

AGENDA REPORT**D1**

TO: Dave Adams, Executive Director

FROM: Douglas D. Dumhart, Economic Development Manager

SUBJECT: Consideration of Funding Assistance to Promote Local Restaurants.

RECOMMENDATION:

Board of Director's discretion.

SUMMARY:

At the April 21, 2009 Board meeting, Chairman Hribar requested that an item be agendized to discuss the funding of a local restaurant promotion campaign. This report has been prepared and agendized in response to the chairman's request.

Should the Board desire to undertake a local restaurant promotions campaign, an authorizing action to appropriate funds from account No. 28-00000-67101-09907-000 "Business Retention and Recruitment" to finance a San Juan Capistrano Restaurant Promotion Campaign would be a suitable motion.

There are many issues to consider when deciding to embark upon a marketing campaign. Staff has assembled some relevant information regarding restaurants in the background section of this report for the Board to contemplate as they discuss the proposal to promote local restaurants.

BACKGROUND:

According to the Merriam-Webster Dictionary, a "restaurant" is defined as "a business establishment where meals or refreshments may be purchased." The city's municipal code has a lengthier definition of restaurants. It states restaurants are:

"An establishment which is regularly used and open to the public for the serving of meals to guests for compensation as the primary use, and which has adequate kitchen facilities for cooking an assortment of foods which may be required for ordinary meals, the kitchen of which must be kept in a sanitary condition with the proper amount of refrigeration for the keeping of food on the premises and must comply with all applicable regulations of the Orange County Health Department. A restaurant may serve alcoholic beverages as an accessory or incidental use subject to obtaining required permits from the Department of Alcoholic Beverage Control; however, an establishment in which serving alcoholic beverages

is the primary use, with service of food as a secondary or incidental use, is not considered a restaurant for zoning purposes."

There are currently 73 service establishments operating in San Juan Capistrano where food and/or beverages may be purchased. Some of these establishments specialize in take-out orders while others offer sit-down formal dining. Whether a restaurant is a "to-go" or "full-service" establishment, there is broad market segmentation in the food service industry. A listing of San Juan Capistrano's food and beverage establishments in alphabetical order are provided as *Attachment 1* to this report.

One can see the diversity and wide variety of restaurants listed in Attachment 1. Each restaurant has a customer base that is attracted to the business because of its location; price points; specialization (ethnicity); featured meals (breakfast, lunch, dinner); staff; convenience and/or dining experience. As different as the restaurants are from one another so can be their respective customer bases. As such, each restaurant's marketing and promotions efforts may be unique to their business model and targeted audience but there is room for improvement.

A recent sales tax capture and gap analysis by the city's sales tax consultant, MBIA Muniservices depicts the city experiencing over a million dollars of sales tax leakage in the restaurant category. Sales tax leakage means that the community's residents are spending more for products than the local businesses are capturing. Below is a table of estimated leakage for restaurant sales for the 3rd quarter 2008.

Restaurants	Actual Sales	Potential Sales	Capture/Gap	Rate
Fast Food	\$224,412	\$ 731,297	(\$ 506,885)	31%
Restaurants w/beer	\$125,854	\$ 285,287	(\$ 159,433)	44%
Restaurants w/Onsale	\$221,110	\$ 522,101	(\$ 300,990)	42%
Hotel Food/Bar sales	\$ 120	\$ 121,783	(\$ 121,783)	0%
Club Food/Bar sales	\$ 24,766	\$ 31,936	(\$ 7,170)	78%
Total	\$596,262	\$1,692,404	(\$1,096,143)	35%

Types of Restaurant Promotions

According to Quantified Marketing Group¹, use of the traditional mass media advertising is declining in the restaurant industry as a way to promote their business. Rather, many successful restaurants are utilizing interactive public relations (PR) techniques as marketing strategies. Some of the more common promotion techniques used to increase revenues in the food and beverage industries today include:

- Discounts - such as senior citizens.
- Bouncebacks - a tool that encourages customers to patronize in off-peak hours.

¹ <http://www.quantifiedmarketing.com/>

- Birthday programs - because research show that 50% of the population eat out on their birthday.
- Menu bingo – a tactic to get customer to try new and different items on the menu.
- Sampling – offering samples at public events.
- Publicity stunts – like a chili cook-off that will garner more media attention than a traditional press release.
- Catering – to get exposure to new clientele.

Advancing technology is a contributing factor why mass media vehicles like television, radio, and newspaper have lost their appeal and effectiveness. Sophisticated restaurateurs are using automated tools like e-mail marketing and social networking to increase market share. Once a restaurant has developed an e-mail data base of customers, they can use service providers to send promotions and reminders in advance at scheduled times. Using automated systems with redemption codes enables the restaurateurs track view rates and the percentage of patrons derived from the electronic marketing effort so they may calculate a return on investment.

Local Promotion Efforts

There are several avenues for which local restaurants can promote their businesses. The summer concerts in the Historic Town Center Park were initially conceived as an event to create local awareness about San Juan Capistrano businesses. The fiesta association hosts an annual "Taste of San Juan" during their month long celebration and the Chamber of Commerce's "Vintage" event held at Mission San Juan are both targeted at showcasing local food establishments.

Many restaurants are in fierce business competition with other local establishments. To that end, some joint marketing efforts can be fruitless as participants are reluctant to share marketing strategies, customer profiles, or trade successes. The San Juan Capistrano Chamber of Commerce made repeated efforts to organize a Restaurant Association as a sub-committee of the Chamber to leverage their marketing endeavors. The Chamber informs the City that the last time the Restaurant Association met was approximately three years ago and that only four restaurants are active members today.

There are so many types of dining and drinking establishments with differentiated customer bases using a variety of promotional schemes, the Board's intention to assist the restaurant climate may be better served to focus on enhancing San Juan Capistrano's image and "brand". The concept of developing a community PR strategy would benefit the restaurants as well as, other local businesses.

As a side note, the Urban Land Institute (ULI) was commissioned by the city last summer to provide advice with respect to the Ortega Highway/I-5 interchange project. One of ULI's recommendations is for the City take the lead in reaching out to the community via a PR campaign to support local businesses leading up to and during the construction this major capital improvement project.

FINANCIAL CONSIDERATIONS:

The city receives one (1%) percent of the eight and three-quarter (8.75%) percent sales tax on taxable transactions. Prepared food and beverages are subject to sales tax. The total amount of annual sales tax revenue the city received from the restaurant sector for each of the last three calendar years is in the table below:

Year	Total Sales Tax Revenues	(+/-) % Over Previous Year
2005	\$538,568.00	
2006	\$594,363.00	10.4%
2007	\$629,376.00	5.9%
2008	\$600,616.00	-4.6%

The Agency Board has programmed \$1,000,000 of the 2008 Tax Allocation Bond (TAB) proceeds for miscellaneous business retention and recruitment efforts. To date, \$450,000 has been identified for a loan to Regency Theaters and \$70,000 has been encumbered for the Buxton Company's Community ID retail strategy. The remaining program funds for business recruitment and retention are \$480,000.

The Chairman has suggested to staff appropriating approximately \$4,000 per month up to \$36,000 for a year long San Juan Capistrano Restaurants Promotion Campaign.

COMMISSION/BOARD REVIEW AND RECOMMENDATIONS:

Not applicable.


NOTIFICATION:

Karen Richesin, Chamber of Commerce

RECOMMENDATION:

Board of Director's discretion.

Respectfully submitted,


Douglas D. Dumhart
Economic Development Manager

Attachment 1: Listing of San Juan Capistrano Restaurant Establishments.

Attachment 1

San Juan Capistrano Restaurant Establishments

- Agustin Mexican Food**, 32382 Del Obispo #B6, 248-3707
- Aldo's Sidewalk Caffe, Inc.**, 31882 Del Obispo Street #152, 443-0423
- Bad to the Bone**, 31738 Rancho Viejo Road, 218-0227
- Bagel Shack, The**, 31876 Del Obispo #1, 488-8023
- Ball Park Pizza**, 31654 Rancho Viejo Road #H, 493-6852
- Baskin Robbins**, 32341 Camino Capistrano, 240-7171
- Billy's Deli Too**, 32118 Paseo Adelanto #4A, 661-3554
- Bistro 311**, 31105 Rancho Viejo Road, #C7, 218-3311
- Bravo Burgers**, 31722 Rancho Viejo Road, 487-2728
- Cafe Mozart**, 31952 Camino Capistrano, 496-0212
- Carl's Jr.**, 31852 Del Obispo Street, 493-9661
- Cedar Creek Inn**, 26860 Ortega Highway #M, 240-2229
- Ciao Pasta Trattoria**, 31661 Camino Capistrano #201, 496-5002
- Coach House**, 33157 Camino Capistrano, 496-8930
- Del Taco**, 31780 Del Obispo, 487-1811
- Denny's Restaurant**, 27142 Ortega Highway, 493-1848
- Donut Hut**, 32099 Camino Capistrano, 493-6635
- The Dutch Bakery & Cafe**, 32341 Camino Capistrano #F, 489-2180
- El Adobe**, 31891 Camino Capistrano, 493-1163
- El Coyotito Mexican Food**, 32141 Alipaz #B, 496-9439
- El Coyotito #2 Mexican Food**, 31952 Del Obispo #300, 240-6128
- El Maguey**, 31481 Camino Capistrano, 493-8681
- El Maguey Express**, 31952 Del Obispo Street, 248-2457
- El Molino de Oro**, 31886 Plaza Drive #D1, 489-9230
- El Pollo Loco**, 33953 Doheny Park Road, 248-2554
- Eng's Chinese Deli**, 32173 Camino Capistrano, 248-9507
- 5th Avenue Bagel & Cafe**, 32101 Camino Capistrano, 234-1251

- ❑ **Fish Market & Grill**, 27221 Ortega Highway #G, 248-0055
- ❑ **Golden Spoon Frozen Yogurt**, 31654 Rancho Viejo Road, 489-5567
- ❑ **Isabel Mexican Food**, 31401 Camino Capistrano #3, 496-2040
- ❑ **Jack-in-the-Box**, 26942 Ortega Highway, 240-0247
- ❑ **KFC Kentucky Fried Chicken**, 32032 Camino Capistrano, 366-1610
- ❑ **L'Hirondelle**, 31631 Camino Capistrano, 661-0425
- ❑ **Marie Callendar's**, 31791 Del Obispo Street, 661-5977
- ❑ **McDonalds**, 31822 Del Obispo Street, 493-9094
- ❑ **Metro Java Cafe**, 32211 Camino Capistrano, 240-4672
- ❑ **Mojo's Frozen Yogurt**, 27221 Ortega Highway #E, 429-3348
- ❑ **Mollies Famous Cafe**, 32033 Camino Capistrano, 240-9261
- ❑ **Mr. D's Pizza**, 31111 Rancho Viejo Road, 661-0011
- ❑ **Napa Valley Wine Bar**, 31781 Camino Capistrano #201-202, 493-6272
- ❑ **NYC Cafe**, 31888 Del Obispo #C3, 234-0071
- ❑ **Papa John's Pizza**, 32282 Camino Capistrano, 661-7272
- ❑ **Pedro's Tacos**, 31721 Camino Capistrano, 489-7752
- ❑ **Pick Up Stix**, 32341 Camino Capistrano #B-1A, 487-0391
- ❑ **Pizza Hut**, 32095 Camino Capistrano, 496-0051
- ❑ **Plaza Deli**, 33159 Camino Capistrano, 240-6630
- ❑ **Quiznos**, 31888 Del Obispo, 707-8100
- ❑ **Ramos House Cafe**, 31752 Los Rios Street, 443-1342
- ❑ **Ranch Deli & Grill**, 31738 Rancho Viejo Road #E, 489-9260
- ❑ **Red Velvet Asian Cafe**, 31654 Ranch Viejo Road, Suite D, 488-7893
- ❑ **Rice Bowl Express**, 31878 Del Obispo Street #128, 487-0068
- ❑ **Ruby's**, 31781 Camino Capistrano #301, 496-7829
- ❑ **Santa Fe Grill**, 31654 Rancho Viejo Road #K, 248-0145
- ❑ **Sarducci's**, 26701 Verdugo Street, 493-9593
- ❑ **Simply Fondue**, 31761 Camino Capistrano, 240-0300
- ❑ **Skimmer's Panini Cafe**, 31451 Rancho Viejo Road #103, 276-6300
- ❑ **Sol Del Sur**, 31115 Rancho Viejo Road #1, 487-5225
- ❑ **South's B.B.Q.**, 31105 Rancho Viejo Road #13, 481-9393

- **Starbucks**, 32341 Camino Capistrano #G, 248-1589
- **Starbucks**, 32022 Camino Capistrano #F2, 661-4809
- **Starbucks**, 27211 Ortega Highway, 661-5801
- **Subway Sandwiches**, 31882 Del Obispo Street #153, 493-0071
- **Sun Dried Tomato**, 31781 Camino Capistrano #302, 661-1299
- **Surf City Squeeze**, 27131 Calle Arroyo #1701, 489-0322
- **Taco Bell**, 31771 Del Obispo, 661-7118
- **Tannins Restaurant**, 27211 Ortega Highway #C, 661-8466
- **Taqueria Y Tortilleria El Campion**, 31921 Camino Capistrano #15, 489-9767
- **Thai Juan On**, 31878 Del Obispo Street, 949-234-0332
- **The Tea House on Los Rios Street**, 31731 Los Rios Street, 443-3914
- **The Vintage Steakhouse**, 26701 Verdugo Street, 661-3400
- **Wendi's Donuts**, 31654 Rancho Viejo Road #B, 388-1738
- **Yoon Kee Chinese Kitchen**, 31952 Del Obispo Street #120, 248-1281
- **Z Pizza**, 32341 Camino Capistrano, 429-8888