

## CASE STUDY - ENRICO'S INVESTMENTS

Enrico Bosconi is a well known restaurateur and investor in Adelaide, South Australia. He is the owner-manager of Enrico's Restaurant which he opened seven years ago in Rundle Street East in an area known as the East End Market Precinct. This has been a rapidly growing trendy area for retailers, restaurants and wine bars and has been attracting patronage from the once dominant area on the other side of town known as Hindley Street. There is also a large campus nearby.

The restaurant has a bar which seats 60 and is a popular spot for both drinking and dining. 250 can be seated in the dining room and 60 in the lounge.

In the immediate city area there are four privately owned establishments that are direct competitors and several fast food restaurants. Larger restaurants like the "Sizzlers" chain restaurants are located on the parkland fringe near the city and have been serious competitors in recent times. Enrico considers that they offer more service, selection and entertainment than the fast food restaurants but more difficult to differentiate from the chain restaurants except perhaps that his restaurant is less commercialised, the dining area a little more intimate, the menu more innovative and prices tend to be lower.

The restaurant's image is reasonably strong and, judging from a recent comparison of promotional material, is very well defined.

Financial performance for the restaurant over the last seven years has improved as shown in the attached documents.

Enrico has had several offers for the business for around \$1m which he believes is based more on past profitability than future prospects. A figure of \$2m sounds to him a more reasonable figure. He is independently wealthy with personal net assets of nearly \$5m resulting mainly from the sale of a family vineyard in the Barossa Valley, a renowned wine producing region near Adelaide.

The immediate need is to consider growth strategies for the next 5 years. He is keen to expand his business, to strengthen ties with an adjoining all-suites hotel which has offered him leasehold space to expand and to consider an investment proposal for a new retreat resort in the Barossa Valley. The last prospect has Enrico really excited because it involves a joint-venture with the winery company that bought his vineyard and the proposed site is next door to this vineyard. In fact the proposed site lies adjacent to a number of historic buildings housing the winery and is also surrounded by other vineyards producing wine and marketing under their own labels.

Accordingly, Enrico now seeks good business planning advice not only for his own restaurant and the proposed resort but for the combined operation as well.

The Barossa Valley is considered by many to be Australia's premier wine producing region and is one of South Australia's major tourist destinations. It offers not only a wine experience but also outstanding natural beauty, a unique heritage and culture, and a quiet, relaxed atmosphere. This is Enrico's home. He has known for some time that the valley has lacked a high standard wine theme hotel catering for holiday visitors and conference

---

delegates who are looking for destination based accommodation with a range of recreation and other facilities.

The Barossa is only one hour's drive from Adelaide with a population of 11,000 persons but adjacent to a city population of 1.1 million persons making it a popular day trip destination as well.

The largest existing facility is a motel with 40 rooms and Enrico considers there is an excellent opportunity for a larger hotel offering rustic accommodation with tennis, squash, swimming and bush walking experiences and most importantly for some wine experiences so that guests can become personally involved in learning about viticulture and wine.

The site is well located with good access, topography and views but the key feature is that it will have a high impact to visitors on arrival as they see it nestled amongst vineyards and mature gum trees.

The proposed development will be a high quality, low density hotel set in a rural environment with wine and vineyards being the dominant theme. The design theme for the building will be a blend of early Australian colonial style architecture in bluestone or sandstone set in landscaped surrounds, representing an expanded traditional Australian farmhouse. The accommodation will consist of 70 hotel suites, 10 1-bedroom cottages and 2 executive 2-bedroom cottages. There will be a formal restaurant and two bars featuring South Australian wines. The convention rooms will have a seating capacity of 100 persons with smaller rooms for 12 persons each. There will also be a small retail area, extensive recreation and parking facilities. The estimated construction cost is \$6.8 million with an additional \$1.6 million anticipated for recreation, parking and landscaping services.

Initial enquiries suggest that two segments will be targeted, the holiday/short break visitor market and the business conference market. Industry leaders and analysts endorse the need for a large convention venue which offers quality accommodation with a range of recreation facilities. They see this as a major drawback for stimulating visitation to the area.

A recent Barossa Valley visitor survey reveals the following information:

- Only 22% of visitors who stayed for one night or longer came from South Australia which is considered low primarily because of its popularity as a day trip destination;
- 50% of international visitors came from New Zealand and the USA;
- Holiday trips were 80% of all trips and resulted in at least a one-night stay. One third of the latter was of a short duration as part of longer trips elsewhere;
- The average length of stay was 2.6 nights. The average group size was 3.1 persons with more than half of all groups consisting of two persons (42% of these being married couples);
- 78% of visitors were attracted to the region by the wineries. Other factors rated highly were the peaceful, unspoiled scenery and historical buildings;
- 87% of all visitors surveyed indicated that they would like to make a return visit to the region.

The Barossa Valley has 13 accommodation establishments with a total of 242 rooms and 725 beds which comprises nearly 3% of all rooms in South Australia. Occupancy averages 45% compared with the South Australian average 53%.

The only local establishments offering comparable accommodation to that proposed are “The Lodge” at Seppeltsfield (4 rooms, \$140 double for bed and breakfast), “Lawley Farm” at Tanunda (4 rooms of cottage style set in three acres, \$69 for bed and light breakfast), “Hermitage of Marananga”, at Seppeltsfield (10 rooms, \$75 double for bed and breakfast) and “The Landhaus” at Bethany (1 room, \$70 double for bed and breakfast). The remaining accommodation of 278 rooms is in older style hotels and motels which have general market appeal but no specific market segmentation.

The four major competitors for the conference market are:

- The “Barossa Motor Lodge” at Tanunda which has conference capacity for 240 persons in 3 conference rooms, the largest with a capacity of 120 persons. It has 40 units in 3 double storey townhouses with outdoor barbecue and swimming pool;
- Another hotel at nearby Tanunda, the “Weintal” can cater for 160 persons but only has one conference room and 40 residential units;
- “Barossa Junction Motel” at Dorrien has convention capacity for 550 people, 33 units and one suite;
- “Yaldara Barossa Motel”, Lyndoch, which has 34 units with some convention facilities and is run in conjunction with Chateau Yaldara, a nearby winery.

Comparable developments in regions outside the Barossa Valley are “Wirrina” at Second Valley, “McLarens on the Lake” at McLaren Vale (both of which are on the Fleurieu Peninsula), “Mt Lofty House” in the Adelaide Hills and “Thorn Park” in a nearby wine producing region at Clare.

A feasibility study in the form of a cash flow analysis has been prepared for Enrico by development consultants representing his prospective joint venture partner (the adjoining winery), and these are attached.

The consultants have indicated a return on investment after 10 years of 20.06% per annum which has been based on a discounted cash flow analysis using an “internal rate of return” formula. Their calculations, however, have included a large capital gain resulting from the sale (or valuation) of the complex in Year 10 at a price of \$23 million, on the basis of a capitalisation of earnings of 12%.

Enrico has just received this feasibility analysis and is not sure he understands it all and has asked you, as part of a business planning report, to explain the financial aspects of the project to him in simpler language. The main thrust of your report, however, shall be focussed on business planning advice for his combined operation of the restaurant and the resort, together with any other advice you may have concerning growth strategies and alternative options.

**Author: Bill Wright B.Com MBA**  
**Copyright © 1994**