payable	257.00	257.00	257.00
Payments of Payroll Taxes		700.00	678.00
Accounts Payable	<u>7,150.00</u>		
TOTAL APPLIED	<u>\$ 9,757.00</u>	<u>\$ 3,307.00</u>	<u>\$ 3,285.00</u>
MONTH END CASH BALANCE	<u>\$ 4,777.00</u>	<u>\$ 6,942.00</u>	<u>\$ 9,751.00</u>

^aSee Appendix B.

Illustration 17
 Pro Forma Statement of Cash Flow
 For Year Ended July 31, 1969

	<u>Assuming Purchase</u>	<u>Assuming Leasing</u>
Cash Was Provided By:		
Net Income per Income Statement	\$ 37,672.50	\$ 30,459.50
Add: Decrease in Lease Agreement		
Depreciation	11,000.00	28,200.00
Amortization	1,100.00	6,000.00
Increase in Accounts Payable	4,300.00	1,100.00
Decrease in Food Supplies	500.00	4,300.00
Decrease in Office Supplies	150.00	500.00
Decrease in Maintenance Supplies	200.00	150.00
Decrease in Printed Material	1,650.00	200.00
Decrease in Kitchen Supplies	50.00	1,650.00
	<u>50.00</u>	<u>50.00</u>
Total	<u>\$ 56,622.50</u>	<u>\$ 72,609.50</u>
Deduct:		
Uniforms	\$ 150.00	\$ 150.00
Decrease in Lease Payable		28,200.00
Decrease in Notes Payable	3,093.00	3,093.00
Decrease in Mortgage Payable	<u>3,672.00</u>	
Total	<u>\$ 6,915.00</u>	<u>\$ 31,443.00</u>
	\$ 49,707.50	\$ 41,166.50
Cash Was Applied To:		
Mortgage Payable	\$(3,672.00)	
Note Payable	<u>(3,093.00)</u>	<u>\$(3,093.00)</u>
INCREASE IN CASH	<u>\$ 42,942.50</u>	<u>\$ 38,073.50</u>

LEGAL ASPECTS

The proposed restaurant would be subject to Logan City and the State of Utah Health and Sanitation restrictions. These restrictions deal chiefly with the building location and construction, working and storage conditions, food preparation and serving, and other more routine day-to-day operating matters. Prior to actual construction, the Logan City Health Department must inspect and okay the plans and then a permit may be issued. Other inspections are necessary prior to actual operation and continuously thereafter.

The plans and proposals accompanying this study comply with the health standards to the extent the plans are completed.

All of the proposed sites for locating the restaurant are within the Logan City limits. At the present time, the property listed as the first choice location is appraised at \$40 a front foot. Proposed taxes on the land would approximate \$350/year.

Buildings are considered as "Improvements on Real Estate" and are appraised at 20 percent of their market value. Estimated taxes on the building would be approximately \$2706/year.

The equipment and fixtures would be taxed as personal property at approximately 26 percent. The estimated taxes would be approximately \$1279. Information concerning the assessment and mill levy was obtained from the Cache County Assessor's Office. The mill levy is approximately 82 mills at the present time. Adequate consideration has been given property taxes in the pro forma statements. It is assumed that a reserve will be established for taxes, with monthly transfers to such an account.

Insurance coverage should include comprehensive fire and building, liability, criminal and work stoppage. If a sprinkling system is installed in the building, the fire rates will be cut almost in half. In the Pro Forma Income Statement an estimated \$1,260 is set aside for insurance purposes. This should be adequate for the facility proposed.

RESTAURANT DESIGN AND POLICIES

Design

The exterior structure of the restaurant, as shown on the next page, portrays a modified type of ranch-style design. The roof's overhanging timbers make the structure look low and modern. The rocked face of the building along with the large windows gives an appearance of luxury, yet, the image appeals to the type of person as outlined in the target market. A parking lot is shown on the exterior drawing. Approximately 22,000 square feet would be for parking. A lot of this size, 150 feet by 150 feet, could park approximately 30 cars. Adequate and easily accessible parking is very important to a restaurant of this type.

Inside the restaurant, the decor and atmosphere suggests a very pleasant and modern surrounding. The atmosphere will be of Spanish-modern type. The furniture will be trimmed in black leather and dark wood. Paintings and lighting fixtures will be used to accent this type of an atmosphere. This type of atmosphere will create a "come-as-you-are" atmosphere in the central eating area with a more formal atmosphere provided in the dining room.

The floor plan, as shown, shows a seating capacity of approximately 86 people. Provisions for a counter-type service, booth service, or table service, makes for flexibility and customer appeal. The floor plan is compact and conservative in its design.

Policies

The success of any restaurant business depends a great deal upon how the policies of management are carried out. The following areas

Illustration 18: Restaurant Design

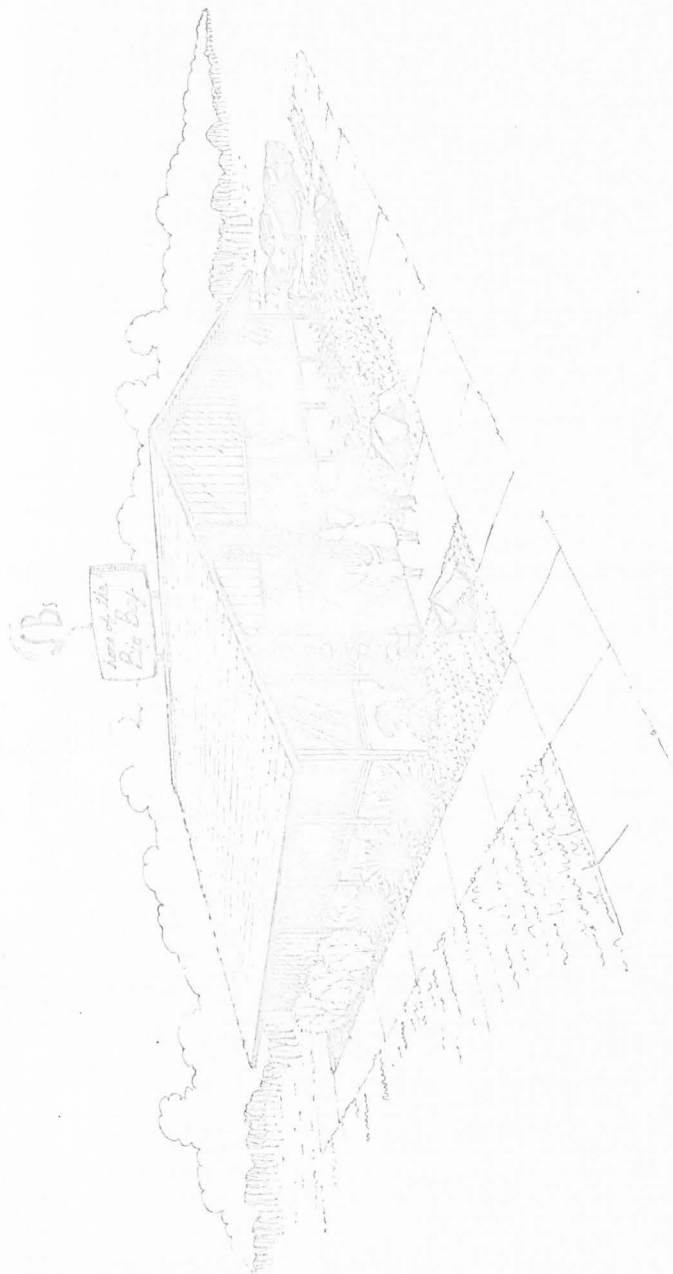
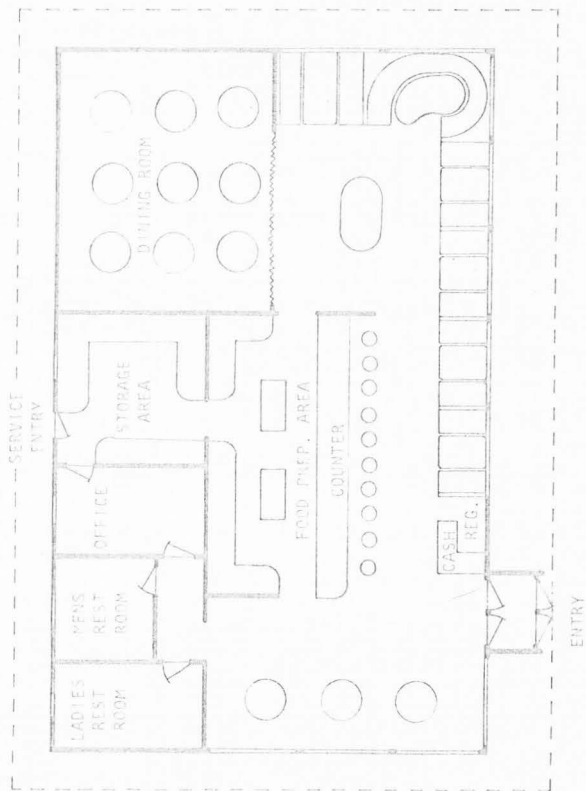


Illustration 19: Restaurant Floor Plan



PLAN VIEW

should be considered in evaluating a proposed restaurant of this type.

Prices and menu. Since the majority of those questioned indicated they usually spend between \$1 to \$3, the pricing structure should conform with this demand. The menu would contain hamburgers, sandwiches, salads, chili dishes, fountain treats, beverages, desserts, and dinners (dinner prices running approximately \$1.10 to \$2.85).

Quality and service. Management should maintain top quality food, keeping in mind the people of Logan have indicated dissatisfaction on this account. The service needs to be prompt, efficient, and thorough. The limited variety on the menu is an important factor in contributing to better service.

Personnel. The breakdown of employees would include the following: four cooks, two bus boys, two dishwashers, one manager, one supervisor (woman), and twenty waitresses.

Wage rates. The cooks will average about \$500 per month. Bus boys and dishwasher's wages will be approximately \$1.25 per hour with waitresses averaging \$1.20 per hour.

Training. Waitresses and bus boys should be well trained in their specific areas. One week prior to opening, a training session should be held for all employees. They should be acquainted with the policies and given instructions pertaining to their positions.

Hours. The restaurant hours will be from 6:00 a.m. to 11:00 p.m. weekdays and Sundays and until 12:00 p.m. on Saturdays.

Advertising. Advertising should cost one to three percent of gross receipts. Advertising should be carried out locally in the newspaper and on radio.

Purchasing, control and organization. The manager will need to develop these areas as the situation demands.

The above areas were considered assuming a non-franchise operation. If the restaurant is a franchise operation then the preceding areas will be dictated through the headquarters.

CONCLUSIONS

After an analysis of the preceding information, it is the opinion of the writer that the establishment of a family-type restaurant would be feasible in Logan, Utah.

The study indicated that the major target market would consist of low income class, medium income class, age groups 0-24, and 25-49, and students.

Statistics illustrate that Logan has fewer restaurants per capita than do other cities of comparable size and that Logan's sales per restaurant are above average. It appears that there is no effective competition in the specific portion of the market wherein this family-type restaurant would operate. The restaurant would have a distinct advantage by offering the atmosphere respondents felt was lacking. Other advantages would include fast service, cleanliness, and modern facilities.

In the study, the Albertson's location was selected as the first choice, although any of the five under consideration would be acceptable.

The financing of the proposed family-type restaurant could be accomplished a number of ways. An outright purchase of the building and the land would require capitalization of \$155,000. Under this option, a franchised restaurant would return 14.0 percent on invested capital the first year compared to a 11.1 percent return without a franchise. To lease the land and building as outlined in the finance section would require capitalization of \$73,000. This option, assuming a non-franchised operation would give a first year return of 21.2 percent on invested capital while a franchised restaurant would return 28.1 percent.³

³See Appendix D.

LOGAN, UT AREA TIME 7

The growth presently taking place in Logan and Cache Valley should serve to provide a certain degree of growth potential for the restaurant. Considering all phases of the proposed restaurant, the establishment of a family-type restaurant should be considered an attractive investment.

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APPENDIXES

Appendix A
Questionnaire Totals

Grand Total - 160

RESTAURANT QUESTIONNAIRE

1. Male 76 48% Student 30 19% Age _____
 Female 84 52% Adult 130 81%
2. Logan Resident 76 48%
 Valley Resident 72 45%
 Other 12 7%
3. Do you enjoy going out to eat? Yes 154 96% No 6 4%
4. How often do you go out to eat as an individual?
 More than once a week 36 22%
 More than once a month 48 29%
 Once a month 44 27%
 Other 38 23%
5. How often do you go out to eat as a family?
 More than once a week 12 7%
 More than once a month 42 25%
 Once a month 58 34%
 Other 60 34%
6. How often do you as a family go out of town to eat?
 More than once a week 0 0%
 More than once a month 28 17%
 Once a month 42 26%
 Other 92 57%
7. Are you dissatisfied with any of the following in Logan Restaurants?
 (Check one or more)
- | | | | | | |
|------------|---------------|------------------|---------------|-------|---------------|
| Service | <u>22</u> 10% | Cleanliness | <u>20</u> 10% | None | <u>64</u> 28% |
| Atmosphere | <u>58</u> 26% | Quality of Food | <u>34</u> 15% | Other | <u>10</u> 4% |
| Location | <u>12</u> 5% | Quantity of Food | <u>6</u> 2% | | |
8. What is the average amount you spend per adult for a meal?
 \$1.00-2.00 54 34% \$3.00-4.00 18 11%
 \$2.00-3.00 82 52% \$4.00-over 6 4%
9. Which of the following family-type restaurants would you prefer to eat at most of the time?
 Denny's 22 14% Dec's 22 14%
 J.B.'s Big Boy 45 29% Harman's 72 45%

-2-

10. Which of the following places would you like to eat at most of the time?

Chain pizza (Shakey's etc.)	6	4%
Hot Shoppe (J.B.'s Big Boy, Dee's, Denny's)	54	35%
Steakhouse (Sizzler, Topper)	24	16%
Regular Type (Dicks, Greaves, Mt. Logan Cafe)	26	17%
Fancy Dining (Bluebird, Andy's Smorgasboard)	42	28%

11. Rank the following choices in order of your preference.

Chain pizza _____

Hot Shoppe _____

Steakhouse _____

Regular Type _____

Fancy Dining _____

12. If there was a family-type eating establishment in Logan would your eating habits change?

Yes 108 66%

No 52 34%

Logan -- Total Low Income

RESTAURANT QUESTIONNAIRE

1. Male 6 34% Student 2 12% Age _____
 Female 12 66% Adult 14 88%
2. Logan Resident 14 88%
 Valley Resident 2 12%
 Other _____
3. Do you enjoy going out to eat? Yes 14 88% No 2 12%
4. How often do you go out to eat as an individual?
 More than once a week 2 12%
 More than once a month 4 24%
 Once a month 6 36%
 Other 4 24%
5. How often do you go out to eat as a family?
 More than once a week 0
 More than once a month 2 12%
 Once a month 4 25%
 Other 10 63%
6. How often do you as a family go out of town to eat?
 More than once a week 0
 More than once a month 6 37%
 Once a month 0
 Other 10 63%
7. Are you dissatisfied with any of the following in Logan Restaurants?
 (Check one or more)
- | | | | | | |
|------------|---------------------|------------------|--------------------|-------|----------------------|
| Service | <u>6</u> <u>27%</u> | Cleanliness | <u>2</u> <u>9%</u> | None | <u>10</u> <u>45%</u> |
| Atmosphere | <u>4</u> <u>18%</u> | Quality of Food | <u>0</u> | Other | <u>0</u> |
| Location | <u>0</u> | Quantity of Food | <u>0</u> | | |
8. What is the average amount you spend per adult for a meal?
 \$1.00-2.00 2 13% \$3.00-4.00 2 13%
 \$2.00-3.00 10 62% \$4.00-over 2 13%
9. Which of the following family-type restaurants would you prefer to eat at most of the time?
 Denny's 4 26% Dee's 0
 J.B.'s Big Boy 4 26% Harman's 8 48%

-2-

10. Which of the following places would you like to eat at most of the time?

Chain pizza (Shakey's etc.)	<u>0</u>	
Hot Shoppe (J.B.'s Big Boy, Dee's, Denny's)	<u>8</u>	<u>50%</u>
Steakhouse (Sizzler, Topper)	<u>2</u>	<u>13%</u>
Regular Type (Dicks, Greaves, Mt. Logan Cafe)	<u>4</u>	<u>25%</u>
Fancy Dining (Bluebird, Andy's Smorgasboard)	<u>2</u>	<u>12%</u>

11. Rank the following choices in order of your preference.

Chain pizza	_____
Hot Shoppe	_____
Steakhouse	_____
Regular Type	_____
Fancy Dining	_____

12. If there was a family-type eating establishment in Logan would your eating habits change?

Yes 12 75%

No 4 25%

Logan - Total Med. Income

RESTAURANT QUESTIONNAIRE

1. Male 28 70% Student 2 5% Age _____
 Female 12 30% Adult 38 95%
2. Logan Resident 40 100%
 Valley Resident _____
 Other _____
3. Do you enjoy going out to eat? Yes 40 100% No _____
4. How often do you go out to eat as an individual?
 More than once a week 8 20%
 More than once a month 10 25%
 Once a month 14 35%
 Other 8 20%
5. How often do you go out to eat as a family?
 More than once a week 2 5%
 More than once a month 14 33%
 Once a month 22 53%
 Other 4 10%
6. How often do you as a family go out of town to eat?
 More than once a week 0
 More than once a month 2 5%
 Once a month 10 25%
 Other 28 70%
7. Are you dissatisfied with any of the following in Logan Restaurants?
 (Check one or more)
- | | | | | | | |
|------------|----------------------|------------------|---------------------|-------|-----------|------------|
| Service | <u>0</u> | Cleanliness | <u>0</u> | None | <u>16</u> | <u>33%</u> |
| Atmosphere | <u>14</u> <u>29%</u> | Quality of Food | <u>8</u> <u>17%</u> | Other | <u>8</u> | <u>17%</u> |
| Location | <u>2</u> <u>4%</u> | Quantity of Food | _____ | | | |
8. What is the average amount you spend per adult for a meal?
 \$1.00-2.00 16 40% \$3.00-4.00 8 20%
 \$2.00-3.00 16 40% \$4.00-over 0
9. Which of the following family-type restaurants would you prefer to eat at most of the time?
 Denny's 0 Dee's 10 25%
 J.B.'s Big Boy 14 35% Harman's 16 40%

-2-

10. Which of the following places would you like to eat at most of the time?

Chain pizza (Shakey's etc.)	<u>4</u>	<u>10%</u>
Hot Shoppe (J.B.'s Big Boy, Dee's, Denny's)	<u>12</u>	<u>30%</u>
Steakhouse (Sizzler, Topper)	<u>4</u>	<u>10%</u>
Regular Type (Dicks, Greaves, Mt. Logan Cafe)	<u>0</u>	
Fancy Dining (Bluebird, Andy's Smorgasboard)	<u>20</u>	<u>50%</u>

11. Rank the following choices in order of your preference.

Chain pizza	_____
Hot Shoppe	_____
Steakhouse	_____
Regular Type	_____
Fancy Dining	_____

12. If there was a family-type eating establishment in Logan would your eating habits change?

Yes 26 65%

No 14 35%

Logan - Total High Income

RESTAURANT QUESTIONNAIRE

1. Male 2 14% Student _____ Age _____
 Female 12 86% Adult 14 100%
2. Logan Resident 14 100%
 Valley Resident _____
 Other _____
3. Do you enjoy going out to eat? Yes 14 100% No _____
4. How often do you go out to eat as an individual?
 More than once a week 6 43%
 More than once a month 6 43%
 Once a month 2 14%
 Other 0
5. How often do you go out to eat as a family?
 More than once a week 2 14%
 More than once a month 4 28%
 Once a month 6 43%
 Other 2 14%
6. How often do you as a family go out of town to eat?
 More than once a week 4 28%
 More than once a month 0
 Once a month 4 28%
 Other 6 41%
7. Are you dissatisfied with any of the following in Logan Restaurants?
 (Check one or more)
- | | | | | | | | |
|------------|-----------|-------------|------------------|-----------|------------|----------|-----------|
| Service | _____ | Cleanliness | <u>2</u> | <u>9%</u> | None | <u>2</u> | <u>9%</u> |
| Atmosphere | <u>12</u> | <u>55%</u> | Quality of Food | <u>4</u> | <u>18%</u> | Other | <u>0</u> |
| Location | <u>2</u> | <u>9%</u> | Quantity of Food | <u>0</u> | | | |
8. What is the average amount you spend per adult for a meal?
 \$1.00-2.00 4 28% \$3.00-4.00 6 43%
 \$2.00-3.00 0 \$4.00-over 4 28%
9. Which of the following family-type restaurants would you prefer to eat at most of the time?
 Denny's 4 28% Dee's 0
 J.B.'s Big Boy 2 14% Harman's 8 56%

-2-

10. Which of the following places would you like to eat at most of the time?

Chain pizza (Shakey's etc.)	<u>0</u>	
Hot Shoppe (J.B.'s Big Boy, Dee's, Denny's)	<u>6</u>	<u>43%</u>
Steakhouse (Sizzler, Topper)	<u>0</u>	
Regular Type (Bicks, Greaves, Mt. Logan Cafe)	<u>8</u>	<u>57%</u>
Fancy Dining (Bluebird, Andy's Smorgasboard)	<u> </u>	<u> </u>

11. Rank the following choices in order of your preference.

Chain pizza	<u> </u>
Hot Shoppe	<u> </u>
Steakhouse	<u> </u>
Regular Type	<u> </u>
Fancy Dining	<u> </u>

12. If there was a family-type eating establishment in Logan would your eating habits change?

Yes 10 72%

No 4 28%

Total - Cache Valley

RESTAURANT QUESTIONNAIRE

1. Male 24 44% Student 4 6% Age _____
 Female 36 56% Adult 58 94%
2. Logan Resident 4 6%
 Valley Resident 58 94%
 Other _____
3. Do you enjoy going out to eat? Yes 58 94% No 4 6%
4. How often do you go out to eat as an individual?
 More than once a week 12 18%
 More than once a month 18 27%
 Once a month 20 30%
 Other 16 24%
5. How often do you go out to eat as a family?
 More than once a week 6 9%
 More than once a month 12 19%
 Once a month 26 41%
 Other 20 31%
6. How often do you as a family go out of town to eat?
 More than once a week 0 0%
 More than once a month 8 13%
 Once a month 24 37%
 Other 32 50%
7. Are you dissatisfied with any of the following in Logan Restaurants?
 (Check one or more)
- | | | | | | | | | |
|------------|-----------|------------|------------------|-----------|------------|-------|-----------|------------|
| Service | <u>8</u> | <u>10%</u> | Cleanliness | <u>10</u> | <u>13%</u> | None | <u>30</u> | <u>40%</u> |
| Atmosphere | <u>14</u> | <u>18%</u> | Quality of Food | <u>6</u> | <u>8%</u> | Other | <u>8</u> | <u>10%</u> |
| Location | <u>0</u> | | Quantity of Food | <u>0</u> | | | | |
8. What is the average amount you spend per adult for a meal?
 \$1.00-2.00 20 32% \$3.00-4.00 2 3%
 \$2.00-3.00 40 65% \$4.00-over 0
9. Which of the following family-type restaurants would you prefer to eat at most of the time?
 Denny's 10 15% Dee's 10 15%
 J.B.'s Big Boy 18 27% Harman's 28 42%

-2-

10. Which of the following places would you like to eat at most of the time?

Chain pizza (Shakey's etc.)	<u>2</u>	<u>3%</u>
Hot Shoppe (J.B.'s Big Boy, Dee's, Denny's)	<u>22</u>	<u>32%</u>
Steakhouse (Sizzler, Topper)	<u>14</u>	<u>21%</u>
Regular Type (Dicks, Greaves, Mt. Logan Cafe)	<u>10</u>	<u>15%</u>
Fancy Dining (Bluebird, Andy's Smorgasboard)	<u>16</u>	<u>24%</u>

11. Rank the following choices in order of your preference.

Chain pizza _____
 Hot Shoppe _____
 Steakhouse _____
 Regular Type _____
 Fancy Dining _____

12. If there was a family-type eating establishment in Logan would your eating habits change?

Yes 42 66%

No 22 34%

Total Students

RESTAURANT QUESTIONNAIRE

1. Male 12 46% Student 22 85% Age _____
 Female 14 54% Adult 4 15%
2. Logan Resident 26 100%
 Valley Resident _____
 Other _____
3. Do you enjoy going out to eat? Yes 24 92% No 2 8%
4. How often do you go out to eat as an individual?
 More than once a week 8 31%
 More than once a month 10 39%
 Once a month 2 7%
 Other 6 23%
5. How often do you go out to eat as a family?
 More than once a week 0
 More than once a month 8 31%
 Once a month 4 14%
 Other 14 55%
6. How often do you as a family go out of town to eat?
 More than once a week 0
 More than once a month 8 31%
 Once a month 4 14%
 Other 14 55%
7. Are you dissatisfied with any of the following in Logan Restaurants?
 (Check one or more)
- | | | | | | | | | |
|------------|-----------|------------|------------------|-----------|------------|-------|----------|------------|
| Service | <u>8</u> | <u>12%</u> | Cleanliness | <u>6</u> | <u>10%</u> | None | <u>6</u> | <u>10%</u> |
| Atmosphere | <u>16</u> | <u>24%</u> | Quality of Food | <u>16</u> | <u>24%</u> | Other | <u>0</u> | |
| Location | <u>8</u> | <u>12%</u> | Quantity of Food | <u>0</u> | | | | |
8. What is the average amount you spend per adult for a meal?
 \$1.00-2.00 12 46% \$3.00-4.00 0
 \$2.00-3.00 14 54% \$4.00-over 0
9. Which of the following family-type restaurants would you prefer to eat at most of the time?
 Denny's 4 14% Dee's 2 7%
 J.B.'s Big Boy 8 31% Harman's 12 46%

-2-

10. Which of the following places would you like to eat at most of the time?

Chain pizza (Shakey's etc.)	<u>0</u>	
Hot Shoppe (J.B.'s Big Boy, Dee's, Denny's)	<u>6</u>	<u>23%</u>
Steakhouse (Sizzler, Topper)	<u>6</u>	<u>23%</u>
Regular Type (Dicks, Greaves, Mt. Logan Cafe)	<u>12</u>	<u>46%</u>
Fancy Dining (Bluebird, Andy's Smorgasboard)	<u>2</u>	<u>7%</u>

11. Rank the following choices in order of your preference.

Chain pizza	_____
Hot Shoppe	_____
Steakhouse	_____
Regular Type	_____
Fancy Dining	_____

12. If there was a family-type eating establishment in Logan would your eating habits change?

Yes 18 70%

No 8 30%

Total - 0-24 Years

RESTAURANT QUESTIONNAIRE

1. Male 42% Student 71% Age _____
 Female 58% Adult 29%
2. Logan Resident 75%
 Valley Resident 25%
 Other _____
3. Do you enjoy going out to eat? Yes 96% No 4%
4. How often do you go out to eat as an individual?
 More than once a week 28%
 More than once a month 30%
 Once a month 20%
 Other 20%
5. How often do you go out to eat as a family?
 More than once a week 8%
 More than once a month 28%
 Once a month 28%
 Other 36%
6. How often do you as a family go out of town to eat?
 More than once a week 21%
 More than once a month 25%
 Once a month 54%
 Other _____
7. Are you dissatisfied with any of the following in Logan Restaurants?
 (Check one or more)
- | | | |
|-----------------------|----------------------------|-----------------|
| Service <u>19%</u> | Cleanliness <u>9%</u> | None <u>13%</u> |
| Atmosphere <u>26%</u> | Quality of Food <u>26%</u> | Other _____ |
| Location <u>9%</u> | Quantity of Food _____ | |
8. What is the average amount you spend per adult for a meal?
 \$1.00-2.00 42% \$3.00-4.00 _____
 \$2.00-3.00 54% \$4.00-over 4%
9. Which of the following family-type restaurants would you prefer to eat at most of the time?
 Denny's 21% Dee's 4%
 J.B.'s Big Boy 38% Harman's 38%

-2-

10. Which of the following places would you like to eat at most of the time?

Chain pizza (Shakey's etc.)	<u>5%</u>
Hot Shoppe (J.B.'s Big Boy, Dea's, Denny's)	<u>14%</u>
Steakhouse (Sizzler, Topper)	<u>27%</u>
Regular Type (Dicks, Greaves, Mt. Logan Cafe)	<u>27%</u>
Fancy Dining (Bluebird, Andy's Smorgasboard)	<u>27%</u>

11. Rank the following choices in order of your preference.

Chain pizza	_____
Hot Shoppe	_____
Steakhouse	_____
Regular Type	_____
Fancy Dining	_____

12. If there was a family-type eating establishment in Logan would your eating habits change?

Yes 75%

No 25%

Total - 25-49 Years

RESTAURANT QUESTIONNAIRE

1. Male 41% Student _____ Age _____
 Female 59% Adult 100%
2. Logan Resident 51%
 Valley Resident 49%
 Other _____
3. Do you enjoy going out to eat? Yes 95% No 5%
4. How often do you go out to eat as an individual?
 More than once a week 21%
 More than once a month 38%
 Once a month 23%
 Other 18%
5. How often do you go out to eat as a family?
 More than once a week 5%
 More than once a month 33%
 Once a month 36%
 Other 25%
6. How often do you as a family go out of town to eat?
 More than once a week 2%
 More than once a month 14%
 Once a month 30%
 Other 53%
7. Are you dissatisfied with any of the following in Logan Restaurants?
 (Check one or more)
- | | | | | | |
|------------|------------|------------------|-----------|-------|------------|
| Service | <u>7%</u> | Cleanliness | <u>7%</u> | None | <u>26%</u> |
| Atmosphere | <u>25%</u> | Quality of Food | <u>9%</u> | Other | <u>13%</u> |
| Location | <u>2%</u> | Quantity of Food | _____ | | |
8. What is the average amount you spend per adult for a meal?
 \$1.00-2.00 33% \$3.00-4.00 13%
 \$2.00-3.00 51% \$4.00-over 3%
9. Which of the following family-type restaurants would you prefer to eat at most of the time?
 Denny's 15% Dee's 20%
 J.B.'s Big Boy 28% Harman's 36%

-2-

10. Which of the following places would you like to eat at most of the time?

Chain pizza (Shakey's etc.)	<u>8%</u>
Hot Shoppe (J.B.'s Big Boy, Dee's, Denny's)	<u>36%</u>
Steakhouse (Sizzler, Topper)	<u>15%</u>
Regular Type (Dicks, Greaves, Mt. Logan Cafe)	<u>13%</u>
Fancy Dining (Bluebird, Andy's Smorgasboard)	<u>26%</u>

11. Rank the following choices in order of your preference.

Chain pizza	_____
Hot Shoppe	_____
Steakhouse	_____
Regular Type	_____
Fancy Dining	_____

12. If there was a family-type eating establishment in Logan would your eating habits change?

Yes 62%

No 38%

Total - 50-over Years

RESTAURANT QUESTIONNAIRE

1. Male 60% Student _____ Age _____
 Female 40% Adult 100%
2. Logan Resident 47%
 Valley Resident 53%
 Other _____
3. Do you enjoy going out to eat? Yes 100% No _____
4. How often do you go out to eat as an individual?
 More than once a week 13%
 More than once a month 13%
 Once a month 40%
 Other 33%
5. How often do you go out to eat as a family?
 More than once a week 13%
 More than once a month 7%
 Once a month 33%
 Other 47%
6. How often do you as a family go out of town to eat?
 More than once a week 7%
 More than once a month 7%
 Once a month 13%
 Other 73%
7. Are you dissatisfied with any of the following in Logan Restaurants?
 (Check one or more)
- | | | |
|-----------------------|----------------------------|-----------------|
| Service _____ | Cleanliness <u>11%</u> | None <u>50%</u> |
| Atmosphere <u>22%</u> | Quality of Food <u>6%</u> | Other _____ |
| Location <u>6%</u> | Quantity of Food <u>6%</u> | |
8. What is the average amount you spend per adult for a meal?
 \$1.00-2.00 27% \$3.00-4.00 33%
 \$2.00-3.00 40% \$4.00-over _____
9. Which of the following family-type restaurants would you prefer to eat at most of the time?
 Denny's 6% Dee's _____
 J.B.'s Big Boy 7% Harman's 87%

-2-

10. Which of the following places would you like to eat at most of the time?

Chain pizza (Shakey's etc.)	_____
Hot Shoppe (J.B.'s Big Boy, Dee's, Denny's)	_____ 13%
Steakhouse (Sizzler, Topper)	_____ 6%
Regular Type (Dicks, Greaves, Mt. Logan Cafe)	_____ 13%
Fancy Dining (Bluebird, Andy's Smorgasboard)	_____ 68%

11. Rank the following choices in order of your preference.

Chain pizza _____
 Hot Shoppe _____
 Steakhouse _____
 Regular Type _____
 Fancy Dining _____

12. If there was a family-type eating establishment in Logan would your eating habits change?

Yes _____ 60%

No _____ 40%

Grand Total - 70

RESTAURANT QUESTIONNAIRE

1. Where do you enjoy eating during your noon-hour break?

Away from home	<u>44</u>	<u>65%</u>	At home	<u>24</u>	<u>35%</u>
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If away from home where and why? _____

2. How often do you eat downtown?

Everyday	<u>24</u>	<u>34%</u>
More than once a week	<u>8</u>	<u>11%</u>
Once a week	<u>10</u>	<u>14%</u>
More than once a month	<u>10</u>	<u>14%</u>
Other	<u>18</u>	<u>26%</u>

3. What is the average amount you spend per adult for a lunch-hour meal?

\$ 0-1.00	<u>44</u>	<u>67%</u>
\$1.00-2.00	<u>22</u>	<u>33%</u>
\$2.00-3.00	<u>0</u>	
Over \$3.00	<u>0</u>	

4. Are you dissatisfied with any of the following in Logan restaurants?
-
- (Check one or more)

Service	<u>20</u>	<u>17%</u>	Quality of Food	<u>10</u>	<u>9%</u>
Atmosphere	<u>14</u>	<u>13%</u>	Variety of Food	<u>16</u>	<u>15%</u>
Distance	<u>6</u>	<u>5%</u>	Other	<u>2</u>	<u>3%</u>
Cleanliness	<u>14</u>	<u>13%</u>	None	<u>28</u>	<u>25%</u>

5. If there was a new family type eating establishment in Logan would your eating habits change?

Yes	<u>32</u>	<u>46%</u>	No	<u>38</u>	<u>54%</u>
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Appendix B

Income Statements - First Quarter

1. Lease
2. Purchase

Pro Forma Income Statement
For The First Quarter Ending October 31, 1968
Assuming the Lease Option

	<u>August</u>	<u>Sept.</u>	<u>October</u>
Sales	\$24,000.00	\$25,500.00	\$26,500.00
Cost of Sales:			
Food	8,400.00	8,925.00	9,275.00
Food Supplies	<u>217.00</u>	<u>218.00</u>	<u>217.00</u>
G. P. on Sales	\$15,383.00	\$16,357.00	\$17,008.00
Net Cigarette Income	120.00	127.00	133.00
Misc. Income	<u>12.00</u>	<u>13.00</u>	<u>13.00</u>
T. G. P.	<u>\$15,515.00</u>	<u>\$16,497.00</u>	<u>\$17,154.00</u>
Controllable Operating Expenses:			
Salaries and Wages	\$ 6,730.00	\$ 6,513.00	\$ 6,730.00
Payroll Taxes and Ins.	700.00	678.00	700.00
Employee's Meals	21.00	23.00	24.00
Utilities	493.00	480.00	494.00
Maintenance	500.00	500.00	500.00
Laundry	185.00	185.00	185.00
Printing	162.00	163.00	162.00
Breakage and P.	192.00	191.00	192.00
Cash Shortage and O.	<u>27.00</u>	<u>28.00</u>	<u>27.00</u>
T. C. E.	<u>\$ 9,010.00</u>	<u>\$ 8,761.00</u>	<u>\$ 9,014.00</u>
Other Operating Expenses:			
Bonuses	\$ 60.00	\$ 60.00	\$ 60.00
Vac. An. and Sick Leave	53.00	57.00	53.00
Music	30.00	30.00	30.00
Insurance	105.00	105.00	105.00
Taxes and Licenses	361.00	361.00	361.00
Uniform Expense	75.00	75.00	75.00
Advertising	1,240.00	930.00	620.00
Dues, Subscription & Contri.	350.00	25.00	25.00
Accounting and Legal	150.00	130.00	120.00
Office Supplies	37.00	38.00	37.00
Telephone	24.00	24.00	24.00
Rent Expense	2,350.00	2,350.00	2,350.00
Franchise Expense	<u>480.00</u>	<u>510.00</u>	<u>530.00</u>
Total Other Expenses	<u>\$ 5,315.00</u>	<u>\$ 4,590.00</u>	<u>\$ 4,390.00</u>
Total Operating Expense	<u>\$14,325.00</u>	<u>\$13,351.00</u>	<u>\$13,404.00</u>
Net Operating Profit	<u>\$ 1,190.00</u>	<u>\$ 3,146.00</u>	<u>\$ 3,750.00</u>

Pro Forma Income Statement (Cont'd.)

	<u>August</u>	<u>Sept.</u>	<u>October</u>
Administrative Expenses			
Amortized Org. Costs	\$ 8.00	\$ 8.00	\$ 8.00
Amortized Franchise Costs	90.00	90.00	90.00
Dep. Exp.	500.00	500.00	500.00
Int. Exp.	51.00	51.00	51.00
General Ad. Exp.	<u>1,325.00</u>	<u>1,325.00</u>	<u>1,325.00</u>
Total Adm. Expense	<u>\$1,974.00</u>	<u>\$1,974.00</u>	<u>\$1,974.00</u>
Profit or (Loss)	<u>\$(784.00)</u>	<u>\$1,172.00</u>	<u>\$1,776.00</u>

Pro Forma Income Statement
For The First Quarter Ending October 31, 1968
Assuming the Purchase Option

%		<u>August</u>	<u>Sept.</u>	<u>October</u>
	Sales	\$24,000.00	\$25,500.00	\$26,500.00
	Cost of Sales:			
35	Food	8,400.00	8,925.00	9,275.00
.87	Food Supplies	<u>217.00</u>	<u>218.00</u>	<u>217.00</u>
	G. P. on Sales	\$15,383.00	\$16,357.00	\$17,008.00
.50	Net Cigarette Income	120.00	127.00	133.00
.05	Misc. Income	<u>12.00</u>	<u>13.00</u>	<u>13.00</u>
	T. G. P.	<u>\$15,515.00</u>	<u>\$16,497.00</u>	<u>\$17,154.00</u>
	Controllable Operating Expenses:			
26.40	Salaries and Wages	\$ 6,730.00	\$ 6,513.00	\$ 6,730.00
2.75	Payroll Taxes and Ins.	700.00	678.00	700.00
.09	Employee's Meals	21.00	23.00	24.00
1.94	Utilities	493.00	480.00	494.00
2.75	Maintenance	688.00	688.00	688.00
.74	Laundry	185.00	185.00	185.00
.65	Printing	162.00	163.00	162.00
.50	Breakage and Renewals	192.00	191.00	192.00
.11	Cash Storage or (Overage)	<u>(27.00)</u>	<u>(28.00)</u>	<u>(27.00)</u>
	T. G. E.	<u>\$ 9,164.00</u>	<u>\$ 8,893.00</u>	<u>\$ 9,148.00</u>
	Other Operating Expenses:			
.24	Bonuses	\$ 60.00	\$ 60.00	\$ 60.00
.21	Vacation Allowances and Sick Leave	53.00	52.00	53.00
.12	Music	30.00	30.00	30.00
.42	Insurance	105.00	105.00	105.00
	Taxes and Licenses	361.00	361.00	361.00
	Uniform Expense	75.00	75.00	75.00
1.24	Advertising	1,240.00	930.00	620.00
.20	Dues, Subscriptions & Contr.	350.00	25.00	25.00
.52	Accounting and Legal	150.00	130.00	120.00
.15	Office Supplies and Expense	37.00	38.00	37.00
.16	Telephone	<u>24.00</u>	<u>24.00</u>	<u>24.00</u>
	Total Other Expenses	<u>\$ 2,485.00</u>	<u>\$ 1,830.00</u>	<u>\$ 1,510.00</u>
	Total Operating Expenses	<u>\$11,649.00</u>	<u>\$10,723.00</u>	<u>\$10,658.00</u>
	Net Operating Profit	<u>\$ 3,866.00</u>	<u>\$ 5,774.00</u>	<u>\$ 6,496.00</u>

Pro Forma Income Statement (Cont'd.)

	<u>August</u>	<u>Sept.</u>	<u>October</u>
Administrative Expenses:			
Amortized Organization Costs	\$ 8.00	\$ 9.00	\$ 8.00
Amortized Franchise Costs	90.00	80.00	90.00
Depreciation Expense	911.00	911.00	911.00
Interest Expense	1,025.00	1,026.00	1,025.00
General Administrative Ex.	<u>1,325.00</u>	<u>1,325.00</u>	<u>1,325.00</u>
Total Adm. Expense	<u>\$3,359.00</u>	<u>\$3,351.00</u>	<u>\$3,359.00</u>
Net Profit	<u>\$ 507.00</u>	<u>\$2,423.00</u>	<u>\$3,137.00</u>

Appendix C

Loan, Depreciation and Amortization Schedules

Loan Schedule

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
<u>Purchase Option</u>			
\$153,000 mortgage 20 yr., 8%	\$11,695.00	\$ 3,672.00	\$15,367.00
\$10,000 note payable 3 yr., 7%	<u>613.00</u>	<u>3,093.00</u>	<u>3,706.00</u>
First year total payments	\$12,308.00	\$ 6,765.00	\$19,073.00
\$10,000 = #308.78/monthly payment \$153,000 = \$1,280.61/monthly payment			

Leasing Option

\$10,000 note payable 3 yr., 7%	\$ 613.00	\$ 3,093.00	\$ 3,706.00
\$10,000 = \$308.78/monthly payment			

Depreciation Schedule

Building:

$$\$160,000 \div 40 \text{ year life} = \$400 \text{ yearly}$$

Sign:

$$\$10,000 \div 10 \text{ year life} = \$1,000 \text{ yearly}$$

Equipment:

$$\$60,000 \div \text{year life} = \$6,000 \text{ yearly}$$
Amortization Schedule

Franchise:

$$\$5,000 \div 5 \text{ years} = \$1,000 \text{ yearly}$$

Organization Costs:

$$\$500 \div 5 \text{ years} = \$100 \text{ yearly}$$

Appendix D

Computation of Taxes

The taxes applicable during the first and succeeding years are dependent upon the method of depreciation used and the effect of other tax credits. In this study straight line depreciation was calculated for both books and income taxes.

The equipment and sign will qualify for the investment credit of 7 percent. To offset the effect of the \$4,900 tax credits in the first year, the tax credit has been averaged over the first five years. Thus, first year tax credits in this study are limited to \$980.

	<u>Taxes</u>			
	<u>Without Franchise</u>		<u>With Franchise</u>	
	<u>Buying</u>	<u>Renting</u>	<u>Buying</u>	<u>Renting</u>
Net profit before taxes and principal payments	\$31,787.00	\$22,532.00	\$40,369.50	\$31,114.50
Corporate income taxes	<u>8,758.00</u>	<u>4,957.00</u>	<u>12,877.00</u>	<u>8,434.00</u>
	\$23,029.00	\$17,575.00	\$27,492.50	\$22,680.50
Add tax credits	<u>980.00</u>	<u>980.00</u>	<u>980.00</u>	<u>980.00</u>
Net Profit after Taxes and Principal Payments	<u>\$24,009.00</u>	<u>\$18,555.00</u>	<u>\$28,472.50</u>	<u>\$23,660.50</u>